

FYTOKEM PRODUCTS INC
ASE:FYT

SECOND QUARTER REPORT
PERIOD ENDING JUNE 30, 1999

PRESIDENT'S MESSAGE SECOND QUARTER OF 1999

The second quarter was the most exciting in Fytokem's young history. We made excellent progress on all fronts and are tracking very close to our three-year business plan created early last year.

Highlights

- Market acceptance of our three products has been increasingly positive.
- Fytokem's scientific and technical reputation is growing quickly. Major multinational companies such as Chesebrough Ponds, Johnson & Johnson, Elizabeth Arden, Gillette, Mary Kay, Estee Lauder and others have approached Fytokem. They are responding to the growing interest among consumers for natural products and to our reputation as a quality supplier of value-added plant extracts and refined natural chemicals.
- We began negotiations with a number of major companies in the nutraceutical and biochemical areas which could open up huge new markets for Fytokem.
- We secured access to additional cost-effective manufacturing capacity which will allow us to meet growing demand while improving our time-to-market.
- We are stepping up our rate of new product introductions to six per year, beginning with the launch of our Fytosorb™ line of products this fall.

Financial and Operating Review

Product sales more than doubled compared to the first quarter and were 12 times the corresponding period in 1998. Total revenues (including funding received for R&D as well as interest) increased almost fivefold to \$76,701. Expenses also rose, reflecting the Company's investment in additional staff to support its growth plans. The net loss increased 16% to \$210,949, compared to the second quarter of 1998.

We are now selling three product lines as personal care ingredients to a number of customers:

- The Willowherb line of fast acting anti-irritants;
- Fytosterols, skin conditioners and moisturizers;
- Tyrostats, toners, brighteners and lighteners for skin problems and disease.

In addition, we have just begun to sell Fytosterol into the nutraceutical market

Our pipeline is large and growing. More than 20 major multinational companies are at the prototype or test market stage with product lines that contain our ingredients. At the same time, we will be increasing our rate of new product introductions to six per year starting this fall. The first of these will be a Fytosorb™ sun care product, which reduces the risk involved in exposure to the sun.

In addition, a number of major companies in the nutraceutical and biochemical industries have expressed interest in the company's products and its technical expertise. While it is still very early, discussions are underway which could open markets for Fytokem manufactured ingredients well beyond the personal care industry.

Fytokem remains in a healthy financial position. While our second quarter financial statements indicate a cash position that is merely sufficient for the balance of the year, Fytokem has not

drawn down any of the \$850,000 in equity commitments obtained earlier this year, subject to the conditions outlined in the 1998 Annual Report. Cash and temporary investments totaled \$388,791 at June 30, 1999, compared to \$609,828 at March 31, 1999 and \$403,042 at June 30, 1998.

New opportunities are opening up very quickly for us. To realize the potential for rapid expansion into the personal care and other markets and to capitalize on our new opportunities, we plan to seek further financing either later this year or early next.

We've found new, cost-efficient manufacturing capacity. The Crown Corporation that operates the Research Park in Saskatoon, where we are located, has opened a larger-scale toll manufacturing facility, the Innovation Place BioProcessing Center (IPBC). We plan our first production run there this fall. As new products are commercially accepted, larger-scale processing can be done at IPBC. In addition, contract manufacturing is continuing at the POS Pilot Plant in Saskatoon.

Outlook

After five years of careful planning and focused research and development, Fytokem is beginning to build very real products and sales momentum. We expect our sales curve to continue to climb over the coming quarters subject to existing products gaining greater acceptance and new products entering the market.

At the same time, we will continue to showcase our growing portfolio to a wider range of potential customers, not only in the personal care industry, but also in the nutraceutical and biochemical areas. The second half of the year promises to be even more exciting than the first six months.

John Schaw
President and Chief Executive Officer
August 30, 1999

FYTOKEM PRODUCTS INC.
BALANCE SHEETS
June 30, 1999 and 1998
(Unaudited)

	1999	1998
CURRENT ASSETS		
Cash and temporary investments	\$ 388,791	\$ 403,042
Accounts receivable	66,060	45,527
Inventory	174,129	38,696
Prepaid expenses	8,646	7,641
Deferred offering memorandum costs	-	43,949
Current portion of deferred finance charges	47,682	-
Current portion of notes receivable	7,000	-
	692,308	538,855
NOTES RECEIVABLE	-	7,000
DEFERRED FINANCE CHARGES	13,209	-
EQUIPMENT - NET	115,939	111,976
	\$ 821,456	\$ 657,831
CURRENT LIABILITIES		
Accounts payable and accruals	\$ 97,231	\$ 64,085
Unearned project revenue	22,182	-
Current portion long term debt	20,238	18,319
	139,651	82,404
LONG TERM DEBT		
Convertible debt	500,000	-
Discount on convertible debt	(63,984)	-
Capital leases	19,297	39,523
Shareholders' loans	3,521	3,521
	458,834	43,044
SHAREHOLDERS' EQUITY		
Share capital	1,872,057	1,450,113
Equity portion of convertible debt	63,984	-
Deficit	(1,713,070)	(917,730)
	222,971	532,383
	\$ 821,456	\$ 657,831

