FORM 61

QUARTERLY REPORT

Incorporated as part of: __X__ **Schedule A**

ISSUER DETAILS:

NAME OF ISSUER: International Hi-Tech Industries Inc.

ISSUER ADDRESS: 1096 West 10th Avenue
Vancouver, B.C.
V6H 1H8

CONTACT PERSON: Roger A. Rached

CONTACT'S POSITION: President

CONTACT TELEPHONE NUMBER: 733-5400

FOR QUARTER ENDED: September 30, 1998

DATE OF REPORT: November 30, 1998

CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THAT THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B AND C.

Roger A. Rached	"Roger A. Rached"	98/11/30
NAME OF DIRECTOR	**SIGN**	**DATE SIGNED**

Gerald Hamilton	"Gerald Hamilton"	98/11/30
NAME OF DIRECTOR	**SIGN**	**DATE SIGNED**

INTERNATIONAL HI-TECH INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998
(Unaudited - see Notice to Reader)

NOTICE TO READER

We have compiled the consolidated balance sheet of International Hi-Tech Industries Inc. as at September 30, 1998 and the consolidated statements of operations and deficit and changes in financial position for the nine month period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Vancouver, B.C.	Morgan & Company
November 27, 1998	Chartered Accountants

INTERNATIONAL HI-TECH INDUSTRIES INC.

CONSOLIDATED BALANCE SHEET

(unaudited - see Notice to Reader)

	SEPTEMBER 30 **1998**	1997
ASSETS		
Current		
Cash and short term deposits	**$ 1,005,282**	$ 512,995
Accounts receivable	**108,470**	68,466
Notes receivable (Note 2)	**1,415,898**	-
Prepaid expense	**126,569**	154,708
	2,656,219	736,169
Capital Assets (Note 3)	**1,838,158**	1,920,575
Real Estate (Note 4)	**10,966,247**	7,617,622
Deferred Project Development Costs	**3,331,006**	2,997,478
	$ 18,791,630	$ 13,271,844
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 654,724**	$ 627,291
Accrued interest payable	**93,025**	122,346
Loans payable (Note 5)	**95,500**	105,500
Advances payable	**7,274**	31,811
Mortgage payable (Note 6)	**1,868,000**	-
Project advance	**-**	2,000,000
Current portion of long term debt (Note 7)	**8,854**	231,619
	2,727,377	3,118,567
Long Term Debt (Note 7)	**216,054**	223,568
Share Subscriptions Received (Note 8(f))	**586,000**	107,200
Minority Interest	**747,160**	456,605
	4,276,591	3,905,940
Contingency (Note 11)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 8**)**	**24,316,314**	17,604,481
Contributed Surplus (Note 8(b))	**305,000**	-
Deficit	**(10,106,275)**	(8,238,577)
	14,515,039	9,365,904
	$ 18,791,630	$ 13,271,844

INTERNATIONAL HI-TECH INDUSTRIES INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

(unaudited - see Notice to Reader)

	NINE MONTHS ENDED SEPTEMBER 30	
	1998	1997
Revenue		
Licence rights	**$ 2,476,822**	$ 352,712
Interest and other income	**26,055**	18,829
	2,502,877	371,541
Expenses		
Audit and accounting	**91,414**	53,597
Capital taxes	**37,212**	33,637
Consulting fees	**285,064**	103,830
Depreciation and amortization	**171,401**	198,251
Directors' and officers' fees	**93,260**	42,427
Finders' fees and loan guarantee and commitment fees	**729,208**	480,000
General expense	**124,073**	193,364
Legal	**406,840**	514,666
Insurance	**30,552**	71,728
Interest and foreign exchange	**122,969**	94,367
Investor relations and product representation costs	**440,988**	232,433
Telephone, fax and cellular	**52,949**	69,916
Office rent	**58,500**	38,205
Promotion and presentation	**-**	64,397
Property taxes	**55,823**	36,602
Repairs and maintenance	**34,185**	36,222
Travel and business promotion	**112,558**	242,567
Transfer agent and filing fees	**16,468**	21,972
Wages and benefits	**333,157**	267,954
	3,196,621	2,796,135
Loss Before The Following	**(693,744)**	(2,424,594)
Gain on issue of treasury shares by subsidiary company	**-**	95,150
Minority interest in (income) loss of subsidiary	**(299,430)**	8,245
Loss For The Period	**(993,174)**	(2,321,199)
Deficit, Beginning Of Period	**(9,113,101)**	(5,917,378)
Deficit, End Of Period	**$ (10,106,275)**	$ (8,238,577)
Loss Per Share	**$(0.02)**	$(0.06)

