

**FYTOKEM PRODUCTS INC.
TSX:FYT
THIRD QUARTER REPORT
PERIOD ENDING SEPTEMBER 30, 2002**

Fytokem Products Inc.
President's Message
Third Quarter of 2002

The Company sales in this quarter were disappointing, given the record level of sales achieved during the first six months of the year. This lower sales level resulted in a quarterly loss of \$194,191, 64% greater than the \$118,229 loss reported for the same quarter last year. Our sales for the year to date are still marginally ahead of last year and our operating loss is slightly lower year to date.

This recent sales performance resulted in a comprehensive review of the effectiveness of our strategic marketing efforts. The review has led to an exciting new partnership with Atrium Biotechnologies Inc. (Atrium) of Quebec City, which will become effective at the end of November. Atrium is a privately held subsidiary of Aeterna Laboratories Inc. (TSX:AEL, NASDAQ:AELA) and has achieved dramatic growth in the market.

The new strategic marketing partnership with Atrium includes an up-front payment of \$750,000, and true minimum purchase commitments, already defined for 2003 and 2004. The agreement provides Atrium with the exclusive rights to market our two existing product lines in both the personal care and nutraceutical markets. This will be our first entry into the nutraceutical market where Atrium has a strong presence. It will provide upside potential for our products in both the short and long term, while limiting the downside through the defined minimum purchase quantities. This agreement, as well as the interest expressed by other potential marketing partners during the review process confirms our confidence in the market potential for our existing products.

In spite of the reduced sales level, our success in the marketplace has continued. Our biggest market news is the continued expansion of the market for "baby extracare" Baby Wipes containing Canadian Willowherb™, introduced earlier this year by Johnson & Johnson.

The Company received approval for funding under two Federal Government programs for assistance totaling about \$75,000 in support of our Tyrostat™ research and marketing efforts. This funding demonstrates the on-going support for our efforts and a continued belief in the success of our Company.

I look forward to continued growth in the sales of our products, which will now be championed worldwide by a new marketing partner. We expect to retain the majority of our customers through the transition and look forward to the expanded market opportunities and renewed enthusiasm Atrium will bring to the marketing of our products. We will be busy throughout the fourth quarter and early 2003 implementing this exciting transition.

Respectfully yours,

Art Hesje
President & CEO
November 29, 2002

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

	Three months ended September 30		Nine months ended September 30	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
REVENUE				
Sales	\$ 35,699	\$ 139,086	\$ 482,913	\$ 409,600
Cost of Sales	9,176	56,197	151,527	152,742
Gross Margin	<u>26,523</u>	<u>82,889</u>	<u>331,386</u>	<u>256,858</u>
Project revenue	8,693	20,461	37,654	65,284
Other revenue	1,257	1,098	2,098	11,721
	<u>36,473</u>	<u>104,448</u>	<u>371,138</u>	<u>333,863</u>
EXPENSES				
Product development	74,850	67,171	265,460	203,568
Marketing	39,383	43,374	155,236	178,371
Finance & administration	82,904	78,705	283,955	293,593
Amortization	10,541	10,665	31,600	33,134
Interest on debt	22,986	22,762	66,462	66,588
	<u>230,664</u>	<u>222,677</u>	<u>802,713</u>	<u>775,254</u>
NET LOSS	\$ 194,191	\$ 118,229	\$ 431,575	\$ 441,391
DEFICIT, BEGINNING OF PERIOD	<u>4,095,608</u>	<u>3,443,392</u>	<u>3,858,224</u>	<u>3,120,230</u>
DEFICIT, END OF PERIOD	<u>\$4,289,799</u>	<u>\$ 3,561,621</u>	<u>\$ 4,289,799</u>	<u>\$ 3,561,621</u>
LOSS PER SHARE	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>

FYTOKEM PRODUCTS INC.
BALANCE SHEETS
September 30, 2002 and December 31, 2001
(Unaudited)

	<u>September 30, 2002</u>	<u>December 31, 2001</u>
CURRENT ASSETS		
Cash and temporary investments	\$ 64,606	\$ 170,887
Accounts receivable	57,773	115,805
Inventory	289,633	365,416
Prepaid expenses	22,846	29,724
	<u>434,858</u>	<u>681,832</u>
DEFERRED FINANCE CHARGES	9,309	8,886
EQUIPMENT - NET	156,589	188,189
	<u>\$ 600,756</u>	<u>\$ 878,907</u>
CURRENT LIABILITIES		
Accounts payable and accruals	\$ 231,946	\$ 302,923
Current portion long term debt	199,978	160,515
	<u>431,924</u>	<u>463,438</u>
LONG TERM DEBT		
Convertible debt	281,250	302,083
Debenture payable	202,276	-
Discount on convertible debt	(25,546)	(41,765)
Capital leases	-	12,724
	<u>457,980</u>	<u>273,042</u>
SHAREHOLDERS' EQUITY		
Share capital	3,692,446	3,692,446
Preferred shares	244,221	244,221
Equity portion of convertible debt	63,984	63,984
Deficit	(4,289,799)	(3,858,224)
	<u>(289,148)</u>	<u>142,427</u>
	<u>\$ 600,756</u>	<u>\$ 878,907</u>

