

Consolidated Financial Statements of

OMT INC.

Years ended December 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of
OMT Inc.

We have audited the consolidated balance sheet of **OMT Inc.** as at December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 25, 2005.

Ernst & Young LLP

Winnipeg, Canada,
April 13, 2006.

Chartered Accountants

OMT INC.

Consolidated Balance Sheets

December 31, 2005 and 2004

| | 2005 | 2004 |
|-----------------------------------------------|--------------|--------------|
| Assets (notes 5 and 7) | | |
| Current assets: | | |
| Cash | \$ 186,214 | \$ 1,121,662 |
| Accounts receivable | 720,704 | 473,001 |
| Inventory | 175,352 | 105,011 |
| Prepaid expenses | 99,335 | 63,848 |
| Current portion of lease receivable | 7,000 | 7,000 |
| Total current assets | 1,188,605 | 1,770,522 |
| Lease receivable | 14,000 | 21,000 |
| Property and equipment (note 2) | 137,252 | 237,840 |
| Software and other intangible assets (note 3) | 54,203 | 98,935 |
| Deferred financing costs (note 4) | 199,958 | 266,610 |
| Total assets | \$ 1,594,018 | \$ 2,394,907 |

Liabilities and Shareholders' Deficiency

| | | |
|------------------------------------------------------------|--------------|--------------|
| Current liabilities: | | |
| Bank demand loan (note 5) | \$ - | \$ 328,000 |
| Accounts payable and accrued liabilities | 483,495 | 529,211 |
| Deferred revenue (note 6) | 527,267 | 336,898 |
| Current portion of long-term debt (note 7) | - | 179,762 |
| Current portion of obligation under capital lease (note 8) | 7,453 | 40,297 |
| Total current liabilities | 1,018,215 | 1,414,168 |
| Deferred revenue (note 6) | 2,204 | 10,028 |
| Long-term debt (note 7) | 3,216,297 | 2,960,430 |
| Obligation under capital lease (note 8) | 3,560 | 11,013 |
| Total liabilities | 4,240,276 | 4,395,639 |
| Commitments and contingency (notes 9 and 16) | | |
| Shareholders' deficiency: | | |
| Capital stock (note 10) | 1,278,458 | 1,274,622 |
| Other paid-in capital (note 11) | 693,579 | 693,579 |
| Contributed surplus (note 10) | 178,225 | 158,150 |
| Deficit | (4,796,520) | (4,127,083) |
| Total shareholders' deficiency | (2,646,258) | (2,000,732) |
| Total liabilities and shareholders' deficiency | \$ 1,594,018 | \$ 2,394,907 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Bill Baines"

Director

"Laurie Goldberg"

Director

OMT INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---------------------------------------------------|----------------|----------------|
| Sales | \$ 4,175,804 | \$ 3,481,656 |
| Cost of sales | 1,580,723 | 1,264,488 |
| Gross profit | 2,595,081 | 2,217,168 |
| Selling and administrative | 2,170,405 | 2,067,652 |
| Research and development | 221,458 | 310,266 |
| | 2,391,863 | 2,377,918 |
| Income (loss) before the undernoted | 203,218 | (160,750) |
| Other expenses (income): | | |
| Amortization | 195,446 | 272,021 |
| Long term interest | 331,987 | 150,143 |
| Dividends on preferred shares | — | 155,833 |
| Non-cash interest accretion (note 7) | 259,703 | 79,750 |
| Foreign exchange loss (gain) | (2,816) | 13,003 |
| Stock-based compensation (note 10(d)) | 20,075 | 4,954 |
| Gain on sale of property and equipment | — | (15,255) |
| Write-off of deferred financing costs | — | 64,626 |
| Amortization of deferred financing costs (note 4) | 66,652 | — |
| Miscellaneous expense (income) | 1,608 | (1,546) |
| | 872,655 | 723,529 |
| Loss for the year | (669,437) | (884,279) |
| Deficit, beginning of year: | (4,127,083) | (3,242,804) |
| Deficit, end of year | \$ (4,796,520) | \$ (4,127,083) |
| Basic and diluted loss per share (note 10(f)) | \$ (0.02) | \$ (0.07) |

See accompanying notes to consolidated financial statements.