INTERNATIONAL HI-TECH INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(unaudited - see Notice to Reader)

	NINE MONTHS ENDED SEPTEMBER 30	
	1998	1997
Operating Activities		
Loss for the period	**$ (993,174)**	$ (2,321,199)
Add (deduct) non-cash items		
Depreciation and amortization	**171,410**	198,251
Minority interest in income (loss) of subsidiary	**299,430**	(8,245)
Gain on issue of treasury shares by subsidiary company	**-**	(95,150)
	(522,334)	(2,226,343)
Change in non-cash working capital items	**(2,132,078)**	1,605,797
	(2,654,412)	(620,546)
Financing Activities		
Shares issued for cash	**4,464,020**	2,249,860
Shares issued for loan guarantees	**129,208**	400,000
Shares to be issued	**500,000**	
Increase (decrease) in long term debt	**(5,061)**	(217,271)
Share subscriptions received (net)	**406,000**	107,200
Minority interest	**-**	560,000
	5,494,167	3,099,789
Investing Activities		
Capital assets	**(105,418)**	(161,681)
Project development costs	**(276,933)**	(123,205)
Real estate	**(1,716,582)**	(2,554,132)
	(2,098,933)	(2,839,018)
Increase (Decrease) In Cash And Short Term Deposits	**740,822**	(359,775)
Cash And Short Term Deposits, Beginning Of Period	**264,460**	872,770
Cash And Short Term Deposits, End Of Period	**$ 1,005,282**	$ 512,995

INTERNATIONAL HI-TECH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

(unaudited - see Notice to Reader)

1. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

These financial statements include the accounts of the Company and its subsidiaries - Canadian Hi-Tech Manufacturing Ltd. (65% owned), IHI International Holdings Ltd. (72% owned), and IHI Construction Ltd. (100% owned).

b) Project Development Costs

The Company is deferring all architectural, design consulting and other costs directly related to the ongoing development and commercialization of its pre-fabrication building product and flexible design program to be amortized against related revenues when production commences.

c) Depreciation and amortization of Capital Assets

Automotive	-	30% declining balance method
Office furniture and equipment	-	20% declining balance method
Computer equipment	-	30% declining balance method
Other machinery and equipment	-	20% declining balance method
Patent prosecution costs	-	on a straight line basis over ten years once a patent is secured
License rights	-	on a straight line basis over ten years

d) Non-Monetary Transactions

Shares of common stock of the Company issued for non-monetary consideration are valued at the quoted market price per share at the close of trading on the day of completion of the transaction except for those circumstances where, in the opinion of the Company and due to the nature of the transaction, the trading price does not fairly represent the value of the transaction. In such circumstances, the value of the shares is determined based on the estimated fair value of the consideration received.

e) Foreign Currency Translation

Transactions recorded in foreign currencies have been translated into Canadian dollars using the Temporal Method as follows:

i) monetary items at the rate prevailing at the balance sheet date;
ii) non-monetary items at the historical exchange rate;
iii) revenue and expense at the average rate in effect during the applicable accounting period.

INTERNATIONAL HI-TECH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

(unaudited - see Notice to Reader)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains or losses arising on translation are included in the results of operations.

f) Loss per Share

Loss per share is based on the weighted average number of shares outstanding during the period.

2. NOTES RECEIVABLE

The notes receivable are payable on demand with interest at 6.5% per annum.

