

FYTOKEM PRODUCTS INC.
CDNX:FYT
THIRD QUARTER REPORT
PERIOD ENDING SEPTEMBER 30, 2000

Fytokem Products Inc.

President's Message

Third Quarter of 2000

As Fytokem's newly appointed President and CEO, I am very pleased to have the opportunity to both introduce myself and to comment on the positive quarterly events of this young company. As with many companies in the emerging phase of development, change comes rapidly. While I have not been with the company long, I am nonetheless impressed by both the strength of its science and the commitment of its employees. Moreover, I am confident that, in the months ahead, Fytokem will continue to see positive growth and make steady progress in its efforts to transform itself from a supplier of plant extracts to the PCI industry to a leader in the discovery and development of naturally occurring bioactive molecules with proven therapeutic activities.

Since this time last year, the company's financial position has improved. For the three-month period ended September 30, 2000, Fytokem's sales have risen to \$101,828 or by 156% from \$39,824 as at September 30, 1999. Gross margin increased 105% to \$61,850 from \$30,109 for the corresponding period last year. Total basic loss for the three-month period ended September 30, 2000 decreased to (\$0.01) per share, down from (\$0.03) for September 30, 1999.

For the nine-month period ended September 30, 2000, the Company's sales rose by 251% to \$250,750 from \$99,689 recorded for the same period ended September 30, 1999. Gross margin climbed to \$167,318 or 118% over the gross margin recorded for the nine-month period ended September 30, 1999. Basic loss for the nine-months ended September 30, 2000 was (\$0.05) as opposed to (\$0.07) per share for the corresponding period last year. These financial results show that Fytokem has continued to make steady progress

As a company, we know where we want to be and have already begun to ramp up our research and development of bioactive molecules from natural sources. To get there, we need to experience ongoing strong growth. Therefore, we are continuing to work towards expansion of our existing business relationships, while at the same time search for additional strategic partners that offer synergies within mutually beneficial relationships. Today, I would like to inform shareholders of what your management team has already done this quarter as well as what we intend to do in the coming months.

Earlier this year, we announced an agreement with Dragoco, Gerberding & Co., AG of Germany. Although sales under this agreement have not expanded as quickly as anticipated, due mainly to transition issues and some international monetary adjustments, the arrangement is still expected to pay dividends. We continue to work with Dragoco on expansion of our sales under this agreement.

Looking forward, we intend to accelerate the pace of growth in the coming months and are in the process of reviewing our overall business plan. As part of this review, a market study will be completed for the OTC/therapeutics and natural healthcare industries. This study will provide guidance and help us determine the market viability of products currently in the developmental stage. I hope to share the initial results of the review with you at year-end.

I am also able to announce another important step towards our continued development, the formation of a Scientific Advisory Committee (SAC) and a Product Advisory Committee (PAC). These committees will both be three person committees comprised of recognized industry experts. The SAC will be focussed on providing direction to our scientific discovery efforts. The PAC will focus on providing input to our efforts to commercialize both existing and new products. Invitations have been sent to preferred committee members. Acceptance letters have been received from several of them. A formal announcement regarding these committees will be made as soon as the member selection process is completed.

In closing, I would like to thank everyone at Fytokem for their impressive effort over the quarter and for the expertise they bring to this young but dynamic company. Their hard work has resulted in the positive financial growth indicated earlier. I would especially like to thank Mr. Greg Dutka for his stewardship of Fytokem during the months preceding my appointment. Lastly, I would like to convey all our thanks to Fytokem's shareholders for their on-going commitment to the company and its vision. I look forward to leading the Fytokem team and reporting on our progress in the months ahead.

Art Hesje
President and CEO
Fytokem Products Inc.

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

	<u>2000</u>	<u>1999</u>
CURRENT ASSETS		
Cash and temporary investments	\$ 939,383	\$ 146,717
Accounts receivable	111,982	55,268
Inventory	319,831	177,587
Prepaid expenses	23,675	7,217
Current portion of deferred finance charges	44,549	30,882
Current portion of notes receivable	<u>-</u>	<u>7,000</u>
	1,439,420	424,671
DEFERRED ENGINEERING COSTS	19,342	-
DEFERRED FINANCE CHARGES	9,606	12,488
DEFERRED OFFERING MEMORANDUM COSTS	34,612	-
EQUIPMENT - NET	<u>188,231</u>	<u>111,198</u>
	<u>\$ 1,691,211</u>	<u>\$ 548,357</u>
CURRENT LIABILITIES		
Accounts payable and accruals	\$ 178,758	\$ 75,876
Unearned project revenue	-	13,997
Current portion long term debt	40,049	20,748
	218,807	110,621
LONG TERM DEBT		
Convertible debt	500,000	500,000
Discount on convertible debt	(63,984)	(63,984)
Capital leases	56,693	13,921
Shareholders' loans	<u>-</u>	<u>3,521</u>
	492,709	453,458
SHAREHOLDERS' EQUITY		
Share capital	2,715,095	1,872,057
Share warrants	1,046,505	-
Equity portion of convertible debt	63,984	63,984
Deficit	<u>(2,845,889)</u>	<u>(1,951,763)</u>
	<u>979,695</u>	<u>(15,722)</u>
	<u>\$ 1,691,211</u>	<u>\$ 548,357</u>