OMT INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

| | 2005 | 2004 |
|--------------------------------------------------------|--------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Loss for the year | \$ (669,437) | \$ (884,279) |
| Items not involving cash: | | |
| Amortization | 195,446 | 272,021 |
| Accrued dividends on preferred shares | - | 155,833 |
| Non-cash interest accretion | 259,703 | 79,750 |
| Stock-based compensation | 20,075 | 4,954 |
| Gain on sale of property and equipment | - | (15,255) |
| Amortization and write-off of deferred financing costs | 66,652 | 64,626 |
| Change in non-cash operating working capital | (209,702) | 436,369 |
| | (337,263) | 114,019 |
| Financing: | | |
| Decrease in bank demand loan | (328,000) | (222,000) |
| Principal payments on capital lease | (40,297) | (37,911) |
| Proceeds from long-term debt (note 7) | - | 1,429,884 |
| Principal payments on long-term debt | (179,762) | (153,793) |
| Deferred financing costs | - | (246,610) |
| | (548,059) | 769,570 |
| Investments: | | |
| Additions to property and equipment | (24,858) | (53,168) |
| Proceeds on disposal of property and equipment | - | 26,644 |
| Additions to software and other intangible assets | (25,268) | (25,781) |
| | (50,126) | (52,305) |
| Increase (decrease) in cash | (935,448) | 831,284 |
| Cash, beginning of year | 1,121,662 | 290,378 |
| Cash, end of year | \$ 186,214 | \$ 1,121,662 |
| Supplementary information: | | |
| Interest paid | \$ 312,076 | \$ 140,402 |

See accompanying notes to consolidated financial statements.

OMT INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2005 and 2004

General:

OMT Inc (TSX:OMT) (the company), through its subsidiaries, OMT Technologies Inc. (OMT) and Intertain Media Inc., provides media delivery systems and technology and solutions to the media and broadcast industry.

1. Significant accounting policies

(a) Basis of presentation and financial restructuring:

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the company has experienced significant losses in the last three years. The company is not in violation of any of its covenants at December 31, 2005.

The ability of the company to carry on as a going concern is dependant upon achieving profitable operations which cannot be predicted at this time and the ability of the Company to obtain additional financing from other sources when its existing financing becomes due. The financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

(b) Basis of consolidation:

The consolidated financial statements include the accounts of the company and its two wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

(c) Inventory:

Inventory consists of custom projects in process and computers and sound cards held for resale. Custom projects in process are recorded at the lower of cost, which includes direct project expenses, and net realizable value. Computers and sound cards held for resale are valued at the lower of cost, determined on a specific item basis, and net realizable value.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(d) Property and equipment:

Assets included in property and equipment are stated at cost less accumulated amortization. Amortization is provided for over the estimated useful lives of the assets using the following annual basis and rates:

| Asset | Basis | Rate |
|----------------------------|---------------|---------|
| Computer hardware | Straight-line | 3 years |
| Furniture and equipment | Straight-line | 5 years |
| Assets under capital lease | Straight-line | 3 years |

(e) Software and other intangible assets:

Software and other intangible assets are stated at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives as follows:

| Asset | Term |
|-----------------------------------|-------------|
| Purchased intellectual properties | 4 - 5 years |
| Other software | 2 years |
| Other intangibles | 5 years |

Impairment of property and equipment and finite life intangible assets:

Impairment of property and equipment and finite life intangible assets is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

(f) Deferred financing costs:

Deferred financing costs represent the cost of the issuance of the long-term debt. Amortization is provided on a straight-line basis over the term of the debt. Costs associated with debt that has been settled is written-off in the year of settlement.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(g) Income taxes:

The company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable earnings in the year in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

(h) Revenue recognition:

The Company recognizes revenue when there is evidence a sales arrangement exists, the sales price is fixed and determinable, collectibility is reasonably assured and title has passed. For software, computer hardware and other product sales, these criteria are usually met upon delivery or shipment of the product. Provision is made at the time revenue is recognized for estimated product returns and warranties based on historical experience.

A system sale often includes four elements: hardware, software, training and future support fees. Hardware and software revenue are normally recognized after delivery. Training revenue is recognized when completed. Support fees are deferred and recognized over the term of the contract.

Custom software sales are recognized pursuant to the contract terms and on a percentage of completion basis. Service revenues are recognized over the contract life on a straight-line basis.

Revenue billed in advance of its recognition is reflected as deferred revenue.

(i) Government assistance:

Government assistance in connection with research activities is recognized as an expense reduction in the year that the related expenditure is incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable asset.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(j) Stock-based compensation plan:

The company has a stock option plan as described in note 10. Under the fair value-based method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model with assumptions described in note 10. Compensation cost is expensed over the award's vesting period. Any consideration paid by option holders upon exercise of stock options is recorded as an increase in share capital.