3. CAPITAL ASSETS

	1998	1997
Automotive	**$ 123,965**	$ 123,966
Office furniture and equipment	**264,379**	258,612
Computer equipment	**70,707**	66,300
Other machinery and equipment	**835,735**	835,735
Patent prosecution costs	**1,375,441**	1,232,360
License rights	**200,000**	200,000
	2,870,227	2,716,973
Accumulated depreciation and amortization	**1,032,069**	796,398
	$ 1,838,158	$ 1,920,575

4. REAL ESTATE

	1998	1997
Speen Road properties, Surrey		
Land and building	**$ 836,980**	$ 836,980
Hopcott Road property, Delta		
Land	**1,356,527**	1,356,527
Site preparation	**1,404,553**	1,404,553
Construction and design costs	**6,103,971**	2,755,346
Construction financing	**857,206**	857,206
Construction permits	**135,810**	135,810
Langley properties		
Land	**141,400**	141,400
Canadian National Railway properties	**129,800**	129,800
	$ 10,966,247	$ 7,617,622

INTERNATIONAL HI-TECH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

(unaudited - see Notice to Reader)

5. LOANS PAYABLE

	1998	1997
Repayable on demand with interest at 20% per annum	**$ -**	$ 10,000
Repayable on demand at various interest rates	**95,500**	95,500
	$ 95,500	$ 105,500

6. MORTGAGE PAYABLE

	1998	1997
The Company has arranged a conventional first mortgage financing secured by the land and improvements located at Hopcott Road in Delta, British Columbia. Advances under the mortgage bear interest at the rate of prime plus 5%, which is payable monthly. The mortgage is due on September 1, 1999. In consideration of their guarantees of the mortgage, two private companies controlled by the Company's president, will receive a total of 726,744 common shares at a deemed value of $0.688 per share.		
Mortgage advance received	**$ 1,868,000**	$ -

6. LONG TERM DEBT

	1998	1997
CIBC Mortgage Corporation Repayable $1,815 per month including interest at 7.6% per annum, due February 1, 2003, secured by Speen Road real estate	**$ 222,354**	$ 227,068
Note payable Repayable on July 5, 1998 with interest at 7% per annum	**-**	200,000
Finance contract, repayable $2,871 per month including interest, due October 1, 1998, secured by capital assets	**2,554**	28,119
	224,908	455,187
Less current portion	**8,854**	231,619
	$ 216,054	$ 223,568

7. LONG TERM DEBT (Continued)

The repayment requirements on the long term debt are as follows:

1999	$	8,854
2000	$	5,151
2001	$	5,509
2002	$	5,990
2003	$	6,462

8. SHARE CAPITAL

a) Authorized
September 30, 1998 and 1997
200,000,000 common shares without par value
September 30, 1998 and 1997
10,000,000 Class A preferred shares without par value

b) Issued and Outstanding

	Number of Shares	Consideration
Common Shares		
Balance December 31, 1997	46,246,138	$ 19,528,086
Shares issued for cash	5,178,138	4,850,240
Shares issued for loan guarantees	149,851	129,208
	51,574,127	24,507,534
Finders' fees paid	-	(386,220)
	51,574,127	24,121,314
Voluntary cancellation by the Company's president of shares previously issued for a loan guarantee	(152,500)	(305,000)
Shares to be issued (Note 6 and Note 12(a))	726,744	500,000
Balance September 30, 1998	52,148,371	24,316,314

c) Of the Company's issued and outstanding shares 21,470,672 are held in escrow to be released in accordance with a formula based on cumulative cash flow of the Company and 214,286 shares are held in escrow, their release being subject to the approval of the regulatory authorities.