FYTOKEM PRODUCTS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net loss	\$ (194,191)	\$ (118,229)	\$ (431,574)	\$ (441,391)
Items not affecting cash				
Amortization	10,541	10,665	31,600	33,135
Non-cash interest expense	9,538	7,077	24,240	32,955
Gain on sale of fixed assets	-	-	(380)	-
	(174,112)	(100,487)	(376,114)	(375,301)
Changes in non-cash working capital				
Accounts receivable	117,917	3,651	58,032	(28,963)
Inventory	7,044	22,986	75,783	81,131
Prepaid expenses	(4,078)	(7,214)	6,878	4,511
Accounts payable and accruals	(31,996)	23,104	(70,977)	17,660
Cash flows used in operating activities	(85,225)	(57,960)	(306,398)	(300,962)
 CASH FLOWS FROM (USED IN)				
INVESTING ACTIVITIES				
Acquisition of equipment	-	(2,844)	-	(6,020)
Disposals of equipment	-	-	380	-
Cash flows used in investing activities	-	(2,844)	380	(6,020)
 CASH FLOWS FROM (USED IN)				
FINANCING ACTIVITIES				
Deferred offering costs	-	(26,406)		(26,406)
Proceeds from debenture	-	-	250,000	-
Costs of debenture	-	-	(2,786)	-
Repayment of long term debt	(9,100)	(39,498)	(47,477)	(89,987)
Cash flows from financing activities	(9,100)	(65,904)	199,737	(116,393)
 NET INCREASE (DECREASE) IN CASH	(94,325)	(126,708)	(106,281)	(423,375)
CASH POSITION, BEGINNING OF PERIOD	158,931	265,202	170,887	561,869
CASH POSITION, END OF PERIOD	\$ 64,606	\$ 138,494	\$ 64,606	\$ 138,494
 REPRESENTED BY:				
Cash	\$ 34,854	\$ 91,742	\$ 34,854	\$ 91,742
Temporary Investments	\$ 29,752	\$ 46,752	\$ 29,752	\$ 46,752
	\$ 64,606	\$ 138,494	\$ 64,606	\$ 138,494
 Interest Paid	\$ 13,448	\$ 15,658	\$ 42,222	\$ 33,633

FYTOKEM PRODUCTS INC.
NOTES TO FINANCIAL STATEMENTS

1. These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles.
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 2001 annual report.
4. Certain on the prior year's figures have been reclassified to conform to the current year's presentation.
5. **Debenture payable**
On May 15, 2002, the Company received \$250,000 from the Agri-Food Equity Fund in the form of a six-year debenture. Interest is payable on a formula of 6% fixed rate plus 6% of net income before income taxes. Annual payments of principal and interest begin on July 1, 2003 and end on July 1, 2007.
6. **Share Capital**
 - a) At September 30, 2002, there were 14,462,121 Common Shares outstanding.
 - b) At September 30, 2002, there were options for 940,000 Common Shares outstanding under the share option plan and are exercisable up to 2006.
 - c) At September 30, 2002, there were 250,000 Series A Preferred Shares outstanding.
7. **Subsequent Events**
 - a) **Debenture payable**
On November 27, 2002, the Company received \$60,100 from the Agri-Food Equity Fund in the form of a debenture due September 1, 2007. Interest is payable on a formula of 6% fixed rate plus 0.9% of net income before income taxes. Additional interest based on the growth in the common share price during this same period is also payable. Annual payments of interest begin on April 1, 2003. The debenture is payable on demand after September 01, 2004.
 - b) **Cooperation and License Agreement**
Subsequent to the end of the quarter, the Company entered into an agreement which grants the exclusive distribution rights to two of its product lines to Atrium Biotechnologies Inc. This long-term "Cooperation and License Agreement" provides Fytokem an upfront payment of \$750,000 and firm minimum purchase commitments and pricing to the end of 2004. This agreement takes effect on November 30, 2002. The Company will recognize the upfront payment into revenue over 24 months. The upfront payment is being held in escrow pending completion of required documentation.