(k) Foreign currency:

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(l) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(m) Research and development expenses:

Research expenses are charged to income in the year they are incurred, net of related tax credits. Development costs are charged to operations in the period of the expenditure, unless a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. As of December 31, 2005 and 2004, no development costs have been deferred.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(n) Earnings (loss) per share:

The calculation of earnings (loss) per share is based on net income divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method. Under the treasury stock method, the weighted-average number of common shares outstanding is calculated assuming that the proceeds from the exercise of options and warrants are used to repurchase common shares at the average price during the year. For the year ended December 31, 2005, 2,219,500 options (2004 - 733,500) were excluded from the calculation of diluted earnings per share because the effect of including these shares would be to reduce the loss per share.

(o) Leases:

Leases are classified as either capital or operating. Leases which transfer substantially all the benefits and risks of ownership of the asset to the company are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases whereby rental payments are expensed as incurred.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

2. Property and equipment:

| 2005 | Cost | Accumulated amortization | Net book value |
|----------------------------|------------|-----------------------------|-------------------|
| Computer hardware | \$ 561,924 | \$ 467,597 | \$ 94,327 |
| Furniture and equipment | 165,624 | 131,255 | 34,369 |
| Assets under capital lease | 22,000 | 13,444 | 8,556 |
| | \$ 749,548 | \$ 612,296 | \$ 137,252 |

| 2004 | Cost | Accumulated amortization | Net book value |
|----------------------------|------------|-----------------------------|-------------------|
| Computer hardware | \$ 542,266 | \$ 379,449 | \$ 162,817 |
| Furniture and equipment | 162,915 | 111,063 | 51,852 |
| Assets under capital lease | 121,984 | 98,813 | 23,171 |
| | \$ 827,165 | \$ 589,325 | \$ 237,840 |

3. Software and other intangible assets:

| 2005 | Cost | Accumulated amortization | Net book value |
|-----------------------------------|--------------|-----------------------------|-------------------|
| Purchased intellectual properties | \$ 1,255,570 | \$ 1,252,983 | \$ 2,587 |
| Other software | 128,309 | 78,780 | 49,529 |
| Other intangibles | 58,696 | 56,609 | 2,087 |
| | \$ 1,442,575 | \$ 1,388,372 | \$ 54,203 |

| 2004 | Cost | Accumulated amortization | Net book value |
|-----------------------------------|--------------|-----------------------------|-------------------|
| Purchased intellectual properties | \$ 1,442,316 | \$ 1,399,146 | \$ 43,170 |
| Other software | 103,041 | 61,963 | 41,078 |
| Other intangibles | 65,246 | 50,559 | 14,687 |
| | \$ 1,610,603 | \$ 1,511,668 | \$ 98,935 |

During the year, software and other intangible assets amortization of \$67,737 (2004 - \$73,977) was included in amortization expense.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

4. Deferred financing costs:

| | 2005 | 2004 |
|--------------------------|------------|------------|
| Financing costs | \$ 266,610 | \$ 266,610 |
| Accumulated amortization | 66,652 | - |
| | \$ 199,958 | \$ 266,610 |

Deferred financing costs, relating to the issuance of the long-term debt proceeds raised in December 2004 in the amount of \$266,610, has been reflected above.

5. Bank demand loan:

The bank demand loan, which bears interest at bank prime rate plus 1.25 percent, is limited to a maximum of \$400,000 against which a general security agreement covering all present and future assets as well as an assignment of book debts and inventory is pledged as collateral, as well as a letter of guarantee in favor of the bank by ENSIS Growth Fund Inc.

6. Deferred revenue:

| | 2005 | 2004 |
|-------------------------------------|------------|------------|
| Deferred revenue | \$ 529,471 | \$ 346,926 |
| Current portion of deferred revenue | 527,267 | 336,898 |
| | \$ 2,204 | \$ 10,028 |

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

7. Long-term debt:

| | 2005 | 2004 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Convertible loans (face value at maturity of \$3,000,000 – 2004 - \$3,000,000), interest only at 8%, payable monthly, due December 20, 2008 | \$ 2,415,242 | \$ 2,220,323 |
| Convertible debentures (face value at maturity of \$995,000 - 2004 -\$1,000,000), interest only at 8%, payable monthly, due December 20, 2008 | 801,055 | 740,107 |
| Western Economic Diversification Canada loan, non-interest bearing as long as principal payments are met | - | 48,096 |
| Loans payable to Business Development Bank of Canada, interest at the bank rate plus 3% to 3.5%, repayable in monthly installments of \$4,500 plus interest, secured by the intellectual properties of the company | - | 45,000 |
| Severance agreement | - | 86,666 |
| | 3,216,297 | 3,140,192 |
| Current portion of long-term debt | - | 179,762 |
| | \$ 3,216,297 | \$ 2,960,430 |
| Scheduled principal payments to maturity are as follows: | | |
| 2005 | \$ - | \$ 179,762 |
| 2008 | 3,216,297 | 2,960,430 |

