



International  
Medical  
Innovations Inc.

**SECOND-QUARTER REPORT  
2002**

For the period ended June 30, 2002

IMI International Medical Innovations Inc.  
Toronto Stock Exchange: IMI  
[www.imimedical.com](http://www.imimedical.com)

**MESSAGE TO SHAREHOLDERS**

IMI International Medical Innovations Inc. (TSX:IMI) is pleased to announce its results for the fiscal 2002 second quarter ended June 30, 2002.

We achieved two of the most important milestones in the history of our company during this past quarter. First, we signed a strategic marketing and distribution partnership with McNeil Consumer Healthcare, a Johnson & Johnson company, to bring our coronary artery disease predictive test to the market in Canada, our first approved market. McNeil is the right partner for the product because of their wealth of experience marketing to doctors, pharmacists and consumers.

Second, we received marketing clearance for Cholesterol 1,2,3 in the U.S., which enables us to begin selling the product in the world's most significant market for predictive medicine products. Cholesterol 1,2,3 is now the only non-invasive cholesterol test cleared for sale in the U.S. Subsequent to receiving marketing clearance we were informed that Cholesterol 1,2,3 is not subject to CLIA regulations, which means the product can be used in any near-patient setting, including doctors' offices and pharmacies.

Commercially we took steps to secure the future of the company by raising \$6 million through a private placement to institutions. The financing not only enhanced our capital position, but also enabled us to broaden our shareholder base to include several more major institutional investors. Also in the quarter we filed documents with the U.S. Securities and Exchange Commission to list IMI shares on a U.S. exchange. Predictive medicine is well established in the U.S. market and we believe that making IMI shares more easily available to global investors will help us continue to build value for our current and future shareholders.



Brent Norton, MD, MBA  
President and CEO

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Results Of Operations**

In December 2001, the Company changed its year-end from January 31 to December 31. Accordingly, for fiscal 2002 the period ended June 30, 2002 has been compared with the previously published period ended July 31, 2001.

For the three months ended June 30, 2002, IMI reports a net loss of \$1,192,876 or \$0.06 per share compared to a loss of \$1,042,940 or \$0.06 per share for the quarter ended July 31, 2001. For the six months ended June 30, 2002, the Company reports a net loss of \$1,991,997 or \$0.10 per share, compared to \$1,724,887 or \$0.09 per share for the six months ended July 31, 2001.

The Company ended the quarter with cash and cash equivalents of \$1,276,758 plus short-term investments of \$10,604,430.

Research and development expenditures for the quarter decreased to \$609,895, compared to \$709,713 in 2001. The major reason for the decrease was a reduction of the spending on clinical trials, particularly for Cholesterol 1,2,3 following the FDA submission in 2001. These clinical trial costs decreased by approximately \$152,000 for the quarter and \$246,000 for the six months, compared to the corresponding periods in 2001. These reductions were partially offset by an increase in product development costs by approximately \$44,000 to support development of a consumer home test for Cholesterol 1,2,3 as well as further development of the cancer technologies. Total research expenditures for the six months ended June 30, 2002 and July 31, 2001 amounted to \$1,026,599 and \$1,159,452, respectively.

General and administration expenses amounted to \$662,644 for the three months ended June 30, 2002, compared to \$455,993 in the second quarter last year, an increase of \$206,651. Professional fees related to the preparation of an application for a U.S. stock listing and for U.S. investor relations consultants amounted to approximately \$177,000 while services, including consultants and legal fees related to strategic initiatives and partnering accounted for approximately \$46,000 of this increase. Professional services related to the Company's Swiss subsidiary were approximately \$9,000 for the quarter compared to \$40,000 for the three months ended July 31, 2001. Total general and administration expenses for the six months ended June 30, 2002 amounted to \$1,058,037 compared to \$809,977 in 2001.

Amortization expenses for the three months and six months ended June 30, 2002 amounted to \$54,988 and \$109,134, respectively. For the corresponding periods ending July 31, 2001, amortization amounted to \$43,740 and \$75,278. The increase resulted from the acquisition of new technologies in late 2001 and the purchase of additional research and development equipment to support the clinical trials.