INTERNATIONAL HI-TECH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998

(unaudited - see Notice to Reader)

8. SHARE CAPITAL (Continued)

d) As at September 30, 1998 the Company had the following outstanding directors' and employees' stock options:

Number Of Shares	Exercise Price	Expiry Date
25,000	$2.28	November 3, 1998
50,000	$2.25	November 29, 1998
50,000	$2.25	December 20, 1998
50,000	$2.25	December 28, 1998
100,000	$2.25	January 16, 1999
250,000	$2.25	January 20, 2002
22,500	$2.25	February 10, 2002
400,000	$2.25	July 21, 2002
150,000	$2.25	August 28, 2002
100,000	$2.25	September 4, 2002
25,000	$2.25	October 21, 2002

e) As at September 30, 1998 the Company had outstanding non-transferable share purchase warrants for the purchase of additional shares as follows:

Number	Exercise Price		Expiry Date	
Of Shares	Year 1	Year 2	Year 1	Year 2
46,500		$ 2.47		November 27, 1998
46,500		$ 2.47		November 26, 1998
106,250		$ 1.84		December 19, 1998
130,000		$ 1.77		December 20, 1998
65,000		$ 1.77		December 20, 1998
63,500		$ 1.85		December 20, 1998
62,112		$ 1.85		December 20, 1998
62,112		$ 1.85		December 20, 1998
91,900		$ 2.00		March 3, 1999
61,783		$ 1.81		April 29, 1999
83,000		$ 1.53		May 14, 1999
72,932		$ 1.53		May 26, 1999
306,122		$ 1.13		May 26, 1999
310,000		$ 1.13		May 26, 1999
300,000		$ 0.98		July 23, 1999
120,000		$ 0.98		July 29, 1999

8. SHARE CAPITAL (Continued)

Number Of Shares	Exercise Price Year 1	Exercise Price Year 2	Expiry Date Year 1	Expiry Date Year 2
345,000		$ 0.98		September 15, 1999
500,000		$ 1.04		September 24, 1999
110,000		$ 1.04		September 15, 1999
162,600	$ 1.23	$ 1.41		September 23, 1999
80,000	$ 1.34	$ 1.54	October 22, 1998	October 22, 1999
75,000	$ 1.34	$ 1.54	October 22, 1998	October 22, 1999
105,000	$ 1.34	$ 1.54	October 22, 1998	October 22, 1999
75,000	$ 1.34	$ 1.54	October 22, 1998	October 22, 1999
100,000	$ 1.00	$ 1.15	November 7, 1998	November 7, 1999
100,000	$ 1.00	$ 1.15	November 15, 1998	November 15, 1999
100,000	$ 1.00	$ 1.15	November 19, 1998	November 19, 1999
100,000	$ 1.00	$ 1.15	November 19, 1998	November 19, 1999
100,000	$ 1.00	$ 1.15	November 20, 1998	November 20, 1999
176,500	$ 0.85	$ 0.98	December 6, 1998	December 6, 1999
176,500	$ 0.85	$ 0.98	January 1, 1999	January 1,2000
150,000	$ 0.65	$ 0.75	January 1, 1999	January 1, 2000
450,000	$ 0.65	$ 0.75	January 1, 1999	January 1, 2000
150,000	$ 0.65	$ 0.75	January 1, 1999	January 1, 2000
300,000	$ 0.84	$ 0.97	January 1, 1999	January 1,2000
125,000	$ 0.92	$ 1.06	January 8, 1999	January 8, 2000
125,000	$ 0.92	$ 1.06	January 31, 1999	January 31, 2000
108,000	$ 0.90	$ 1.04	February 5, 1999	February 5, 2000
156,250	$ 0.64	$ 0.74	March 6, 1999	March 6, 2000
234,375	$ 0.64	$ 0.74	March 7, 1999	March 7, 2000
277,800	$ 0.90	$ 1.035	February 20, 1999	February 20, 2000
108,000	$ 0.90	$ 1.035	March 28, 1999	March 28, 2000
108,000	$ 0.90	$ 1.035	March 10, 1999	March 10,2000
108,000	$ 0.90	$ 1.035	March 20, 1999	March 20, 2000
108,000	$ 0.90	$ 1.035	April 8, 1999	April 8, 2000
108,000	$ 0.90	$ 1.035	April 16, 1999	April 16, 2000
100,000	$ 1.00	$ 1.15	April 19, 1999	April 19, 2000
110,000	$ 0.90	$ 1.035	April 22, 1999	April 22, 2000
300,000	$ 1.00	$ 1.15	April 16, 1999	April 16, 2000
100,000	$ 1.00	$ 1.15	May 6, 1999	May 6, 2000
200,000	$ 1.00	$ 1.15	May 21, 1999	May 21, 2000
300,000	$ 1.00	$ 1.15	June 6, 1999	June 6, 2000
100,000	$ 1.00	$ 1.15	June 30, 1999	June 30, 2000

