



# SECOND QUARTER REPORT 1998

SECURING INFORMATION THROUGH INNOVATION

August 19, 1998

Dear Shareholder:

For the six months ended June 30, 1998, Mytec Technologies Inc. reported revenues of \$6,341,141, a 9.3% increase from \$5,803,495 during the same period last year. Monitoring revenues increased by 10.6% to \$5,941,609 in the first half of 1998 compared to \$5,372,626 in the same period in 1997. Net loss for the first half in 1998 was \$1,178,426 compared to net earnings of \$301,758 for the same six months in 1997.

The loss in the first half was expected, as a result of commercialization of the Mytec biometric operation. Accordingly, \$1,250,000 of product-related costs, pre-operating expenses and research costs were expensed in the first half of 1998.

The company, in conjunction with its subsidiary, Counterforce Inc., has completed a financing package in the amount of \$15 million with The Toronto Dominion Bank. The financing package is comprised of an operating line of credit up to \$5 million to be used for general operating purposes and a term loan facility of \$10 million to finance the account growth of Counterforce.

Building on our relationship with Entrust<sup>®</sup> Technologies Inc. and the recent ICISA (International Computer Security Association) certification of our product, sales and marketing activities within the biometric operation increased substantially during the second quarter. A number of key, high-potential pilot projects and customer product trials have been launched. Initial results from these projects and trials are positive. Product quality has been acknowledged and the use of biometrics is continuing to gain acceptance.

Thomas A. Grecco

D.W. Hollingshead

## Consolidated Balance Sheets

June 30, 1998 and 1997  
(unaudited)

	1998	1997
<b>Assets</b>		
Current Assets		
Cash and short-term deposits	\$ 873,764	\$ 4,228,022
Accounts receivable	652,587	900,131
Inventory	339,885	590,339
Prepaid dealer standby fees	1,498,609	1,484,471
Prepaid expenses	594,054	292,148
	<b>3,958,899</b>	<b>7,495,111</b>
Fixed Assets		
Subscriber Base	1,880,462	1,509,044
Deferred Development and Pre-operating Costs	6,989,284	6,473,756
Long-term Investment	3,085,999	9,302,900
	432,720	432,720
	<b>\$ 16,347,364</b>	<b>\$ 25,213,531</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,114,321	\$ 1,223,305
Deferred revenue	3,212,336	3,191,169
Current portion of obligation under capital lease	33,600	-
	<b>4,360,257</b>	<b>4,414,474</b>
Obligation under capital lease	<b>139,294</b>	<b>-</b>
<b>Shareholders' Equity</b>		
Share Capital	21,294,895	19,661,951
Share Commitment	947,578	1,106,186
Retained Earnings (Deficit)	(10,394,660)	30,920
	11,847,813	20,799,057
	<b>\$ 16,347,364</b>	<b>\$ 25,213,531</b>

### Consolidated Statements of Earnings and Deficit

6 Months ended June 30, 1998 and 1997  
(unaudited)

	1998	1997
<b>Revenue</b>		
Monitoring	\$ 5,941,609	\$ 5,372,626
Alarm response	343,853	416,297
Equipment and supplies	55,679	14,572
	<u>6,341,141</u>	<u>5,803,495</u>
<b>Expenses</b>		
Dealer standby and reconnect fees	2,736,343	2,522,024
Selling, general and administration	2,172,364	1,228,372
Monitoring station	768,044	644,889
Alarm response fees	311,677	398,480
Equipment and supplies	58,825	16,206
Research	277,255	-
	<u>6,324,508</u>	<u>4,809,971</u>
<b>Earnings from Operations Before Amortization</b>	<b>16,633</b>	<b>993,524</b>
<b>Amortization</b>		
Fixed assets	168,828	84,620
Subscriber base	767,244	691,225
Deferred development and pre-operating costs	291,246	-
	<u>1,227,318</u>	<u>775,845</u>
<b>Earnings (Loss) from Operations</b>	<b>(1,210,685)</b>	<b>217,679</b>
<b>Other</b>		
Interest income	38,526	84,079
Interest expense	6,267	0
	<u>32,259</u>	<u>84,079</u>
<b>Net Earnings (Loss)</b>	<b>(1,178,426)</b>	<b>301,758</b>
<b>Deficit, Beginning of Period</b>	<b>(9,216,234)</b>	<b>(270,838)</b>
<b>Retained Earnings (Deficit), End of Period</b>	<b>\$ (10,394,660)</b>	<b>\$ 30,920</b>
<b>Earnings (loss) Per Share</b>		
Basic	(5.0¢)	1.3¢
Fully diluted	ANTIDILUTIVE	1.3¢

Note: Income taxes otherwise payable in 1997 have been eliminated by the application of prior years' tax losses.

### Consolidated Statements of Changes in Financial Position

6 Months ended June 30, 1998 and 1997  
(unaudited)

	1998	1997
<b>Net Inflow (Outflow) of Cash Related to the Following Activities:</b>		
<b>Operating</b>		
Net earnings (loss)	\$ (1,178,426)	\$ 301,758
Items not affecting cash:		
Amortization:		
Fixed assets	168,828	84,620
Subscriber base	767,244	691,225
Deferred development and pre-operating costs	291,246	-
	<u>48,892</u>	<u>1,077,603</u>
Changes in non-cash operating working capital items:		
Accounts receivable	363,833	(153,720)
Inventory	(333,760)	65,643
Prepaid dealer standby fees	28,713	(4,132)
Prepaid expenses	(105,934)	(70,916)
Accounts payable and accrued liabilities	(502,733)	(133,704)
Deferred revenue	(75,607)	154,282
	<u>(576,596)</u>	<u>935,056</u>
<b>Cash flow from (used in) operating activities per share: 1998 - (2.5¢); 1997 - 4.1¢</b>		
<b>Investing</b>		
Purchase of fixed assets	(438,475)	(281,745)
Additions to subscriber base:		
Share entitlement	(263,073)	(395,146)
Cash	(917,036)	(791,097)
Deferred development and pre-operating costs	(431,325)	(1,830,139)
	<u>(2,049,909)</u>	<u>(3,298,127)</u>
<b>Financing</b>		
Obligation under capital lease	172,894	-
Issue of common shares	1,727,366	1,148,010
Decrease in share commitment	(524,492)	(456,463)
	<u>1,375,768</u>	<u>691,547</u>
<b>Net Cash Outflow</b>	<b>(1,250,737)</b>	<b>(1,671,524)</b>
Cash and Short-term Deposits, Beginning of Period	2,124,501	5,899,546
Cash and Short-term Deposits, End of Period	<u>\$ 873,764</u>	<u>\$ 4,228,022</u>



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