

FYTOKEM PRODUCTS INC.
CDNX:FYT
SECOND QUARTER REPORT
PERIOD ENDING JUNE 30, 2000

**FYTOKEM PRODUCTS INC.
PRESIDENT'S MESSAGE
SECOND QUARTER OF 2000**

Dear Shareholders:

During the second quarter of 2000, Fytokem made steady progress toward its goal of becoming a global leader in the discovery, patenting and commercialization of naturally occurring bio-active agents for therapeutic use. We already have a patent application filed for Oenothain-B, a complex molecule demonstrating strong anti-irritant, anti-inflammatory and free-radical scavenging properties. As we begin to expand our business focus beyond that of an ingredients-provider to the Personal Care Industry (PCI) to other favorable markets, a great deal of planning and preparation must be done. To accomplish the goals that we have set, we will continue our research and development initiative into bio-actives derived from the Canadian prairie and northern plants that surround us. Today, I am pleased to present the second quarter results, the progress we have made and what can be expected in the months ahead.

For the three-month period ended June 30, 2000, Fytokem's sales increased to \$53,830, up 32% from \$40,920 in 1999. Gross margin rose to \$35,117 from \$32,582 for the corresponding period last year. Net loss for the three-month period ended June 30, 2000 equaled (\$0.02) per share, unchanged from June 30, 1999.

For the six-month period ended June 30, 2000, the Company's sales rose by 149% to \$148,923 from \$59,865, recorded for the same period in 1999. Gross margin climbed to \$105,469 or 125% over the gross margin period recorded for the six-months period ended June 30, 1999. The net loss for the six-months ended June 30, 2000 remained unchanged over last year at (\$0.04) per share.

Over the quarter, everyone at Fytokem was actively involved in planning and executing the Company's aggressive growth strategy. For those markets that provide an opportunity for our products but are not part of our mainstream business, we aim to establish strategic partnerships with companies that can provide proven sales and marketing expertise. By following this strategy, we intend to use our time, talents and resources more efficiently in the discovery and development of new products for commercialization and the opening of new markets.

The second quarter saw the signing of a strategic licensing agreement with Dragoco, Gerberding & Co. AG of Germany. Dragoco is a leading international supplier of perfume compositions, aroma chemicals, cosmetic raw materials, active ingredients and flavours. Under the terms of the agreement, Dragoco has obtained worldwide rights to sell and market our products, including Canadian Willowherb™, Tyrostat™ and Fytosorb™ to the PCI. Dragoco may also provide Fytokem with R&D funding, market intelligence and the technical expertise to accelerate the development of products. This agreement significantly expands on the previous distribution agreement that we had with Dragoco. We intend to pursue similar agreements with other industry leaders in the nutraceutical and OTC/therapeutic markets. Fytokem expects to benefit as a result of expanding product pipelines.

To make our vision a reality, we must find a President & CEO for Fytokem. This task is well underway with the selection committee. We intend to take the time required to select the right individual for this important role.

Finally, I am pleased to announce that Fytokem has retained the services of an established investor relations firm. Based in Toronto, the Equicom Group Inc. will assist Fytokem in additional financings, greater media exposure and increased broker/shareholder awareness of Fytokem activities.

Looking forward, we will continue to pursue our growth strategy in the coming months. The Company plans to commission a market study for the OTC/therapeutics and natural healthcare industries in the third quarter of 2000 to confirm the viability of our products. Fytokem is also pursuing an agreement with an animal healthcare company and is in discussions with two additional companies, one being a global supplier of biocidal and preservative agents, and the other a dominant figure in the nutraceutical industry.

In closing, I thank everyone at Fytokem for all the hard work performed over the quarter and for the talent that they bring to this company. Also, I thank Fytokem shareholders for their on-going commitment to our shared long-term vision of making Fytokem an internationally recognized leader in the development of therapeutics from natural sources. I look forward to reporting on our progress in the months ahead.

Greg Dutka
Interim President
Fytokem Products Inc.

FYTOKEM PRODUCTS INC.
BALANCE SHEETS
June 30, 2000 and 1999
(Unaudited)

	<u>2000</u>	<u>1999</u>
CURRENT ASSETS		
Cash and temporary investments	\$ 1,140,549	388,791
Accounts receivable	88,862	66,060
Inventory	240,758	174,129
Prepaid expenses	29,227	8,646
Current portion of deferred finance charges	72,430	47,682
Current portion of notes receivable	<u>-</u>	<u>7,000</u>
	1,571,826	692,308
DEFERRED FINANCE CHARGES	7,445	13,209
EQUIPMENT - NET	<u>190,735</u>	<u>115,939</u>
	<u>\$ 1,770,006</u>	<u>\$ 821,456</u>
CURRENT LIABILITIES		
Accounts payable and accruals	\$ 145,208	\$ 97,231
Unearned project revenue	-	22,182
Current portion long term debt	<u>44,054</u>	<u>20,238</u>
	<u>189,262</u>	<u>139,651</u>
LONG TERM DEBT		
Convertible debt	500,000	500,000
Discount on convertible debt	(63,984)	(63,984)
Capital leases	64,941	19,297
Shareholders' loans	<u>-</u>	<u>3,521</u>
	<u>500,957</u>	<u>458,834</u>
SHAREHOLDERS' EQUITY		
Share capital	2,637,996	1,872,057
Share warrants	1,046,505	-
Equity portion of convertible debt	63,984	63,984
Deficit	<u>(2,668,698)</u>	<u>(1,713,070)</u>
	<u>1,079,787</u>	<u>222,971</u>
	<u>\$ 1,770,006</u>	<u>\$ 821,456</u>

