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TSX Venture Exchange: FYT

## FYTOKEM ANNOUNCES SECOND QUARTER 2004 FINANCIAL RESULTS

*-Largest quarterly profit to date*

**Saskatoon, Saskatchewan, August 30, 2004** - Fytokem Products Inc. (Fytokem), a leading producer of *Function-Certified™* plant-based ingredients, today announced its financial results, showing positive results, for the second quarter ending June 30, 2004.

Sales increased 24% from last quarter although this was a decrease from the same quarter 2003. Quarterly costs were reduced 35% year over year, and remained essentially unchanged from last quarter. Much of this cost reduction results from outsourcing functions. Atrium Biotechnologies Inc. does most of the marketing while Fytokem concentrates on production, product development and quality control. The Company ended the quarter with its largest ever quarterly profit of \$18,850.

“This is the fourth quarter of the last five where we have shown break-even or better financial results,” said Art Hesje, President and CEO of Fytokem. “Our concentration on cost control and product quality (in support of our marketing partner Atrium,) is showing results. We are getting positive feedback on our products from both potential and established customers. We expect improved sales and will continue to focus on product quality and finding new market opportunities. As our sales grow we will strengthen our product research and development activities.”

### **About Fytokem Products Inc.**

Fytokem Products Inc. is engaged in the discovery and commercialization of novel *Function-Certified™* plant-based substances – extracts, phytochemicals and bioactive molecules – for use as ingredients in personal care, nutraceutical, pharmaceutical and bio-industrial products. The Company has been issued patents for technology related to two of its products and has other patent applications pending.

**The TSX Venture Exchange has neither approved nor disapproved the information herein contained.**

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**FYTOKEM PRODUCTS INC.**  
**BALANCE SHEETS**  
**June 30, 2004 and December 31, 2003**  
(Unaudited)

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 29,610	\$ 53,278
Accounts receivable	63,230	72,191
Inventory	137,053	208,624
Prepaid expenses	13,721	12,187
Current portion of deferred marketing costs	<u>31,643</u>	<u>63,285</u>
	275,257	409,565
<b>DEFERRED FINANCE CHARGES</b>	3,330	5,039
<b>EQUIPMENT - NET</b>	<u>105,651</u>	<u>125,408</u>
	<u>\$ 384,238</u>	<u>\$ 540,012</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accruals	\$ 169,777	\$ 145,612
Current portion of deferred marketing revenue	180,000	360,000
Current portion long term debt	<u>68,792</u>	<u>181,099</u>
	<u>418,569</u>	<u>686,711</u>
<b>LONG TERM DEBT</b>	462,185	369,097
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	3,775,949	3,775,949
Preferred shares	244,221	244,221
Equity portion of convertible debt	63,984	63,984
Deficit	<u>(4,580,670)</u>	<u>(4,599,950)</u>
	<u>(496,516)</u>	<u>(515,796)</u>
	<u>\$ 384,238</u>	<u>\$ 540,012</u>

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

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>REVENUE</b>				
Sales	\$ 127,231	\$ 214,796	\$ 229,916	\$ 344,022
Cost of Sales	<u>37,534</u>	<u>59,283</u>	<u>71,146</u>	<u>97,448</u>
Gross margin	89,697	155,513	158,770	246,574
Project revenue	1,278	6,158	5,689	31,388
Marketing agreement revenue	90,000	90,000	180,000	180,000
Other revenue	<u>241</u>	<u>146</u>	<u>242</u>	<u>1,583</u>
	<u>181,216</u>	<u>251,817</u>	<u>344,701</u>	<u>459,545</u>
<b>EXPENSES</b>				
Product development	34,570	60,281	70,507	198,337
Marketing	32,107	49,101	67,415	104,433
Finance & administration	71,943	108,288	136,954	203,786
Amortization	9,757	10,612	19,757	21,619
Interest on debt	<u>13,989</u>	<u>21,369</u>	<u>30,788</u>	<u>41,944</u>
	<u>162,366</u>	<u>249,651</u>	<u>325,422</u>	<u>570,119</u>
<b>NET INCOME (LOSS)</b>	\$ 18,850	\$ 2,166	\$ 19,280	\$ (110,574)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<u>4,599,520</u>	<u>4,568,608</u>	<u>4,599,950</u>	<u>4,455,868</u>
<b>DEFICIT, END OF PERIOD</b>	<u>\$ 4,580,670</u>	<u>\$ 4,566,442</u>	<u>\$ 4,580,670</u>	<u>\$ 4,566,442</u>
<b>INCOME (LOSS) PER SHARE</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.01)</u>

**FYTOKEM PRODUCTS INC.  
STATEMENTS OF CASH FLOWS  
(Unaudited)**

	Three months ended June 30		Six months ended June 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 18,850	\$ 2,166	\$ 19,279	\$ (110,574)
Items not affecting cash				
Amortization	9,757	10,612	19,757	21,619
Non-cash interest expense	854	9,782	4,645	18,068
Non-cash marketing expense	15,821	6,044	31,643	10,998
Non-cash marketing revenue	<u>(90,000)</u>	<u>(90,000)</u>	<u>(180,000)</u>	<u>(180,000)</u>
	(44,718)	(61,396)	(104,676)	(239,889)
Changes in non-cash working capital				
Accounts receivable	(14,423)	(39,009)	8,961	(132,414)
Inventory	37,174	60,283	71,571	(122,370)
Prepaid expenses	(1,201)	5,353	(1,534)	11,183
Accounts payable and accruals	16,337	(7,053)	24,165	(180,119)
Marketing agreement costs	-	<u>(11,397)</u>	-	<u>(22,980)</u>
<b>Cash flows used in operating activities</b>	<u>(6,831)</u>	<u>(53,219)</u>	<u>(1,513)</u>	<u>(686,589)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Acquisition of equipment	-	(928)	-	(4,276)
<b>Cash flows used in investing activities</b>	<u>-</u>	<u>(928)</u>	<u>-</u>	<u>(4,276)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Costs of share issuance	-	(6,597)	-	(6,597)
Repayment of long term debt	<u>(678)</u>	<u>(31,646)</u>	<u>(22,155)</u>	<u>(60,100)</u>
<b>Cash flows used in financing activities</b>	<u>(678)</u>	<u>(38,243)</u>	<u>(22,155)</u>	<u>(66,697)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(7,509)	(92,390)	(23,668)	(757,562)
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<u>37,119</u>	<u>115,307</u>	<u>53,278</u>	<u>780,479</u>
<b>CASH POSITION, END OF PERIOD</b>	<u>\$ 29,610</u>	<u>\$ 22,917</u>	<u>\$ 29,610</u>	<u>\$ 22,917</u>
 <b>Interest Paid</b>	 <u>\$ 4,407</u>	 <u>\$ 11,587</u>	 <u>\$ 26,144</u>	 <u>\$ 23,876</u>