INTERNATIONAL HI-TECH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998
(unaudited - see Notice to Reader)

7. SHARE CAPITAL (Continued)

f) The Company has arranged, subject to regulatory approval, private placements totalling 2,758,262 units for total consideration of $3,172,000. Each unit consists of one share and one non-transferable share purchase warrant for the purchase of an additional share for a period of two years. As at September 30, 1998, $586,000 had been advanced in connection with these private placements.

g) As at September 30, 1998 the Company's 65% owned subsidiary, Canadian Hi-Tech Manufacturing Ltd. (Canadian Hi-Tech), has 11,000 class B preferred shares outstanding which are redeemable at $100 per share at the option of Canadian Hi-Tech or after March 1, 1996 at the option of the preferred shareholder who has agreed not to request Canadian Hi-Tech to redeem its shares until all of the performance and escrow shares referred to in Note 8(c) have been earned out of escrow.

9. INCOME TAXES

At September 30, 1998, the Company and its subsidiaries had approximately $11,300,000 in net operating loss carryforwards available to offset future taxable income. The changes in ownership of the Company during 1993 and future changes in ownership will significantly restrict the utilization of these carryforwards. These carryforwards, if available and unused, will expire from 1998 to 2004. Due to net losses the Company did not record a provision for income taxes in 1997, 1996 or 1995.

10. RELATED PARTY TRANSACTIONS

a) During the period, a company controlled by a director was paid project management fees of $54,000 (1997 - $54,000). In addition, a second company controlled by the same director was paid rent of $58,500 (1997 - $58,500).

b) During the period, the Company paid directors' and officers' fees of $39,260 (1997 - $42,427).

c) The Company is party to a consulting fee agreement under which a company controlled by a director and a second company controlled by this same director’s family will provide all building engineering designs for the Company's projects for an initial fee of 4% of the factory cost of the initial design and 1% of the factory cost for subsequent use of the same design.

10. RELATED PARTY TRANSACTIONS (Continued)

d) IHI International Holdings Ltd. ("IHI-International"), a Bermuda company and a 72% owned subsidiary of the Company, holds the right to use the building technology in all countries in the world other than Canada. The Company has agreed to use its best efforts to offer to its shareholders shares of IHI-International. As a result, shareholders of the Company will have an opportunity to acquire a direct interest in IHI-International which will hold the right to use the technology in all parts of the world other than Canada.

e) The note payable described in Note 7 is owing to a company controlled by a director.

11. CONTINGENCY

The Company has been named as the defendant in an action commenced by a former director claiming damages for the value of 150,000 common shares of the Company. The Company believes that the claim is without merit and intends to vigorously defend the action.

12. SUBSEQUENT EVENTS

a) Subsequent to September 30, 1998, the Company issued the 726,744 shares referred to in Note 6. As a condition of the issuance, 363,372 of the shares are to be held in escrow, subject to disinterested shareholder approval at the Company's next annual general meeting. These shares will be returned to treasury if disinterested shareholder approval is not received at the Company's next annual general meeting.

b) Subsequent to September 30, 1998, the Company granted incentive stock options for the purchase of up to 2,600,000 shares at $0.88 per share to October 6, 2003.

FORM 61

QUARTERLY REPORT

Incorporated as part of: __X__ **Schedules B & C**

ISSUER DETAILS:

NAME OF ISSUER: International Hi-Tech Industries Inc.