Convertible debentures/convertible loans (the "subordinated debt"):

On December 20, 2004, OMT obtained new financing and also completed a financial restructuring, which was comprised of the issuance of \$4,000,000 in subordinated debt and the issuance of 17,027,840 common shares at a deemed price of \$0.10 per common share, which amounted to \$1,702,784. The recorded amount of \$1,191,950 for the common shares is derived by using a fair value of \$0.07 per common share for the equity component (note 10).

Subordinated debt is convertible into common shares at a price equal to \$0.10 per share until December 20, 2006, \$0.11 per share up to December 20, 2007 and \$0.12 per share to December 20, 2008.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

The private placement portion of the restructuring raised \$1,000,000 in convertible debentures. Costs associated with these debentures included a \$70,000 commission and the issuance of 1,000,000 broker warrants. Each broker warrant entitles the holder thereof to purchase one common share of OMT at a price of \$0.10 until December 20, 2006. During the year, debentures with a face value of \$5,000 were converted to common shares (see note 10(b)).

ENSIS Growth Fund Inc. invested \$1,000,000 into convertible loans as follows: \$429,884 in cash and \$570,116 from the conversion of an existing 18 percent interest bearing subordinated loan.

Prior to December 20, 2004, the company had voting, convertible, cumulative preferred shares outstanding which were due August 2006 for proceeds of \$2,000,000. The preferred shares had a dividend rate of 8.5 percent. These preferred shares were recorded, on a discounted basis, in the amount of \$1,565,000 calculated using an estimated fair value dividend rate of 15 percent, the dividend rate that would have been applicable to non-convertible preferred shares at the date of issue. The amount attributable to the value of the conversion right on the preferred shares in the amount of \$435,000 was reflected in shareholders' deficiency as "other paid-in capital." The \$435,000 discounted liability was being amortized to interest expense over five years.

The company repurchased the 5,000,000 preferred shares that were held by ENSIS Investment Limited Partnership, ENSIS Growth Fund Inc., and Renaissance Capital Manitoba Ventures Fund Limited Partnership for a total value of \$3,702,784 as part of the financing. The repurchase of the preferred shares included \$2,000,000 in principal of convertible loans and the issuance of 17,027,840 common shares. The total value recorded for the shares and convertible loans totaled \$3,191,949, which exceeded the value of the preferred shares including accrued unpaid dividends and non-cash accretion by \$780,991. This difference was charged to other paid in capital (note 11).

The subordinated debt was recorded on the balance sheet at its combined discounted values of \$2,960,430. The difference between the discounted value of the debt and its face value was credited as other paid-in capital of \$1,039,570 (note 11), representing the equity portion of the subordinated debt. The subordinated debt will be accreted over time on a straight-line basis over the four year term of the loan for imputed interest and at maturity will be equal to the face value of the debentures and loans. In 2005, imputed interest on the redeemable debt amounted to \$259,703. In the prior year non-cash interest accretion on the preferred shares was \$79,750. Monthly interest payments of 8 percent are paid on the subordinated debt. No principal repayments are required.

The subordinated debt is collateralized by a general security agreement covering all assets and by an assignment of all of the book debts of the Company in at least the second position, subordinate only to the bank (see note 5).

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

Long-term debt owing to Western Economic Diversification, Business Development Bank and the Severance Agreement amounting to a total of \$179,762 at December 31, 2004 were all due in 2005 and have been paid in full.

8. Obligations under capital lease:

| | |
|-----------------------------------------------------|----------|
| Year ending: | |
| 2006 | 8,817 |
| 2007 | 3,708 |
| Total minimum lease payments | 12,525 |
| Less amount representing interest at 9.5% and 7.25% | 1,512 |
| Present value of minimum lease payments | 11,013 |
| Current portion of obligations under capital lease | 7,453 |
| | <hr/> |
| | \$ 3,560 |

Interest of \$2,568 (2004 - \$8,847) relating to capital lease obligations has been included in interest expense.