FYTOKEM PRODUCTS INC.
STATEMENTS OF LOSS AND DEFICIT
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	1999	1998	1999	1998
REVENUE				
Sales	\$ 40,920	\$ 2,722	\$ 59,865	\$ 4,821
Cost of Sales	8,338	725	13,053	1,778
Gross Margin	32,582	1,997	46,812	3,043
Project revenue	38,174	9,209	68,255	52,013
Other revenue	5,945	4,392	9,107	11,280
	<u>76,701</u>	<u>15,598</u>	<u>124,174</u>	<u>66,336</u>
EXPENSES				
Product development	59,551	48,452	106,761	116,034
Marketing	58,211	69,727	111,534	148,018
Administration	144,359	72,758	263,392	138,476
Depreciation	6,843	4,622	12,456	8,376
Interest on debt	18,686	1,510	26,337	2,836
	<u>287,650</u>	<u>197,069</u>	<u>520,480</u>	<u>413,740</u>
NET LOSS	<u>\$ 210,949</u>	<u>\$ 181,471</u>	<u>\$ 396,306</u>	<u>\$ 347,404</u>
DEFICIT, BEGINNING OF PERIOD	<u>1,502,121</u>	<u>736,259</u>	<u>1,316,764</u>	<u>570,326</u>
DEFICIT, END OF PERIOD	<u>\$ 1,713,070</u>	<u>\$ 917,730</u>	<u>\$ 1,713,070</u>	<u>\$ 917,730</u>
LOSS PER SHARE				
Basic	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Shares Outstanding	<u>8,998,913</u>	<u>8,559,200</u>	<u>8,998,913</u>	<u>8,559,200</u>

Note: The interim financial statements should be read in conjunction with, and are based on the same accounting policies contained in, our 1998 annual financial statements.

FYTOKEM PRODUCTS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	1999	1998	1999	1998
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net loss	\$ (210,949)	\$ (181,472)	\$ (396,306)	\$ (347,404)
Items not affecting cash				
Depreciation and amortization	6,843	4,622	12,456	8,376
Non-cash interest expense	17,522	-	23,360	-
	<u>(186,584)</u>	<u>(176,850)</u>	<u>(360,490)</u>	<u>(339,028)</u>
Changes in non-cash working capital				
Accounts receivable	(17,422)	28,820	(37,794)	32,345
Inventory	(38,416)	(3,471)	(40,345)	(21,166)
Investment tax credits receivable	-	-	-	4,495
Prepaid expenses	1,385	(1,240)	13,936	12,547
Unearned project revenue	22,182	-	22,182	-
Accounts payable and accruals	10,448	(4,208)	502	17,800
Cash flows used in operating activities	<u>(208,407)</u>	<u>(156,949)</u>	<u>(402,009)</u>	<u>(293,007)</u>
CASH FLOWS FROM (USED IN)				
INVESTING ACTIVITIES				
Acquisition of equipment	(7,889)	(2,202)	(15,009)	(4,644)
Cash flows used in investing activities	<u>(7,889)</u>	<u>(2,202)</u>	<u>(15,009)</u>	<u>(4,644)</u>
CASH FLOWS FROM (USED IN)				
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	-	-	257,719	54,600
Costs of share issuance	-	-	(19,360)	-
Deferred offering memorandum costs	-	(43,949)	-	(43,949)
Proceeds from convertible debt	-	-	500,000	-
Costs of convertible debt	-	-	(17,051)	-
Repayment of long term debt	(4,741)	(4,300)	(9,376)	(60,614)
Cash flows from financing activities	<u>(4,741)</u>	<u>(48,249)</u>	<u>711,932</u>	<u>(49,963)</u>
NET INCREASE (DECREASE) IN CASH	(221,037)	(207,400)	294,914	(347,614)
CASH POSITION, BEGINNING OF PERIOD	609,828	610,442	93,877	750,656
CASH POSITION, END OF PERIOD	<u>\$ 388,791</u>	<u>\$ 403,042</u>	<u>\$ 388,791</u>	<u>\$ 403,042</u>
REPRESENTED BY:				
Cash	\$ 21,320	\$ 41,067	\$ 21,320	\$ 41,067
Temporary Investments	\$ 367,471	\$ 361,975	\$ 367,471	\$ 361,975
	<u>\$ 388,791</u>	<u>\$ 403,042</u>	<u>\$ 388,791</u>	<u>\$ 403,042</u>
Interest Paid	<u>\$ 1,164</u>	<u>\$ 1,510</u>	<u>\$ 2,977</u>	<u>\$ 2,836</u>