ISSUER ADDRESS: 1096 West 10th Avenue
Vancouver, B.C.
V6H 1H8

CONTACT PERSON: Roger A. Rached

CONTACT'S POSITION: President

CONTACT TELEPHONE NUMBER: 733-5400

FOR QUARTER ENDED: September 30, 1998

DATE OF REPORT: November 30, 1998

CERTIFICATE

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Roger A. Rached	**"Roger A. Rached"**	**98/11/30**
NAME OF DIRECTOR	**SIGN**	**DATE SIGNED**

Gerald Hamilton	**"Gerald Hamilton"**	**98/11/30**
NAME OF DIRECTOR	**SIGN**	**DATE SIGNED**

INTERNATIONAL HI-TECH INDUSTRIES INC.

QUARTERLY REPORT

SEPTEMBER 30, 1998

Schedule A: Financial Information

See attached financial statements and schedule of deferred project development costs.

Schedule B: Supplementary Information

1. See attached Financial Statements

2. a) Securities issued during the period

Date of Issue	Type of Security	Type of Issue	Number of Shares	Issue Price	Total Proceeds	Type of Consideration	Commission Paid
Aug. 18/98	Common	Private Placement	1,000,000	$1.00	$1,000,000	Cash	$82,500
Aug. 20/98	Common	Private Placement	500,000	$1.00	$500,000	Cash	$50,000
Aug. 20/98	Common	Private Placement	173,913	$1.15	$200,000	Cash	$20,000
Sept. 2/98	Common	Private Placement	427,800	$0.90	$385,020	Cash	$38,520

b) Stock options granted during the period:

None

3. a)

Class	Par Value	Authorized	Issued Number	Issued Amount
Common	Without par value	200,000,000	52,148,371	$24,316,314
Class A Preferred	Without par value	10,000,000		

b) See Notes 8(d) and 8(e) to the attached financial statements.

c) See Note 8(c) to the attached financial statements.

d) List of Directors:

Roger Rached
Evelyn Becker
Ferdinand Rauer
Thomas Po
Gerald Hamilton

Schedule C: Management Discussion

See attached

INTERNATIONAL HI-TECH INDUSTRIES INC.

OTHER FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998

1. Deferred Project Development Costs

Balance December 31, 1997	$ 3,054,073
Additions during the period	
Research and development	276,933
Balance September 30, 1998	$ 3,331,006

2. General Expense

Internet access and services	$ 6,203
PST audit assessment	2,650
Printing	12,870
Courier	8,864
Postage	2,000
Office supplies	49,094
Equipment leasing	13,168
Auto expenses	3,268
Utilities	7,330
Bermuda Government fees	7,421
Dues, subscriptions, licence	11,205
	$ 124,073

3. Investor Relations and Product Representation Costs

Euroasian Canamerican Enterprises Inc. (Vancouver) 9 months x $5,000	$ 45,000
Veda S.A. Consult (Luxembourg) 9 months x U.S. $6,000	79,895
Stock quotation and information decimation services, shareholder mailings and other corporate services	316,093
	$ 440,988

4. Travel and Business Promotion

Meals and entertainment	$ 15,805
Advertising	6,129
Airline tickets, meals, accommodation and entertainment (Canada, U.S.A. and Europe)	10,176
Veda S.A. Consult reimbursable expenses and other costs related to the Luxembourg Show Home	80,448
	$ 112,558

SCHEDULE C
MANAGEMENT DISCUSSION

Overview

The principal business of International Hi-Tech Industries Inc. (the "Corporation") is the development and commercialization of a new building system (the "Technology") in Canada, and internationally through the Corporation's 72% owned subsidiary, IHI-International Holdings Ltd. ("IHI-International"). The Canadian rights to the Technology are held by the Corporation pursuant to a licence agreement which terminates on March 16, 2092. The international rights to the Technology are held by IHI-International pursuant to a licence agreement which terminates on October 4, 2093.

During the first nine months of fiscal 1998, the Corporation continued to expand its base of strategic joint venture partners, ending the third quarter of the fiscal year with 13 interim agreements that call for the establishment of up to 20 Hi-Tech Factories. At the foundation of the Corporation's success in securing joint venture partners (both directly and indirectly through IHI International) is the sustained growth and the need for affordable housing and the Corporation's progress in demonstrating the commercial viability of the Hi-Tech Building Technology in meeting such need. The Corporation has also maintained its focus and commitment to complete the construction of the permanent manufacturing facility at 7393 Hopcott Road, Delta, British Columbia and to commence the commercial production of panels derived from the Technology.

