



International
Medical
Innovations Inc.

**THIRD-QUARTER REPORT
2002**

For the period ended September 30, 2002

IMI International Medical Innovations Inc.
Toronto Stock Exchange: IMI
www.imimedical.com

MESSAGE TO SHAREHOLDERS

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

During the quarter IMI continued to work closely with its partner, McNeil Consumer Healthcare, to establish the groundwork for the commercial launch of IMI's skin cholesterol products. The Company also completed clinical trials and began to analyze the resulting data for its suite of cancer products. IMI has already started the process of moving its cancer products through to the next phase of development and commercialization.

Our partnership with McNeil is strong, and they continue to work toward the commercial launch of IMI's predictive test for coronary artery disease in Canada. There are currently several possible launch scenarios, each dependent on a range of variables. Until the ultimate launch strategy is determined, revenues from this partnership may be delayed by several quarters. Publication of clinical trial results, the progress of new formats of the skin cholesterol technology now in testing ahead of schedule, and emerging market opportunities all factor into the strategic marketing plans. We do not yet know which of the opportunities will prevail, and it is a decision we will make jointly with our partners at McNeil.

Our chief focus remains on the major long-term value drivers for IMI, including a global partnership for our skin cholesterol products and the growing recognition of our strong suite of cancer-detection tests. We are taking a patient approach to ensure the partnerships we enter into provide us the best opportunities to realize the global commercial potential of our products. We are working to showcase the value of our products and build relationships that will lead to effective commercial launches and sustainable sales of our products. We believe this strategy will deliver the best long-term value for our shareholders.

We are particularly excited about recent progress with our cancer-detection products. As we announced last week, we have developed our mucus-sample technology into tests for three different cancers – colorectal, lung and breast cancer – all of which represent significant market opportunities. During the third quarter, trials were underway involving all three tests and we reported that the tests performed well in these studies. The full results are being prepared for presentation at upcoming medical meetings and for publication in medical journals.

On the corporate side we are in a strong financial position and we continue our dialogue with the U.S. Securities and Exchange Commission regarding our registration to list IMI shares on a U.S. stock exchange. We are currently awaiting a response and approval from the SEC. As our products specifically and predictive medicine generally are gaining more and more acceptance in the U.S., we are committed to creating greater access to IMI shares for U.S. investors.



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 September 30, 2002 has been compared with the previously published period ended October 31, 2001.

For the three months ended September 30, 2002, IMI reported a net loss of \$1,089,167 or \$0.05 per share compared with a loss of \$896,071 or \$0.05 per share for the quarter ended October 31, 2001. For the nine months ended September 30, 2002, the Company reported a net loss of \$3,081,164 or \$0.15 per share, compared with \$2,620,958 or \$0.14 per share for the nine months ended October 31, 2001.

Research and development expenditures for the quarter increased to \$666,624, compared with \$581,446 in 2001. Clinical trial expenses decreased by approximately \$90,000 for the quarter (and \$337,000 for the nine months), compared with the corresponding periods in 2001. This resulted from reduced clinical activity related to Cholesterol 1,2,3 following the FDA submission in 2001 (and subsequent clearance) and from the reallocation of resources to the development of a consumer version of the test. Management expects that overall clinical trial expenses will start to increase again in the near future in support of the consumer test for Cholesterol 1,2,3 as well as for the cancer technologies. Compensation expense increased by approximately \$180,000 during the period resulting, in part, from incentive payments related to achieving regulatory and product development milestones. Total research expenditures for the nine months ended September 30, 2002 amounted to \$1,693,223, a slight decrease of 2.7% from \$1,740,898 for the period ended October 31, 2001.

General and administration expenses amounted to \$508,979 for the three months ended September 30, 2002, compared to \$369,833 in the third quarter last year, an increase of \$139,146. Professional fees related to the preparation of the registration application to the SEC for a U.S. stock listing amounted to approximately \$40,000 for the quarter compared to nil in 2001. Compensation expense increased by \$34,000 for the quarter over the corresponding third quarter in 2001. Travel expense, in support of investor relations and international partnering, also increased by \$40,000 during the quarter. Total general and administration expenses for the nine months ended September 30, 2002 amounted to \$1,567,016 compared to \$1,179,810 in 2001.

