



**FOR IMMEDIATE RELEASE**

**TSX Venture Exchange: FYT**

**FYTOKEM ANNOUNCES RECORD SECOND QUARTER FINANCIAL RESULTS**  
***-Record sales and net income for the Company-***

**Saskatoon, Saskatchewan, August 29, 2006** - Fytokem Products Inc. (the Company), today announced its financial results for the quarter ended June 30, 2006 showing both record sales and record income for the quarter.

Fytokem recorded net income of about \$43,000 on record quarterly sales of \$339,762. This brings the year to date net income to \$68,634, a new performance milestone. This is the first time in the Company's history that two consecutive quarters have produced net income through product sales. The strong growth trend established over the past years continued, with sales during the first half of 2006 equaling 95% of sales during the entire 2005 year. The Company is working with its marketing partners, and its major international customers to expand the market for products containing the Company's proven actives.

"I am very pleased to see this steady expansion in sales. The improvements and efficiencies made to our processing and quality control systems are yielding greater profitability and growing sales" said Art Hesje, President and CEO of Fytokem.

Product and process improvements drove improved gross margin during the first half of the year, more consistent with previous years and management's expectations. The combination of sales growth and strong margins collectively produced these milestone results.

The Company continues to invest in new product and market development, and looks forward to on-going progress in these areas.

**About Fytokem Products Inc.**

Fytokem Products Inc. develops and delivers proven natural ingredients to leading formulators in the personal care, nutraceutical and pharmaceutical industries. The Company has been issued patents for technology related to two of its products and has other patent applications pending.

Fytokem has two product lines currently offered in the market. Canadian Willowherb™ is a multi-function plant extract with strong efficacies as an anti-irritant, and anti-oxidant that also has application as an acne treatment. Tyrostat™ is a multi-efficacy plant extract sold primarily for its use as a tyrosinase inhibitor which provides skin-lightening efficacy.

*The TSX Venture Exchange does not accept responsibility for the adequacy or accuracy of this release. Statements contained in this news release, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Fytokem disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

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# Fytokem Products Inc.

## Statements of Income (Loss) and Deficit

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>REVENUE</b>				
Sales	\$ 339,762	\$ 149,363	\$ 621,481	\$ 372,723
Cost of sales	112,897	73,957	202,540	174,034
Gross margin	226,865	75,406	418,941	198,689
Other revenue	-	11	1	16
	<u>226,865</u>	<u>75,417</u>	<u>418,942</u>	<u>198,705</u>
<b>EXPENSES</b>				
Product development	39,356	34,704	73,614	73,445
Marketing	22,595	29,702	43,739	49,540
Finance and administration	81,082	86,288	151,952	163,005
Depreciation	6,296	9,087	12,528	18,198
Interest on long term debt	10,024	12,475	19,780	25,221
Dividend interest on Series A Preferred Shares	8,564	6,714	16,352	12,662
Accretion on convertible demand loan	7,986	-	16,676	-
Stock compensation expense	7,922	7,172	15,467	17,394
	<u>183,825</u>	<u>186,142</u>	<u>350,108</u>	<u>359,465</u>
<b>NET INCOME (LOSS)</b>	<u>43,040</u>	<u>(110,725)</u>	<u>68,834</u>	<u>(160,760)</u>
<b>DEFICIT, BEGINNING OF PERIOD</b> (as previously reported)	4,939,644	4,617,928	4,965,438	4,573,841
Change in accounting policy	-	(67,700)	-	(61,752)
<b>DEFICIT, BEGINNING OF PERIOD</b> (restated)	<u>4,939,644</u>	<u>4,685,628</u>	<u>4,965,438</u>	<u>4,635,593</u>
<b>DEFICIT, END OF PERIOD</b>	<u>\$4,896,604</u>	<u>\$4,796,353</u>	<u>\$4,896,604</u>	<u>\$4,796,353</u>
<b>BASIC AND DILUTED INCOME (LOSS) PER SHARE</b>	<u>\$ 0.002</u>	<u>\$ (0.006)</u>	<u>\$ 0.004</u>	<u>\$ (0.009)</u>

**Fytokem Products Inc.**  
**Balance Sheets**  
(Unaudited)

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 84,897	\$ 35,860
Accounts receivable	117,994	1,675
Inventories	164,314	192,345
Prepaid expenses	681	710
	<u>367,886</u>	<u>230,590</u>
<b>DEFERRED FINANCE CHARGES</b>	3,075	4,344
<b>CAPITAL ASSETS</b>	45,953	57,238
	<u>\$ 416,914</u>	<u>\$ 292,172</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 403,900	\$ 384,760
Accrued liability relating to Series A Preferred Shares	99,615	83,263
Current portion of long term debt	405,948	432,674
	<u>909,463</u>	<u>900,697</u>
<b>LONG TERM DEBT</b>	330,646	313,970
	<u>1,240,109</u>	<u>1,214,667</u>
<b>CAPITAL DEFICIENCY</b>		
Common Shares	3,895,499	3,866,999
Equity portion of convertible demand loan	56,683	56,683
Contributed surplus	121,227	119,261
Deficit	(4,896,604)	(4,965,438)
	<u>(823,195)</u>	<u>(922,495)</u>
	<u>\$ 416,914</u>	<u>\$ 292,172</u>

# Fytokem Products Inc.

## Statements of Cash Flows

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 43,040	\$ (110,725)	\$ 68,834	\$ (160,760)
Items not affecting cash				
Depreciation	6,296	9,087	12,528	18,198
Non-cash interest expense	634	134	1,268	508
Non-cash accretion expense	7,986	-	16,676	-
Non-cash stock compensation expense	7,921	7,172	15,466	17,394
	<u>65,877</u>	<u>(94,332)</u>	<u>114,772</u>	<u>(124,660)</u>
Changes in non-cash working				
Accounts receivable	(10,250)	37,285	(116,319)	91,275
Inventories	(58,576)	40,092	28,031	44,734
Prepaid expenses	138	15,726	29	-
Accounts payable and accrued liabilities	79,847	(40,945)	19,140	938
Accrued liability relating to Series A Preferred Shares	8,564	6,714	16,352	12,662
	<u>85,600</u>	<u>(35,460)</u>	<u>62,005</u>	<u>24,949</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Acquisition of equipment	-	(1,107)	(1,242)	(1,107)
	<u>-</u>	<u>(1,107)</u>	<u>(1,242)</u>	<u>(1,107)</u>
<b>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of common shares	-	-	15,000	-
Repayment of long term debt	(15,878)	(1,055)	(26,726)	(1,795)
	<u>(15,878)</u>	<u>(1,055)</u>	<u>(11,726)</u>	<u>(1,795)</u>
<b>NET INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	69,722	(37,622)	49,037	22,047
<b>CASH POSITION, BEGINNING OF PERIOD</b>	15,175	109,339	35,860	49,670
<b>CASH POSITION, END OF PERIOD</b>	<u>\$ 84,897</u>	<u>\$ 71,717</u>	<u>\$ 84,897</u>	<u>\$ 71,717</u>
<b>SUPPLEMENTAL INFORMATION</b>				
Cash interest paid	\$ 9,390	\$ 12,341	\$ 18,512	\$ 24,714