

Message to the Shareholders

To our Shareholders:

The second quarter of Fiscal 2001, ending December 31, 2000, was a period of expansion for Toxin Alert. We made steady scientific and technical progress in the development of our patented Toxin Guard™ food film product. And we continued to pursue negotiations on possible productions and marketing arrangements with a variety of well-known food packaging and food processing concerns in the US and Canada.

Highlights

Toxin Alert's bioreactor laboratory west of Toronto, on the campus of the University of Guelph, became operational during the second quarter. By the end of the quarter, we had six research scale bioreactors and ten large-scale bioreactors up and running at the facility, which currently employs six. In its final configuration, the facility will house more than 30 large-scale bioreactors and will be one of the largest bioreactor facilities in existence, and possibly the largest ever on a university campus. The facility is supervised by Toxin Alert, and is available for use by the University of Guelph personnel at no charge.

In December, the Company converted 490,000 warrants for common shares, raising total outstanding common shares to 7,353,110 as of December 31, 2000. The bulk of the warrants were held by Directors, and by providers of initial services during the start-up period. Presently, the Company has no plans to issue additional securities.

The pick-up in activity at the Company was accompanied by an increase in the cash burn rate above the first quarter, when it was very low due to timing differences. For the first half of Fiscal 2001, financial results were approximately the same as those for the second half of Fiscal 2000.

Outlook

Toxin Alert is well financed for its mission, and current resources should be adequate for all developmental activities until significant revenues are generated through commercial activities.

We can never predict events. However, we have received widespread keen interest in the technical and commercial properties of our patented product, Toxin Guard™. Toxin Alert's Board and Management continue to carefully evaluate all possible alliances so that we can deliver a final product that will perform well for consumers and maximize value for shareholders. We remain confident that we will be able to announce our first strategic relationship in a timely manner.

Respectfully submitted,

G. Montegu Black
Chairman
Toxin Alert Inc.

William T. Bodenhamer
President & Chief Executive Officer
Toxin Alert Inc.

Other Business

At the annual shareholders' meeting held December 6, 2000 it was resolved that the following persons be elected directors of the Company to hold office until the close of the next annual meeting of shareholders or until their successors are duly elected or appointed:

G. Montegu Black
William T. Bodenhamer
Dan Andersen
A. Michael Espy
Dr. George Jackowski
F. Ross Johnson
Neal Schachtel

Also at the annual meeting it was resolved that KPMG, Chartered Accountants be appointed auditors of the Corporation until the next annual meeting or until its successors are appointed.

Financial Highlights

For the six months ended December 31, 2000, the Company recorded a loss of \$1,004,242, or \$0.15 per share, compared to a loss of \$827,199 or \$0.30 per share, for the six months ended December 31, 1999.

Revenue for the six months ended December 31, 2000 totals \$79,024, this is an increase of \$53,522 over the same period last year. Revenues for the current period resulted from the following: (a) service fees \$900, and (b) interest income of \$78,124.

Research and development expenditure for the six months ended December 31, 2000, increased by \$51,443 to \$526,716, before consideration of tax credits, as compared with \$475,273 for the prior period. The increase in expenses is attributable to the scale up of the research facility, at the University of Guelph.

Investment tax credits have increased to \$96,801 for the six months ended December 31, 2000 as compared to \$61,676 for the six months ended December 31, 1999. This increase is a result of the increase in research and development expenditures.

General and administrative expenses increased by \$139,290 to \$577,939 for the six months ended December 31, 2000 as compared to \$438,649 for the six months ended December 31, 1999. The increase is a result of additional employees and expanded administrative services.

Amortization of capital assets for the six months ended December 31, 2000 and 1999, increased to \$75,412 from \$455. This reflects an increase in capital expenditures, of \$399,400, in connection to the creation of the research facilities at the University of Guelph.

Balance Sheets

	As at December 31, 2000 (unaudited)	As at June 30, 2000 (audited)
Assets		
Current assets		
Cash	\$ 2,956,502	\$ 1,761,744
Accounts receivable	-	9,839
GST receivable	176,680	108,064
Prepaid expenses and other receivables	53,867	20,741
Tax credits recoverable	653,247	543,265
	<u>3,840,296</u>	<u>2,443,653</u>
Capital assets		
	<u>840,012</u>	<u>440,572</u>
	<u>\$ 4,680,308</u>	<u>\$ 2,884,225</u>

Liabilities & Shareholders' Deficiency

Current Liabilities		
Accounts payable and accrued liabilities	\$ 572,329	\$ 267,474
Promissory note	225,000	225,000
	<u>797,329</u>	<u>492,474</u>
Shareholders' deficiency		
Share capital		
Common shares issued:		
December 31, 2000 - 7,353,110	7,068,840	4,573,370
June 30, 2000 - 5,470,610		
Deficit	(3,185,861)	(2,181,619)
	<u>3,882,979</u>	<u>2,391,751</u>
	<u>\$ 4,680,308</u>	<u>\$ 2,884,225</u>