Recoveries of provincial scientific research tax credits (ITC's) amounted to \$79,908 for the quarter, including an accrual of \$30,000 for 2002 and approximately \$49,000 cash received as additional recoveries for the year ended January 31, 2000. This compares to \$46,000 for the quarter ended July 31, 2001. Total recoveries for the six months ended June 30, 2002 and July 31, 2001 are \$99,908 and \$76,000 respectively.

**Liquidity and Capital Resources**

As at June 30, 2002 the Company had cash, cash equivalents and short-term investments totaling \$11,881,188 (\$7,951,179 as at December 31, 2001). The Company received \$5,483,305 from the issuance of capital stock resulting from a private placement of 1.2 million common shares at a price of \$5.00 per share for net proceeds of \$5,470,805, and \$12,500 from the exercise of warrants and options during the period. Cash used to fund the operating activities during the three months ended June 30, 2002 amounted to \$873,391 compared to \$953,377 for the three months ended July 31, 2001. The Company has no long-term debt.

**Risks and Uncertainties**

To date, the Company has financed its activities through the issuance of shares and the recovery of ITCs. The Company believes that its existing cash resources together with the ITCs receivable of \$181,000 will be sufficient to meet its current operating and capital requirements through at least fiscal 2004 and that no additional funds would be required to support ongoing product development, research and clinical trials.



**Ron Hosking, CA**  
Vice President and CFO

<b>IMI International Medical Innovations Inc.</b>		
Incorporated under the laws of Canada		
<b>Consolidated Balance Sheets</b>		
<b>As at June 30, 2002 and December 31, 2001</b>		
	<b>June 30</b>	<b>December 31</b>
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,276,758	\$ 593,379
Short-term investments	10,604,430	7,357,800
Prepaid expenses and other receivables	322,725	224,519
Investment tax credits receivable	181,000	211,000
<b>Total current assets</b>	<b>12,384,913</b>	<b>8,386,698</b>
<b>Capital assets, net</b>	<b>227,110</b>	<b>248,552</b>
<b>Acquired technology, net</b>	<b>637,837</b>	<b>708,708</b>
	<b>\$ 13,249,860</b>	<b>\$ 9,343,958</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 625,268	\$ 358,674
Advance collaboration funding	24,588	36,588
<b>Total current liabilities</b>	<b>649,856</b>	<b>395,262</b>
<b>Shareholders' equity</b>		
Capital Stock	23,855,795	18,212,490
Warrants	310,000	310,000
Deficit	(11,565,791)	(9,573,794)
<b>Total shareholders' equity</b>	<b>12,600,004</b>	<b>8,948,696</b>
	<b>\$ 13,249,860</b>	<b>\$ 9,343,958</b>

See accompanying notes

<b>IMI International Medical Innovations Inc.</b>				
<b>Consolidated Statements of Loss and Deficit</b>				
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>	<b>July 31</b>	<b>June 30</b>	<b>July 31</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>EXPENSES</b>				
Research and development	\$ 609,895	\$ 709,713	\$ 1,026,599	\$ 1,159,452
General and administration	662,644	455,993	1,058,037	809,977
Amortization	54,988	43,470	109,134	75,278
	1,327,527	1,209,176	2,193,770	2,044,707
<b>RECOVERIES AND OTHER INCOME</b>				
Investment tax credits	79,908	46,000	99,908	76,000
Interest	54,743	120,236	101,865	243,820
	134,651	166,236	201,773	319,820
<b>Net loss for the period</b>	<b>(1,192,876)</b>	<b>(1,042,940)</b>	<b>(1,991,997)</b>	<b>(1,724,887)</b>
<b>Deficit, beginning of period</b>	<b>(10,372,915)</b>	<b>(7,010,535)</b>	<b>(9,573,794)</b>	<b>(6,328,588)</b>
<b>Deficit, end of period</b>	<b>\$ (11,565,791)</b>	<b>\$ (8,053,475)</b>	<b>\$ (11,565,791)</b>	<b>\$ (8,053,475)</b>
<b>Basic and fully diluted loss per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.06)</b>	<b>\$ (0.10)</b>	<b>\$ (0.09)</b>
<b>Weighted average number of common shares outstanding</b>	<b>20,926,919</b>	<b>18,926,665</b>	<b>20,280,411</b>	<b>18,793,182</b>

