

FYTOKEM PRODUCTS INC.Quarterly Report to Shareholders for the 1st Quarter Ended March 31, 2001**BC FORM 51-901F****QUARTERLY REPORT**

Incorporated as part of Schedule A
 X Schedule B & C

ISSUER DETAILS NAME OF ISSUER FYTOKEM PRODUCTS INC.		FOR QUARTER ENDED March 31, 2001	DATE OF REPORT YY/MM/DD 2001/05/29
ISSUER ADDRESS 101-110 Research Drive			
CITY Saskatoon	PROVINCE SK	POSTAL CODE S7N 3R3	ISSUER FAX NO. (306) 978-2436
CONTACT NAME Mark S. Pasloski, C.A.		CONTACT POSITION VP – Finance & Administration	ISSUER TELEPHONE NO. (306) 668-2552
CONTACT EMAIL ADDRESS mpasloski@fytokem.com		CONTACT TELEPHONE NO. (306) 668-2552	
		WEB SITE ADDRESS www.fytokem.com	

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE ➤ <i>"Peter Oliver"</i>	PRINT FULL NAME Peter Oliver	DATE SIGNED YY/MM/DD 2001/05/29
DIRECTOR'S SIGNATURE ➤ <i>"Paul Marciniak"</i>	PRINT FULL NAME Paul Marciniak	DATE SIGNED YY/MM/DD 2001/05/29

SCHEDULE A

Previously filed under SEDAR Project #

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. Analysis of expenses and deferred costs:

Finance & administration:

Salaries and benefits	\$ 41,089
Occupancy costs	14,023
Investor relations and corporate governance	27,360
Office supplies & services	3,396
Insurance expense	6,304
Foreign currency loss (gain)	(5,628)
Other	1,093
	<u>\$ 87,637</u>

2. Related party transactions:

There were no expenditures made to parties not at arm's length to the issuer in the period.

3. Summary of securities issued and options granted during the period:

a) Securities issued in the period:

Date of Issue	Type of Security	Type of Issue	Number	Price	Gross Proceeds	Type of Consideration	Commission Paid
None							

There were 14,462,121 common shares outstanding as at March 31, 2001.

b) Options granted in the period:

On February 6, 2001 the Company granted options to an officer to purchase 65,000 common shares at \$0.25 per share. These options expire on February 6, 2006.

On February 20, 2001 the Company granted options to consultants to purchase 105,000 common shares at \$0.25 per share. The options expire on February 20, 2006.

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4. *Summary of securities as at the end of the fiscal period:*

a) Authorized capital:

Unlimited number of Common Shares without nominal or par value and an unlimited number of Preferred Shares.

b) There were 14,462,121 Common Shares outstanding as at March 31, 2001.

c) Summary of options, warrants and convertible securities outstanding:

Type	Number	Price	Expiry Date
Directors/Officers/Employees Options	80,000	\$0.26	Dec 08/03
Directors/Officers/Employees Options	125,000	\$0.27	Jun 10/04
Directors/Officers/Employees Options	205,000	\$0.34	Mar 29/05
Officers/Employees Options	200,000	\$0.60	Jul 29/05
Officers/Employees Options	65,000	\$0.25	Feb 06/06
Consultants Options	105,000	\$0.25	Feb 20/06
Convertible Note Payable (\$500,000) ⁽ⁱ⁾	1,515,152	\$0.33	Jan 31/01
	or 1,315,789	\$0.38	Jan 31/02
	or 1,162,791	\$0.43	Jan 31/03
	or 1,041,667	\$0.48	Jan 31/04

(i) The company has the option to repay this Convertible Note Payable at any time at face value.

d) Total number of shares in escrow:

There are 920,918 common shares subject to a Statutory Escrow Agreement.

5. List of directors and officers as at March 31, 2001:

Directors:

Greg Dutka
Paul Marciniak
Rita Mirwald
Peter Oliver

Officers:

Art Hesje	President & CEO
Greg Dutka	Vice – President – Marketing & Corporate Development
Mark Pasloski	Vice – President – Finance & Administration
	Corporate Secretary – Treasurer

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

THE FOLLOWING MANAGEMENT DISCUSSION HAS BEEN PREPARED AS A SUMMARY OF ACTIVITIES FOR THE THREE MONTHS ENDING MARCH 31, 2001 AND SIGNIFICANT EVENTS SUBSEQUENT TO THAT PERIOD.