See accompanying notes

Statements of Profit and Loss

	Three Months ended Dec. 31, 2000 (unaudited)	Three Months ended Decr. 31, 1999 (unaudited)	Six Months ended Dec. 31, 2000 (unaudited)	Six Months ended Dec. 31, 1999 (unaudited)
Revenue				
Revenue	\$ -	\$ 10,000	\$ 900	\$ 10,000
Interest Income	41,778	11,672	78,124	15,502
Total revenue	41,778	21,672	79,024	25,502
Expenses				
Salaries and benefits	83,015	32,652	155,155	64,934
Lab supplies and services	69,139	3,698	107,787	6,080
Research funding	121,651	19,764	175,272	306,805
Miscellaneous costs	63,708	60,518	88,502	97,454
Total research and development	337,513	116,632	526,716	475,273
Less: Investment tax credit	(49,481)	(11,576)	(96,801)	(61,676)
	<u>288,032</u>	<u>105,056</u>	<u>429,915</u>	<u>413,597</u>
Salaries and benefits	49,332	-	93,488	-
Professional Fees	310,619	201,314	371,134	390,817
Miscellaneous costs	74,293	22,432	113,317	47,832
Total general and administration	434,244	223,746	577,939	438,649
Amortization	46,283	455	75,412	455
Total expenses	768,559	329,257	1,083,266	852,701
Loss for the period	726,781	307,585	1,004,242	827,199
Deficit, beginning of period	2,459,080	1,010,825	2,181,619	491,211
Deficit, end of period	<u>\$ 3,185,861</u>	<u>\$ 1,318,410</u>	<u>\$ 3,185,861</u>	<u>\$ 1,318,410</u>
Loss per common share	\$ 0.11	0.10	0.15	0.30
Weighted average number of common shares outstanding	6,898,001	2,987,383	6,487,504	2,725,141

See accompanying notes

Statements of Cashflows

	Six Months ended Dec. 31, 2000 (unaudited)	Six Months ended Dec. 31, 1999 (unaudited)	Year ended June 30, 2000 (audited)
Cash flows from operating activities:			
Loss for the period	\$ (1,004,242)	\$ (827,199)	\$ (1,690,408)
Items not involving cash:			
Amortization	75,412	455	49,600
Common shares issued for services rendered	-	449,578	573,452
Change in non-cash working capital:			
Decrease (increase) in tax credits recoverable	(109,982)	(61,787)	(431,750)
Decrease (increase) in GST receivable	(68,616)	(44,077)	(94,442)
Decrease (increase) in accounts receivable	9,839	-	(9,839)
Decrease (increase) in prepaid expense	(33,126)	11,285	19,264
Increase (decrease) in accounts payable and accrued liabilities	304,857	(88,058)	(91,990)
	(825,858)	(559,803)	(1,676,113)
Cash flows used in financing activities:			
Issue of common shares, net of issue costs	2,509,395	3,902,291	3,915,968
Issue of warrants, net of issue costs	-	-	23,920
Conversion of warrants	(13,925)	-	-
Repayment of promissory note	-	(25,598)	(17,093)
	2,495,470	3,876,693	3,922,795
Cash flows used in investing activities:			
Acquisition of capital assets, net of tax credits	(474,854)	-	(479,620)
	(474,854)	-	(479,620)
Increase (decrease) in cash and cash equivalents	1,194,758	3,316,890	1,767,062
Cash and cash equivalents, beginning of period	1,761,744	(5,318)	(5,318)
Cash and cash equivalents, end of period	\$ 2,956,502	\$ 3,311,572	\$ 1,761,744

See accompanying notes

Notes to Financial Statements (unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared by the company in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operation and cash flows at December 31, 2000 and for all periods presented.

The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended June 30, 2000.

Certain information and note disclosure normally included in the financial statements prepared in accordance with accounting principles generally accepted in Canada have been omitted. It is suggested that these interim financial statements and notes should be read in conjunction with the audited financial statements for the year ended June 30, 2000. The results of operations for the six-month period ended December 31, 2000 are not necessarily indicative of the results for the full year.

2. Re-classification

Certain figures in prior periods have been re-classified to conform with the basis of classification in the current year.

3. Loss per Share

Loss per share is computed by dividing the net income or loss for the period by the weighted average number of common shares outstanding during the period.

4. Share Capital

a. Common Shares and Warrants

During the quarter ended December 31, 2000, 490,000 warrants were converted to common shares. Each warrant entitled the bearer to one share at a price of \$1.00 per share. The warrants were converted for a net amount of \$490,000. This conversion, together with the Class B warrants converted in the first quarter have resulted in a total net amount of \$2,508,395.

b. Stock Option Plan

The Company's Stock Option Plan provides for the issuance of options to acquire up to 600,000 common shares. In addition, the Company has granted options to four senior officers and directors of the Company to purchase a total of 300,000 common shares.

c. Stock Options

During the six months ended December 31, 2000, no new options were granted.

At December 31, 2000 the Company had 495,000 stock options outstanding at an average exercise price of \$2.20. The options expire on December 31, 2002 and January 31, 2003. Of the stock options granted to the officers and directors 282,500 were outstanding on December 31, 2000. The exercise price of these options is \$1.00 and they expire on January 1, 2003.

5. Related Party Transactions

During the first six months of fiscal 2001, the Company entered into the following transactions with investees, shareholders and directors:

	Total Expenses at Dec. 31, 2000	Payable at Dec. 31, 2001
Research and administrative service fees	\$ 124,163	\$ 62,901
Consulting services	\$ 90,000	-
Interest expense	\$ 13,640	\$ 13,640

Expenses for research services, administrative services and consulting services are measured at fair market values. The interest expense is at fair market value as stated in the promissory note.



INC.

2

Quarter



6354 Viscount Road
Mississauga, Ontario
Canada L4V 1H3

T. 905.672.0304
F. 905.677.1674

www.toxinalert.com

For the six months ended December 31, 2000