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

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
REVENUE				
Sales	\$ 53,830	\$ 40,920	\$ 148,923	\$ 59,865
Cost of Sales	<u>18,713</u>	<u>8,338</u>	<u>43,454</u>	<u>13,053</u>
Gross Margin	35,117	32,582	105,469	46,812
Project revenue	18,810	38,174	93,698	68,255
Other revenue	<u>7,983</u>	<u>5,945</u>	<u>12,528</u>	<u>9,107</u>
	<u>61,910</u>	<u>76,701</u>	<u>211,695</u>	<u>124,174</u>
EXPENSES				
Product development	57,431	59,551	155,945	106,761
Marketing	65,054	58,211	139,559	111,534
Finance & administration	145,479	144,359	263,998	263,392
Depreciation	8,302	6,843	16,431	12,456
Interest on debt	<u>27,448</u>	<u>18,686</u>	<u>48,828</u>	<u>26,337</u>
	<u>303,714</u>	<u>287,650</u>	<u>624,761</u>	<u>520,480</u>
NET LOSS	\$ 241,804	\$ 210,949	\$ 413,066	\$ 396,306
DEFICIT, BEGINNING OF PERIOD	2,426,894	1,502,121	2,255,632	1,316,764
DEFICIT, END OF PERIOD	<u>\$2,668,698</u>	<u>\$1,713,070</u>	<u>\$2,668,698</u>	<u>\$1,713,070</u>
LOSS PER SHARE				
Basic	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Shares Outstanding	<u>11,212,034</u>	<u>8,998,913</u>	<u>11,212,034</u>	<u>8,998,913</u>

FYTOKEM PRODUCTS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net loss	\$ (241,804)	\$ (210,949)	\$ (413,066)	\$ (396,306)
Items not affecting cash				
Depreciation and amortization	8,302	6,843	16,431	12,456
Non-cash interest expense	25,720	17,522	45,973	23,360
Gain on sale of fixed assets	(203)	-	(203)	-
	<u>(207,985)</u>	<u>(186,584)</u>	<u>(350,865)</u>	<u>(360,490)</u>
Changes in non-cash working capital				
Accounts receivable	2,646	(17,422)	(30,073)	(37,794)
Inventory	(29,947)	(38,416)	(69,205)	(40,345)
Prepaid expenses	(3,014)	1,385	(13,190)	13,936
Unearned project revenue	-	22,182	(2,352)	22,182
Accounts payable and accruals	8,362	10,448	27,095	502
Cash flows used in operating activities	<u>(229,938)</u>	<u>(208,407)</u>	<u>(438,590)</u>	<u>(402,009)</u>
CASH FLOWS FROM (USED IN)				
INVESTING ACTIVITIES				
Acquisition of equipment	(6,423)	(7,889)	(8,559)	(15,009)
Disposals of equipment	662	-	662	-
Cash flows used in investing activities	<u>(5,761)</u>	<u>(7,889)</u>	<u>(7,897)</u>	<u>(15,009)</u>
CASH FLOWS FROM (USED IN)				
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	11,380	-	31,130	257,719
Costs of share issuance	-	-	-	(19,360)
Proceeds from issuance of share warrants	1,085,425	-	1,085,425	-
Costs of share warrants issuance	(38,920)	-	(38,920)	-
Deferred offering memorandum costs	2,500	-	-	-
Proceeds from convertible debt	-	-	-	500,000
Costs of convertible debt	-	-	-	(17,051)
Repayment of long term debt	(8,040)	(4,741)	(14,175)	(9,376)
Cash flows from financing activities	<u>1,052,345</u>	<u>(4,741)</u>	<u>1,063,460</u>	<u>711,932</u>
NET INCREASE (DECREASE) IN CASH	816,646	(221,037)	616,973	294,914
CASH POSITION, BEGINNING OF PERIOD	<u>323,903</u>	<u>609,828</u>	<u>523,576</u>	<u>93,877</u>
CASH POSITION, END OF PERIOD	<u>\$ 1,140,549</u>	<u>\$ 388,791</u>	<u>\$ 1,140,549</u>	<u>\$ 388,791</u>
REPRESENTED BY:				
Cash	\$ 1,107,222	\$ 21,320	\$ 1,107,222	\$ 21,320
Temporary Investments	<u>\$ 33,327</u>	<u>\$ 367,471</u>	<u>\$ 33,327</u>	<u>\$ 367,471</u>
	<u>\$ 1,140,549</u>	<u>\$ 388,791</u>	<u>\$ 1,140,549</u>	<u>\$ 388,791</u>
Interest Paid	<u>\$ 1,729</u>	<u>\$ 1,164</u>	<u>\$ 2,584</u>	<u>\$ 2,977</u>

Notes:

1. These interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada.
2. The interim financial statements, which include the use of estimates and judgments, contain all adjustments that management believes are necessary for fair presentation of Fytokem's financial position, results of operations and cash flows.
3. The interim financial statements should be read in conjunction with, and are based on the same accounting policies as contained in Fytokem's 1999 annual report.
4. Share Capital:
 - a) At June 30, 2000, there were 12,266,957 common shares outstanding.
 - b) At June 30, 2000, there were 1,930,164 special warrants outstanding. There were also 121,167 agents options outstanding.
If all special warrants and agents options were exercised, the common shares would increase by 1,146,833 for additional proceeds of \$1,098,366.
 - c) At June 30, 2000, there were options for 780,000 common shares outstanding under the share option plan and are exercisable up to 2005.