Amortization expenses for the three months and nine months ended September 30, 2002 amounted to \$43,317 and \$152,451, respectively. For the corresponding periods ending October 31, 2001, amortization amounted to \$69,847 and \$145,125. There were no capital additions during the most recent quarter.

Provision for recoveries of provincial scientific research tax credits (ITC's) amounted to \$45,000 for the quarter. This compares with \$34,000 for the quarter ended October 31, 2001. Total recoveries of ITC's for the nine months ended September 30, 2002 and October 31, 2001 are \$144,908 and \$110,000 respectively. The current year's amount includes \$49,908 received during the period for the fiscal year ended January 31, 2001 that was in excess of the accrual for that year. The tax credit for the fiscal year ended December 31, 2001 of approximately \$131,000 is still outstanding and is reported on the Balance Sheet in Investment Tax Credits Receivable.

Liquidity and Capital Resources

As at September 30, 2002 the Company had cash, cash equivalents and short-term investments totaling \$10,834,880 (\$7,951,179 as at December 31, 2001). The Company invests its funds in short-term bankers acceptances and guaranteed investment certificates. The Company received \$205,581 from the exercise of warrants and options during the period. Cash used to fund the operating activities during the three months ended September 30, 2002 amounted to \$1,251,889 compared to \$813,898 for the three months ended October 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 \$226,000 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

IMI International Medical Innovations Inc.		
Incorporated under the laws of Canada		
Consolidated Balance Sheets		
As at September 30, 2002 and December 31, 2001		
	September 30	December 31
	2002	2001
	(Unaudited)	(Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 1,154,206	\$ 593,379
Short-term investments	9,680,674	7,357,800
Prepaid expenses and other receivables	302,879	224,519
Investment tax credits receivable	226,000	211,000
Total current assets	11,363,759	8,386,698
Capital assets, net	219,228	248,552
Acquired technology, net	602,402	708,708
	\$ 12,185,389	\$ 9,343,958
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 450,383	\$ 358,674
Advance collaboration funding	18,588	36,588
Total current liabilities	468,971	395,262
Shareholders' equity		
Capital Stock	24,061,376	18,212,490
Warrants	310,000	310,000
Deficit	(12,654,958)	(9,573,794)
Total shareholders' equity	11,716,418	8,948,696
	\$ 12,185,389	\$ 9,343,958

See accompanying notes

IMI International Medical Innovations Inc.				
Consolidated Statements of Loss and Deficit				
	Three months ended		Nine months ended	
	September 30	October 31	September 30	October 31
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES				
Research and development	\$ 666,624	\$ 581,446	\$ 1,693,223	\$ 1,740,898
General and administration	508,979	369,833	1,567,016	1,179,810
Amortization	43,317	69,847	152,451	145,125
	1,218,920	1,021,126	3,412,690	3,065,833
RECOVERIES AND OTHER INCOME				
Investment tax credits	45,000	34,000	144,908	110,000
Interest	84,753	91,055	186,618	334,875
	129,753	125,055	331,526	444,875
Net loss for the period	(1,089,167)	(896,071)	(3,081,164)	(2,620,958)
Deficit, beginning of period	(11,565,791)	(8,053,475)	(9,573,794)	(6,328,588)
Deficit, end of period	\$ (12,654,958)	\$ (8,949,546)	\$ (12,654,958)	\$ (8,949,546)
Basic and fully diluted loss per share	\$ (0.05)	\$ (0.05)	\$ (0.15)	\$ (0.14)
Weighted average number of common shares outstanding	21,002,383	19,477,970	20,523,713	19,013,843