See accompanying notes

<b>IMI International Medical Innovations Inc.</b>				
<b>Consolidated Statements of Cash Flows</b>				
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>	<b>July 31</b>	<b>June 30</b>	<b>July 31</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (1,192,876)	\$ (1,042,940)	\$ (1,991,997)	\$ (1,724,887)
Add item not involving cash				
Amortization	54,988	43,470	109,134	75,278
	(1,137,888)	(999,470)	(1,882,863)	(1,649,609)
Net changes in non-cash working capital balances related to operations	144,497	46,093	66,388	(367,473)
<b>Cash used in operating activities</b>	<b>(993,391)</b>	<b>(953,377)</b>	<b>(1,816,475)</b>	<b>(2,017,082)</b>
<b>INVESTING ACTIVITIES</b>				
Short term investments	(5,604,274)	(165,220)	(3,246,630)	(165,220)
Purchase of acquired technology	-	(125,000)	-	(125,000)
Purchase of capital assets	(5,622)	(5,338)	(16,821)	(184,712)
<b>Cash used in investing activities</b>	<b>(5,609,896)</b>	<b>(295,558)</b>	<b>(3,263,451)</b>	<b>(474,932)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of capital stock, net	5,603,305	1,175,611	5,763,305	1,175,611
<b>Cash provided by financing activities</b>	<b>5,603,305</b>	<b>1,175,611</b>	<b>5,763,305</b>	<b>1,175,611</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(999,982)</b>	<b>(73,324)</b>	<b>683,379</b>	<b>(1,316,403)</b>
<b>Cash and cash equivalents</b>				
- Beginning of period	2,276,740	1,322,455	593,379	2,565,534
- End of period	\$ 1,276,758	\$ 1,249,131	\$ 1,276,758	\$ 1,249,131
<b>Represented by</b>				
Cash	\$ 191,292	\$ 491,642	\$ 191,292	\$ 491,642
Cash equivalents	1,085,466	757,489	1,085,466	757,489
	\$ 1,276,758	\$ 1,249,131	\$ 1,276,758	\$ 1,249,131

See accompanying notes

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2002 (Unaudited)

**1. Nature of the Company and Basis of Presentation**

IMI International Medical Innovations Inc. [the "Company"] operates in a single business segment and is a predictive medicine company dedicated to developing rapid, non-invasive tests for the early detection of life-threatening diseases, particularly cardiovascular disease and cancer. The Company licenses, develops and initiates the commercialization of novel, medical technologies developed by various research institutions throughout the world.

The Company currently owns patents for a test to measure skin cholesterol, has in-licensed the technologies for tests to detect the presence of a cancer-specific marker for use in colorectal, lung and other cancers. In addition, the Company has licensed a different marker for the detection of prostate cancer, has patents pending for color measurement in biological reactions and has a right of first refusal on certain genomics-related technologies in the predictive medicine field.

In 2001 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the preparation of interim financial statements.

In December of 2001, the Company changed its yearend from January 31 to December 31, therefore the consolidated statements of loss and deficit and the consolidated statements of cash flows present the three and six months periods ended June 30, 2002 and the three and six months periods ended July 31, 2001.

**2. Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied for interim financial information and follow the same accounting policies and methods used in the preparation of the most recent annual financial statements, with the exception of stock-based compensation, as discussed in note 3. The interim financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto for fiscal year (11 months) ended December 31, 2001. Where appropriate, these financial statements include estimates based on management's judgment.

### 3. Stock-Based Compensation

On January 1, 2002, the Company adopted the recommendations in Handbook Section 3870 (“Section 3870”), *Stock-Based Compensation and Other Stock-Based Payments*, issued by The Canadian Institute of Chartered Accountants. The new recommendations are generally applicable only to awards granted after the date of adoption. The adoption of the new recommendations did not impact the financial statements.