During the first nine months of fiscal 1998, consolidated revenues grew by over 700%. The Corporation either directly or through IHI International entered into six interim agreements which provided for irrevocable payments of $1,090,108 on account of licence fees.

The Corporation has continued to demonstrate the attractiveness of its Technology and its expert-oriented business. Despite the poor British Columbia economy, during the first nine months of fiscal 1998 the Corporation generated $2,476,822 from its licensing activities and generated over $5.4 million from its financing activities. The Corporation's total expenses increased to $3,196,621 for the nine months ended September 30, 1998, compared to expenses of $2,796,135 for the nine months ended September 30, 1997.

Management is committed to enhancing the financial return on the Corporation's $18.7 million of assets, primarily invested in its nearly completed permanent manufacturing facility located in Delta, British Columbia. In addition, the Corporation will continue to pursue strategic alliances that increase revenue and that are compatible with its corporate culture.

Manufacturing Facility

The structure for the permanent manufacturing facility (the "Facility"), including office accommodations, was completed in mid-August. Painting and building envelope sealing and cladding for the Facility are in progress. Windows, storm water drainage system and the infrastructure have been completed. Contracts have now been let for the sophisticated state of the art electrical and mechanical systems. Automatic overhead doors are in the process of being installed. All of the panels for the Facility, which number approximately 1,300, were produced by the Corporation. The web site at http:///www.ihi.ca is frequently updated with pictures detailing the construction process at the Facility.

Intellectual Property

On September 2, 1998 the Corporation announced that U.S. Patent No. 5,785,904 was issued by the U.S. Patent Office under the title "Method of Securing an Architectural Finish Element to a Surface". This is the second patent to be issued to the licensor of the Corporation's building technology in the U.S.

During the period, the Corporation also announced that patents have been granted for Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Cuba, Gabon, Ghaza Strip, Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal, Singapore, Togo and Venezuela.

Operations

The Corporation incurred a net loss of $993,174 for the nine months ended September 30, 1998, as compared to a net loss of $2,321,199 for the nine months ended September 30, 1997.

The Corporation has undertaken steps to reduce overhead and other expenses not essential for the completion of the Facility and the sale of its intended products. General expense decreased from $193,364 to $124,073, legal expense decreased from $514,666 to $406,840, telephone fax and cellular decreased from $69,916 to $52,949 and travel and business promotion decreased from $242,567 to $112,558. Expenses related to consulting fees, finders' fees, legal services and investor relations increased due to the level of financing and licensing activities.

Capital Requirements, Resources and Liquidity

As at September 30, 1998 the Corporation had a working capital deficit of $71,158, as compared to a working capital deficit of $2,382,398 as at September 30, 1997. Of such amount, $1,868,000 is represented by a first mortgage financing (the "First Mortgage Financing"). The Corporation has arranged a conventional first mortgage financing over the Hopcott Road property in the principal amount of $2.5 million. The financing comes with the term of 13 months and interest is payable at a rate equal to prime plus 5%. A portion of the proceeds from the financing were used to repay Columbia Kootenay Investment Inc. The remaining proceeds will be used to pay for the finishing work and office accommodations for the permanent manufacturing facility and to pay for brokerage and commitment fees. Mr. Rached has delivered a personal guarantee in favour of the lenders. In consideration therefor, the Corporation agreed to issue 726,744 Common shares to Mr. Rached's affiliates. Of the 726,744 Common shares, 363,372 have been issued to Mr. Rached's affiliates and the remaining 363,372 Common shares are being held in escrow pursuant to an escrow agreement and will be released upon receipt of shareholder approval, on a majority of the minority basis.

The Corporation will require financing for, or will need to enter into leasing arrangements in respect of, manufacturing equipment in order to fully exploit its business in British Columbia, Canada.