OVERVIEW

Fytokem Products Inc. is a Canadian life sciences company engaged in the discovery and commercialization of novel Function-Certified™ plant-based substances – extracts, phytochemicals and bioactive molecules – for use as ingredients in personal care, nutraceutical, pharmaceutical and bio-industrial products.

RESULTS OF OPERATIONS

The Company experienced a net loss of \$131,936, 23% lower than the \$171,262 loss reported in the same period in 2000. The corresponding loss per share also dropped to \$0.01 from \$0.02 in the same period in 2000. As at March 31, 2001, the Company's working capital, current assets less current liabilities, was \$670,293. Total assets reached \$1,085,128; shareholders' equity amounted to \$504,263, which includes an accumulated deficit of \$3,252,166.

REVENUES

Product sales for the three months ended March 31, 2001 rose by 61% to \$152,725 from \$95,093 in the same period in 2000. Other revenue, which is mainly comprised of interest revenue, increased by 66% to \$7,557 from \$4,545 in the same period in 2000. Fytokem's focus on commercialization and sales resulted in a 67% reduction in research project revenues from \$74,888 in \$25,054 in 2001. These increases in sales and other revenue and the offsetting reduction in project revenue resulted in total revenue increasing by 6% to \$185,336 from \$174,526 in the same period in 2000.

OPERATING EXPENSES

Total expenses were \$56,131 less in 2001 than the same period in 2000. All expense categories were down with the exception of depreciation.

Product development expenses totaled \$75,502 in the first three months of 2001, a reduction of 23% from the same period in 2000. The company maintained its product development efforts in spite of a 67% decrease in third-party funding (see above).

Marketing costs were 3,605 (5%) lower than the same period in 2000 due to the shift from direct sales to a "strategic partnership" sales and distribution approach. Reductions in advertising and promotional materials costs and an increase in travel expenses make up most of this difference.

Finance and administration costs were reduced by \$30,883 or 26% over the same period in 2000. Most of this decrease was realized through reductions in personnel costs and a general reduction in expenses incurred.

DEPRECIATION

Depreciation for the first three months of 2001 was \$11,226 compared to \$8,129 in the same period in 2000, an increase of 38%. This is due, almost entirely, to the increase in fixed assets in the latter part of 2000.

INTEREST ON DEBT

Interest on debt for the first three months of 2001 was \$19,651, or 8% lower than the \$21,380 recorded in the same period in 2000. This decrease is due to an interest free month being realized in 2001 and the valuation placed on the shares issued in lieu of interest on the convertible promissory note.

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INFLATION

The impact of inflation on the Company's operations has been minimal and is expected to be minimal in the next few years. As substantially all product sales are denominated in US\$, the company is subject to foreign currency risk on conversion of its US\$ accounts receivable balance to CDN\$. To date the Company has experienced modest gains due to the favorable US\$ to CDN\$ exchange differential. No foreign currency hedges have been placed to mitigate foreign currency risk.

MANAGEMENT CHANGE

Fytokem's Vice-President - Research & Development, Mark Hetherington, resigned effective March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

There were no funds raised through the sale of shares or exercise of options in the period.

At March 31, 2001 Fytokem had cash and cash equivalents of \$395,871 and accounts receivable of \$138,603. Working capital, current assets less current liabilities was \$670,293, \$115,163 lower than the amount reported at December 31, 2000.

The Company anticipates that its existing capital resources, plus anticipated cash flows, will be adequate to satisfy its anticipated cash requirements for its operations for at least the next 12 months. However, the Company expects that it will be necessary to seek additional debt or equity financing in the near future to fund expanded research and development activities including third-party clinical assessments, expansion of marketing and corporate development activities in the therapeutic market, and for additional capital expenditures. If the Company needs to raise additional cash, financing may not be available to it on favorable terms, and the failure to obtain financing may severely affect the Company's continued growth.

SUBSEQUENT EVENTS

The Company hired and appointed Ms. Janice McColl as the Director of Research & Development.