See accompanying notes

IMI International Medical Innovations Inc.				
Consolidated Statements of Cash Flows				
	Three months ended		Nine months ended	
	September 30	October 31	September 30	October 31
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES				
Net loss for the period	\$ (1,089,167)	\$ (896,071)	\$ (3,081,164)	\$ (2,620,958)
Add item not involving cash				
Amortization	43,317	69,847	152,451	145,125
	(1,045,850)	(826,224)	(2,928,713)	(2,475,833)
Net changes in non-cash working capital balances related to operations	(206,039)	12,326	(139,651)	(355,147)
Cash used in operating activities	(1,251,889)	(813,898)	(3,068,364)	(2,830,980)
INVESTING ACTIVITIES				
Short term investments	923,756	808,056	(2,322,874)	642,836
Purchase of acquired technology	-	(256,507)	-	(381,507)
Purchase of capital assets	-	(803)	(16,821)	(185,515)
Cash used in investing activities	923,756	550,746	(2,339,695)	75,814
FINANCING ACTIVITIES				
Issuance of capital stock, net	205,581	36,688	5,968,886	1,212,299
Cash provided by financing activities	205,581	36,688	5,968,886	1,212,299
Net increase (decrease) in cash and cash equivalents during the period	(122,552)	(226,464)	560,827	(1,542,867)
Cash and cash equivalents				
- Beginning of period	1,276,758	1,249,131	593,379	2,565,534
- End of period	\$ 1,154,206	\$ 1,022,667	\$ 1,154,206	\$ 1,022,667
Represented by				
Cash	\$ 12,646	\$ 229,211	\$ 12,646	\$ 229,211
Cash equivalents	1,141,560	793,456	1,141,560	793,456
	\$ 1,154,206	\$ 1,022,667	\$ 1,154,206	\$ 1,022,667

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

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 and 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 nine months periods ended September 30, 2002 and the three and nine months periods ended October 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 September 30, 2002 \$	Nine months ended September 30, 2002 \$
Net loss as reported	(1,089,167)	(3,081,164)
Estimated stock-based compensation costs	<u>(53,829)</u>	<u>(146,846)</u>
Pro forma net loss	<u>(1,142,996)</u>	<u>(3,228,010)</u>
Pro forma basic and diluted net loss per common share	(0.05)	(0.16)

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 nine month period ended September 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. There were no options granted during the three months ended September 30, 2002. The weighted-average fair value of the options granted during the nine months ended September 30, 2002 was approximately \$4.10. 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>Stated</u> <u>value</u> \$	<u>Contributed</u> <u>surplus</u> \$	<u>Total</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	5,470,595	---	5,470,595
Issued on exercise of options	5,000	12,500	---	12,500
Balance, June 30, 2002	20,992,644	23,784,531	71,054	23,855,585
Issued under Special Warrants	2,101	12,500	---	12,500
Issued under share purchase plan	7,157	---	---	---
Issued on exercise of options	72,600	193,291	---	193,291
Balance, September 30, 2002	21,074,502	23,990,322	71,054	24,061,376

c) Options

	<u>Shares</u> #	<u>Weighted Average</u> <u>Exercise Price</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
Balance, June 30, 2002	1,786,500	2.41
Granted	(72,600)	2.66
Exercised	(5,400)	4.15
Balance, September 30, 2002	1,708,500	2.39

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.

5. Consolidated Statements of Cash Flows

Changes in non-cash working capital balances related to operations comprise of:

	Three months ended		Nine months ended	
	Sept. 30 2002	Oct. 31 2001	Sept. 30 2002	Oct. 31 2001
Prepaid expenses and other receivables	\$19,846	\$71,412	\$(78,360)	\$33,516
Investment tax credits receivable	(45,000)	(34,000)	(15,000)	(110,000)
Accounts payable and accrued liabilities	(174,885)	(21,086)	(28,291)	(264,663)
Advance collaboration funding	(6,000)	(4,000)	(18,000)	(14,000)
	\$(206,039)	\$12,326	\$(139,651)	\$(355,147)

IMI CORPORATE INFORMATION

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Stock Listing

Toronto Stock Exchange (TSX)
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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.