Garmeco Canada has agreed to make available to the Corporation a line of credit in the aggregate amount of $1 million (the "Line of Credit"). The term of the Line of Credit is for one year with an interest rate of ten percent per annum, calculated and compounded annually and payable monthly on the amount drawn, not in advance. The proceeds of the funds will be used for purchasing manufacturing equipment for the Facility. Garmeco Canada is controlled by a member of the President's family.

In consideration of the Line of Credit to be provided, the Corporation has agreed, subject to regulatory acceptance, to allot and issue to the lender, 384,500 fully paid and non-assessable common shares of the Corporation, with a deemed price of $0.52 per share.

All proceeds from private placements have been used for the purposes disclosed in the applicable news releases disclosing the private placements.

During the first nine months of fiscal 1998, the Corporation has demonstrated its ability to generate revenue to cover a significant portion of its operating expenses. This source of internally generated funds, coupled with the Corporation's proven ability to access private capital, provides the Corporation with satisfactory liquidity. The Corporation continues to monitor its capital requirements, with a view to ensuring sufficient capital to exploit fully its business in British Columbia, Canada.

The Corporation, based on its estimate of the costs relating to planned development and demonstration programs, will require at least $12 million over the next two to three years to fund its development and commercialization activities, including the manufacture of further demonstration "show homes," the development of a manufacturing capability and processes and for its working capital requirements. Of this amount, the Corporation has budgeted approximately $700,000 for the three months ended December 31, 1998 (exclusive of the costs associated with establishing the Facility). The Corporation has budgeted approximately $3.0 million for the completion of the Facility, including for the acquisition of equipment for the first production line. The Corporation's estimated cash requirements over that period will be funded from its existing financial resources, those of its shareholders through potential private placements and the potential exercise of 10,326,711 warrants with exercise prices ranging from $0.64 to $2.00, proceeds from deposits on new MOUs (that provide for the establishment of joint ventures) and significant proceeds due under existing MOUs and licenses, and proceeds from the Line of Credit and the First Mortgage Financing.

The Corporation believes, following the successful demonstration of its custom designed "show home" in Luxembourg that led to numerous inquiries regarding possible joint ventures, that it is now in a position, after having completed the building of the structure for its first IHI Automated Facility, to seek further commitments to enter into development, joint venture and licensing agreements with other strategic partners. The Facility incorporates the Corporation's new state of the art building Technology.

Further opportunities for development, joint venture and licensing agreements are expected to arise following the 1999 B.C. Home & Garden Show. On November 12, 1998 the Corporation announced that the Corporation has been asked to provide the show home, in conjunction with the Greater Vancouver Home Builders' Association, for the 1999 B.C. Home & Garden Show to be held February 17-21, 1999 in B.C. Place Stadium in Vancouver. Designed by prominent architects, Dr. Omar Take of Paris and Mr. Gerald Hamilton of Vancouver, the steel and insulated-concrete home will be manufactured in the Corporation's research and development facility in Surrey and then moved to the Corporation's new factory in Delta, B.C. for concrete applications and finishing. A rapid-construction demonstration will require the Corporation to erect the house in approximately two days and dismantle it after the show in the same amount of time.

The short term outlook for the Corporation's liquidity is acceptable and consistent with management's objectives. The longer term outlook for the Corporation's liquidity is expected to be enhanced, given the historical track record of management in privately raising funds for its state of the art building Technology and given the significant proceeds that are due under existing MOUs and licenses.

Investor Relations

Investor relations activities are conducted in-house, through Leslie Anderton.
Related Party Transactions
Reference is made to the Management Proxy Circular for the annual meeting of the Corporation held on June 17, 1998 and to the disclosure contained herein.

Conclusion

The financial achievements through the third quarter of fiscal 1998 have reconfirmed the Corporation's standing as a leader in the development of new building technology. The Corporation's directors, employees and technical and financial advisors deserve much credit for this success. Their outstanding efforts, combined with the sustained growth for the need for affordable housing, have helped to bring the Corporation to a point where it is on the brink of commercial production. As commercial production is achieved, the capital for the Corporation's future factory growth should be readily available from both debt and equity markets, as well from profit generated from both production and licensing activities.