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

	Three months ended September 30		Nine months ended September 30	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
REVENUE				
Sales	\$ 101,828	\$ 39,824	\$ 250,750	\$ 99,689
Cost of Sales	<u>39,978</u>	<u>9,715</u>	<u>83,432</u>	<u>22,767</u>
Gross Margin	61,850	30,109	167,318	76,922
Project revenue	3,750	40,385	97,448	108,640
Other revenue	<u>13,919</u>	<u>3,095</u>	<u>26,446</u>	<u>12,201</u>
	<u>79,519</u>	<u>73,589</u>	<u>291,212</u>	<u>197,763</u>
EXPENSES				
Product development	53,000	113,207	208,944	219,968
Marketing	47,884	55,756	187,442	167,290
Finance & administration	117,421	117,551	381,419	380,943
Depreciation	9,782	7,076	26,213	19,532
Interest on debt	<u>28,623</u>	<u>18,693</u>	<u>77,451</u>	<u>45,030</u>
	<u>256,710</u>	<u>312,283</u>	<u>881,469</u>	<u>832,763</u>
NET LOSS	\$ 177,191	\$ 238,694	\$ 590,257	\$ 635,000
DEFICIT, BEGINNING OF PERIOD	<u>2,668,698</u>	<u>1,713,070</u>	<u>2,255,632</u>	<u>1,316,764</u>
DEFICIT, END OF PERIOD	<u>\$ 2,845,889</u>	<u>\$ 1,951,764</u>	<u>\$ 2,845,889</u>	<u>\$ 1,951,764</u>
LOSS PER SHARE				
Basic	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>
Shares Outstanding	<u>11,845,201</u>	<u>9,281,403</u>	<u>11,845,201</u>	<u>9,281,403</u>

FYTOKEM PRODUCTS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net loss	\$ (177,191)	\$ (238,694)	\$ (590,257)	\$ (635,000)
Items not affecting cash				
Depreciation and amortization	9,782	7,076	26,213	19,532
Non-cash interest expense	25,720	17,520	71,691	40,880
Gain on sale of fixed assets	-	-	(203)	-
	<u>(141,689)</u>	<u>(214,098)</u>	<u>(492,556)</u>	<u>(574,588)</u>
Changes in non-cash working capital				
Accounts receivable	(23,120)	10,792	(53,192)	(27,002)
Inventory	(79,073)	(3,458)	(148,277)	(43,802)
Prepaid expenses	5,552	1,429	(7,638)	15,365
Unearned project revenue	-	(8,184)	(2,352)	13,997
Accounts payable and accruals	<u>33,550</u>	<u>(21,355)</u>	<u>60,645</u>	<u>(20,853)</u>
Cash flows used in operating activities	<u>(204,780)</u>	<u>(234,874)</u>	<u>(643,370)</u>	<u>(636,883)</u>
CASH FLOWS FROM (USED IN)				
INVESTING ACTIVITIES				
Deferred engineering costs	(19,342)	-	(19,342)	-
Acquisition of equipment	(7,279)	(2,334)	(15,838)	(17,343)
Disposals of equipment	-	-	662	-
Cash flows used in investing activities	<u>(26,621)</u>	<u>(2,334)</u>	<u>(34,518)</u>	<u>(17,343)</u>
CASH FLOWS FROM (USED IN)				
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	77,100	-	108,230	257,719
Costs of share issuance	-	-	-	(19,360)
Proceeds from issuance of share warrants	-	-	1,085,425	-
Costs of share warrants issuance	-	-	(38,920)	-
Deferred offering memorandum costs	(34,612)	-	(34,612)	-
Proceeds from convertible debt	-	-	-	500,000
Costs of convertible debt	-	-	-	(17,051)
Repayment of long term debt	<u>(12,253)</u>	<u>(4,866)</u>	<u>(26,428)</u>	<u>(14,242)</u>
Cash flows from financing activities	<u>30,235</u>	<u>(4,866)</u>	<u>1,093,695</u>	<u>707,066</u>
NET INCREASE (DECREASE) IN CASH	(201,166)	(242,074)	415,807	52,840
CASH POSITION, BEGINNING OF PERIOD	<u>1,140,549</u>	<u>388,791</u>	<u>523,576</u>	<u>93,877</u>
CASH POSITION, END OF PERIOD	<u>\$ 939,383</u>	<u>\$ 146,717</u>	<u>\$ 939,383</u>	<u>\$ 146,717</u>
REPRESENTED BY:				
Cash	\$ 63,622	\$ 26,333	\$ 63,622	\$ 26,333
Temporary Investments	<u>\$ 875,761</u>	<u>\$ 120,384</u>	<u>\$ 875,761</u>	<u>\$ 120,384</u>
	<u>\$ 939,383</u>	<u>\$ 146,717</u>	<u>\$ 939,383</u>	<u>\$ 146,717</u>
Interest Paid	<u>\$ 2,903</u>	<u>\$ 1,173</u>	<u>\$ 5,760</u>	<u>\$ 4,150</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 September 30, 2000, there were 12,531,957 common shares outstanding.
 - b) At September 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 September 30, 2000, there were options for 610,000 common shares outstanding under the share option plan and are exercisable up to 2005.