Stock options and warrants awarded to non-employees are accounted for using the fair value method. No compensation expense for stock options granted to employees is recognized, however pro forma disclosure of net loss and net loss per share is provided as if these awards were accounted for using the fair value method. Consideration paid on the exercise of stock options and warrants is credited to share capital.

The table below presents pro forma net loss and basic and diluted loss per common share as if stock options granted to employees had been determined based on the fair value method.

	Three months ended June 30, 2002 \$	Six months ended June 30, 2002 \$
Net loss as reported	(1,192,876)	(1,991,997)
Estimated stock-based compensation costs	<u>(51,309)</u>	<u>(93,017)</u>
Pro forma net loss	<u>(1,244,185)</u>	<u>(2,085,014)</u>
Pro forma basic and diluted net loss per common share	(0.06)	(0.04)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the six month period ended June 30, 2002: risk free interest rate of 4.2%, expected dividend yield of nil, expected volatility of 61.6% and expected option life of 5 years (three month period ended March 31, 2002: risk free interest rate of 4.3%, expected dividend yield of nil, expected volatility of 65.5% and expected option life of 5 years). The weighted-average fair value of the options granted during the three months and six months ended June 30, 2002 was \$6.05 and \$4.10 respectively. Additional disclosure relating to stock-based compensation is provided in the Company’s financial statements as at and for the fiscal year ended December 31, 2001.

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

#### 4. Share Capital

##### a) Authorized

The authorized capital of the Company consists of an unlimited number of common shares, without nominal or par value, and an unlimited number of preferred shares, issuable in series.

##### b) Issued and outstanding shares

<u>Common shares</u>	<u>Number</u> <u>#</u>	<u>Stated</u> <u>value</u> <u>\$</u>	<u>Contributed</u> <u>surplus</u> <u>\$</u>	<u>Total</u> <u>\$</u>
Balance, December 31, 2001	19,565,394	18,141,436	71,054	18,212,490
Issued on exercise of options	220,000	160,000	---	160,000
Issued under share purchase plan	2,250	---	---	---
Balance, March 31, 2002	19,787,644	18,301,346	71,054	18,372,490
Issued under Special Warrants	1,200,000	5,470,805	---	5,470,805
Issued on exercise of options	5,000	12,500	---	12,500
<b>Balance, June 30, 2002</b>	<b>20,992,644</b>	<b>23,784,741</b>	<b>71,054</b>	<b>23,855,795</b>

##### c) Options

	<u>Shares</u> <u>#</u>	<u>Weighted Average</u> <u>Exercise Price</u> <u>\$</u>
Balance, December 31, 2001	1,597,000	1.98
Granted	399,500	4.00
Exercised	(220,000)	0.73
Expired	(5,000)	1.00
Balance, March 31, 2002	1,771,500	2.37
Granted	20,000	6.05
Exercised	(5,000)	2.50
<b>Balance, June 30, 2002</b>	<b>1,786,500</b>	<b>2.41</b>

On April 2, 2002 the Company completed a private placement of 1.2 million common shares at a price of \$5.00 per share, for net proceeds of \$5,484,638. In connection with this offering the Company granted to the agent compensation options to purchase up to 120,000 common shares at an exercise price of \$5.50 per share on or before April 2, 2003.

## **IMI CORPORATE INFORMATION**

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### **Stock Listing**

Toronto Stock Exchange (TSX)  
Symbol: **IMI**

### **Investor Inquiries**

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### **Transfer Agent and Registrar**

Equity Transfer Services Inc.  
120 Adelaide Street West, Suite 420  
Toronto, Ontario  
CANADA M5H 4C3

### **Auditors**

Ernst & Young LLP, Chartered Accountants  
Ernst & Young Tower  
P.O. Box 251, 222 Bay Street, Toronto Dominion Centre  
Toronto, Ontario  
CANADA M5K 1J7

This report contains forward-looking statements that reflect the company's current expectation regarding future events. The forward-looking statements involve risk and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors including, but not limited to, changing market conditions, successful and timely completion of clinical studies, uncertainties related to the regulatory approval process, establishment of corporate alliances and other risks detailed from time to time in the company's quarterly filings.