



THIRD QUARTER REPORT 1998

SECURING INFORMATION THROUGH INNOVATION

November 18, 1998

Dear Shareholder:

We are pleased to report continued growth in our company. For the nine months ended September 30, 1998 we recorded revenues of \$9,499,825, a 9.1% increase from \$8,706,642 during the same period last year. Net loss for the nine months ended September 30, 1998 was \$2,010,208 compared to earnings of \$366,837 for the same nine months in 1997.

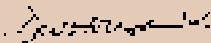
The loss for the nine months ended September 30, 1998 reflects the Company's continued investment in the emerging biometrics market. The Company expensed approximately \$2,100,000 product-related costs, preoperating expenses and research costs during this period, due to the commercialization of the Mytec biometrics operation in the fourth quarter of 1997. Such expenses were deferred in the same period in the 1997 fiscal year. Counterforce operations reported solid growth during the nine months ended September 1998 and continues to maintain their profitability.

The Company successfully completed pilot evaluation projects of its biometrics products with two major Canadian financial institutions. These products were tested in network environments for performance and ease of use by financial institution staff. The Company is continuing its tests with these institutions and other strategic corporations. We believe that the quality and performance of our biometric products, strength of our alarm monitoring business, and available financing facilities places us in an excellent position to accelerate our growth.

Year 2000 Update:

The Company continues to review Year 2000 issues that may impact its business. The Company has obtained confirmation from the vendors of the Counterforce alarm monitoring and accounting systems that these systems are Year 2000 compliant. The Company is currently reviewing the administrative systems, internal networks and building systems. The Company expects to complete a full examination of the above systems in the first quarter of 1999.

The cost to the Company to ensure year 2000 compliance has not been and is not anticipated to be material to its business, financial condition or results of operations. There can be no assurance, however, that the suppliers or customers with which the Company transacts business will not experience problems in year 2000 compliance that could adversely affect the financial condition or results of operations of the Company.



D.W. Hollingshead
President and CEO

Consolidated Balance Sheets

September 30, 1998 and 1997
(unaudited)

	1998	1997
Assets		
Current Assets		
Cash and short-term deposits	\$ 357,095	\$ 3,126,108
Accounts receivable	619,785	841,830
Inventory	666,650	583,931
Prepaid dealer standby fees	1,465,151	1,490,999
Prepaid expenses	402,166	361,936
	3,510,847	6,404,804
Fixed Assets		
Subscriber Base	1,761,636	1,730,876
Deferred Finance charges	7,096,616	6,560,751
Deferred Development and Pre-operating Costs	87,500	-
	2,661,099	10,128,082
Long-term Investment	432,720	432,720
	\$ 15,550,418	\$ 25,257,233
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,113,670	\$ 1,102,380
Deferred revenue	3,123,883	3,202,261
Current portion of obligation under capital lease	33,600	-
	4,271,153	4,304,641
Obligation under capital lease	131,106	-
Shareholders' Equity		
Share Capital	21,294,895	19,553,149
Share Commitment	1,079,706	1,303,444
Retained Earnings (Deficit)	(11,226,442)	95,999
	11,148,159	20,952,592
	\$ 15,550,418	\$ 25,257,233

Consolidated Statements of Earnings and Deficit

9 Months ended September 30, 1998 and 1997
(unaudited)

	1998	1997
Revenue		
Monitoring	\$ 8,948,990	\$ 8,188,620
Alarm response	469,857	496,655
Equipment and supplies	80,978	21,367
	<u>9,499,825</u>	<u>8,706,642</u>
Expenses		
Dealer standby and reconnect fees	4,059,978	3,836,436
Selling, general and administration	3,496,031	1,861,853
Monitoring station	1,118,291	1,041,489
Alarm response fees	441,156	465,673
Equipment and supplies	88,535	29,675
Research	418,752	-
	<u>9,622,743</u>	<u>7,235,126</u>
Earnings (Loss) from Operations		
Before Amortization	(122,918)	1,471,516
Amortization		
Fixed assets	269,657	155,684
Subscriber base	1,205,984	1,056,540
Deferred financing costs	12,500	-
Deferred development and pre-operating costs	436,869	-
	<u>1,925,010</u>	<u>1,212,224</u>
Earnings (Loss) from Operations	(2,047,928)	259,292
Other		
Interest income	47,994	111,473
Interest expense	10,274	3,928
	<u>37,720</u>	<u>107,545</u>
Net Earnings (Loss)	(2,010,208)	366,837
Deficit, Beginning of Period	(9,216,234)	(270,838)
Retained Earnings (Deficit), End of Period	\$ (11,226,442)	\$ 95,999
Earnings (Loss) Per Share		
Basic	(8.5¢)	1.6¢
Fully diluted	ANTIDILUTIVE	1.6¢

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

9 Months ended September 30, 1998 and 1997
(unaudited)

	1998	1997
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net earnings (loss)	\$ (2,010,208)	\$ 366,837
Items not affecting cash:		
Amortization:		
Fixed assets	269,657	155,684
Subscriber base	1,205,984	1,056,540
Deferred financing costs	12,500	-
Deferred development and pre-operating costs	436,869	-
	<u>(85,198)</u>	<u>1,579,061</u>
Changes in non-cash operating working capital items:		
Accounts receivable	396,633	(95,419)
Inventory	(660,525)	72,051
Prepaid dealer standby fees	62,171	(77,444)
Prepaid expenses	85,954	(73,920)
Accounts payable and accrued liabilities	(503,382)	(254,629)
Deferred revenue	(164,060)	165,374
	<u>(868,407)</u>	<u>1,315,074</u>
Cash flow from (used in) operating activities per share: 1998 - (3.7¢); 1997 - 5.7¢		
Investing		
Purchase of fixed assets	(450,627)	(628,003)
Additions to subscriber base:		
Share entitlement	(395,201)	(592,404)
Cash	(1,330,980)	(1,046,149)
Deferred development and pre-operating costs	(121,899)	(2,601,959)
	<u>(2,298,707)</u>	<u>(4,868,515)</u>
Financing		
Obligation under capital lease	164,706	-
Issue of common shares	1,727,366	1,163,010
Purchase of shares	-	(123,802)
Deferred financing costs	(100,000)	-
Decrease in share commitment	(392,364)	(259,205)
	<u>1,399,708</u>	<u>780,003</u>
Net Cash Outflow	(1,767,406)	(2,773,438)
Cash and Short-term Deposits, Beginning of Period	2,124,501	5,899,546
Cash and Short-term Deposits, End of Period	<u>\$ 357,095</u>	<u>\$ 3,126,108</u>



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