



# first quarter report 1998

SECURING INFORMATION THROUGH INNOVATION

May 26, 1998

Dear Shareholder:

For the three months ended March 31, 1998, Mytec Technologies Inc. reported revenues of \$3,204,557, a 7.4% increase from \$2,982,777 during the same period last year. Monitoring revenues for the first quarter in 1998 were \$2,952,109, an increase of 11.8% over the same period in 1997. Net loss for the three months was \$586,068 compared to net earnings of \$297,079 for the same three months in 1997.

The loss in the first quarter was expected, as a result of commercialization of the Mytec biometric operation, which began in the fourth quarter of 1997. Approximately \$675,000 of product-related costs, pre-operating expenses and research costs were expensed in the first quarter of 1998. Product revenues to offset these expenses have not yet materialized, thereby impacting earnings.

Efforts are being focused on generating revenue from product sales of Touchstone. This product has recently been certified by the ICSA (International Computer Security Association). The product has also completed testing with Entrust Technologies, enabling Touchstone to be sold as an Entrust-Ready™ identity device. A new director of sales and marketing also joined the Company during the first quarter.

Biometrics are becoming more widely accepted in the marketplace. The Touchstone product with its recent certifications and newly focused sales efforts is well positioned to address this emerging market. With this strong foundation, we anticipate revenues as planned in future quarters.

Thomas A. Grecco  
President and CEO

D.W. Hollingshead  
Chairman

## Consolidated Balance Sheets

March 31, 1998 and 1997  
(unaudited)

	1998	1997
<b>Assets</b>		
Current Assets		
Cash and short-term deposits	\$ 1,011,609	\$ 4,870,829
Accounts receivable	1,079,937	893,223
Inventory	41,881	552,098
Prepaid dealer standby fees	1,552,856	1,505,480
Prepaid expenses	482,736	377,426
	<b>4,169,019</b>	<b>8,199,056</b>
Fixed Assets	1,932,057	1,467,233
Subscriber Base	6,624,848	6,282,417
Deferred Development and		
Pre-operating Costs	3,042,074	8,369,680
Long-term Investment	432,720	432,720
	<b>\$ 16,200,718</b>	<b>\$ 24,751,106</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and		
accrued liabilities	\$ 1,310,985	\$ 1,136,337
Deferred revenue	3,330,526	3,227,807
Current portion of obligation		
under capital lease	33,600	-
	<b>4,675,111</b>	<b>4,364,144</b>
Obligation under capital lease	<b>147,482</b>	<b>-</b>
<b>Shareholders' Equity</b>		
Share Capital	19,580,399	18,588,930
Share Commitment	1,600,028	1,771,791
Retained Earnings (Deficit)	(9,802,302)	26,241
	<b>11,378,125</b>	<b>20,386,962</b>
	<b>\$ 16,200,718</b>	<b>\$ 24,751,106</b>

### Consolidated Statements of Earnings and Deficit

3 Months ended March 31, 1998 and 1997  
(unaudited)

	1998	1997
<b>Revenue</b>		
Monitoring	\$ 2,952,109	\$ 2,640,316
Alarm response	215,887	301,213
Equipment and supplies	36,561	41,248
	<u>3,204,557</u>	<u>2,982,777</u>
<b>Expenses</b>		
Dealer standby and reconnect fees	1,358,625	1,242,430
Selling, general and administration	1,080,672	554,906
Monitoring station	385,988	320,470
Alarm response fees	185,352	218,725
Equipment and supplies	39,302	10,308
Research	148,944	-
	<u>3,198,883</u>	<u>2,346,839</u>
<b>Earnings from Operations</b>		
<b>Before Amortization</b>	<b>5,674</b>	<b>635,938</b>
<b>Amortization</b>		
Fixed assets	84,265	39,951
Subscriber base	383,213	339,632
Deferred development and pre-operating costs	145,623	-
	<u>613,101</u>	<u>379,583</u>
<b>Earnings (Loss) from Operations</b>	<b>(607,427)</b>	<b>256,355</b>
<b>Other</b>		
Interest income	23,199	40,749
Interest expense	1,840	25
	<u>21,359</u>	<u>40,724</u>
<b>Net Earnings (Loss)</b>	<b>(586,068)</b>	<b>297,079</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>\$ (9,802,302)</b>	<b>\$ 26,241</b>
<b>Earnings (loss) Per Share</b>		
Basic	(2.6¢)	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

3 Months ended March 31, 1998 and 1997  
(unaudited)

	1998	1997
<b>Net Inflow (Outflow) of Cash Related to the Following Activities:</b>		
<b>Operating</b>		
Net earnings (loss)	\$ (586,068)	\$ 297,079
Items not affecting cash:		
Amortization:		
Fixed assets	84,265	39,951
Subscriber base	383,213	339,632
Deferred development and pre-operating costs	145,623	-
	<u>27,033</u>	<u>676,662</u>
Changes in non-cash operating working capital items:		
Accounts receivable	(63,517)	(146,812)
Inventory	(35,756)	103,884
Prepaid dealer standby fees	(25,534)	(91,925)
Prepaid expenses	5,384	(89,410)
Accounts payable and accrued liabilities	(306,069)	(220,672)
Deferred revenue	42,583	190,920
	<u>(355,876)</u>	<u>422,647</u>
<b>Cash flow from (used in) operating activities per share: 1998 - (1.5¢); 1997 - 1.9¢</b>		
<b>Investing</b>		
Purchase of fixed assets	(367,964)	(76,628)
Additions to subscriber base:		
Share entitlement	(127,957)	(209,142)
Cash	(303,685)	(434,169)
Deferred development and pre-operating costs	(279,320)	(1,015,556)
	<u>(1,078,926)</u>	<u>(1,735,495)</u>
<b>Financing</b>		
Obligation under capital lease	181,082	-
Issue of common shares	12,870	74,989
Increase in share commitment	127,958	209,142
	<u>321,910</u>	<u>284,131</u>
<b>Net Cash Outflow</b>	<b>(1,112,892)</b>	<b>(1,028,717)</b>
Cash and Short-term Deposits, Beginning of Period	2,124,501	5,899,546
Cash and Short-term Deposits, End of Period	<u>\$ 1,011,609</u>	<u>\$ 4,870,829</u>



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