9. Commitments:

The company has entered into an operating lease for premises which calls for lease payments of \$51,000 per year in 2006, 2007, 2008, and \$21,000 in 2009. Total commitment is \$174,000.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

10. Capital stock:

(a) Authorized:

Authorized share capital consists of an unlimited number of common voting shares with no par value and an unlimited number of redeemable, cumulative, convertible 8 $\frac{1}{2}$ % preferred voting shares issuable in series.

(b) Issued common shares are summarized below:

| | Number of shares | Amount |
|---------------------------------------------------------------------------------------------|-------------------|--------------------|
| Balance at December 31, 2003 | 11,844,250 | \$ 82,672 |
| Common shares issued in conjunction with the redemption of the preferred shares (Note 7) | <u>17,027,840</u> | <u>\$1,191,950</u> |
| Balance at December 31, 2004 | 28,872,090 | \$1,274,622 |
| Common shares issued on conversion of Convertible debentures at the discounted value | 50,000 | \$ 3,836 |
| Balance at December 31, 2005 | 28,922,090 | |
| <u>\$1,278,458</u> | | |

Holders of the \$1,000,000 of convertible, 8% debentures (note 7) may choose to convert them to common shares at the authorized rate then in effect. During the year, debentures with a face value of \$5,000 were converted to common shares at the rate of \$0.10 which amounted to 50,000 common shares.

(c) Warrants:

In August 2001, the company issued 2,500,000 warrants to purchase common shares. The warrants are exercisable at \$0.50 until August 2006 at which time they will expire. None have been exercised to date.

As stated in note 7, a total of 1,000,000 warrants were issued to brokers in conjunction with the financing activities that closed on December 20, 2004. Each broker warrant entitles the holder thereof to purchase one common share of the company at a price of \$0.10 for a period of two years from the date of issuance. None have been exercised to date.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

10. Capital stock (continued):

(d) Options:

At the annual general meeting of shareholders a new stock option plan was ratified. Under the new plan 4,330,813 options for purchase of common shares are reserved. Terms of the options will be determined by the Board of Directors, but in any case, must expire no more than 5 years from the date of the grant. Normal vesting is one third upon issue and one third in each of the following two years.

The company has stock options outstanding to directors and officers to purchase up to 2,175,000 common shares and to employees to purchase up to 44,500 common shares.

Information related to the stock options outstanding at December 31, 2005 is presented below:

| | 2005 | | 2004 | |
|------------------------------------|------------------|------------------------------------|------------------|------------------------------------|
| | Number of shares | Weighted-average exercise price \$ | Number of shares | Weighted-average exercise price \$ |
| Outstanding at beginning of year | 733,500 | 0.20 | 817,000 | 0.20 |
| Granted | 1,848,500 | 0.10 | - | - |
| Exercised | - | - | - | - |
| Cancelled | (362,500) | 0.16 | (83,500) | 0.20 |
| Outstanding at end of year | 2,219,500 | 0.14 | 733,500 | 0.20 |
| Options exercisable at end of year | 962,166 | 0.18 | 600,000 | 0.20 |

The following table summarizes information about share options outstanding at December 31, 2005:

| Options Outstanding | | | | Options Exercisable | | |
|---------------------|---------------|--------------------|-----------------------------------------------------|------------------------------------|--------------------|------------------------------------|
| Exercise price \$ | Year of grant | Number outstanding | Weighted-average remaining contractual life [years] | Weighted-average exercise price \$ | Number outstanding | Weighted-average exercise price \$ |
| 0.40 | 2002 | 200,000 | 1.6 | 0.40 | 200,000 | 0.40 |
| 0.25 | 2003 | 100,000 | 2.0 | 0.25 | 75,000 | 0.25 |
| 0.12 | 2003 | 35,000 | 2.4 | 0.12 | 35,000 | 0.12 |
| 0.12 | 2003 | 36,000 | 2.7 | 0.12 | 36,000 | 0.12 |
| 0.11 | 2005 | 448,500 | 4.1 | 0.11 | 149,500 | 0.11 |
| 0.11 | 2005 | 1,400,000 | 4.8 | 0.11 | 466,666 | 0.11 |
| \$0.14 | | 2,219,500 | 4.2 | 0.14 | 962,166 | 0.18 |

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

10. Capital stock (continued):

Stock based compensation has been calculated on the options vested to employees, officers and directors. During the year, the number of options vested used to calculate Stock Based Compensation was 664,835. The value of options granted is based on the price at the date of the grant, volatility of price in the future (based on volatility over the past twelve months), and the risk free interest rate at that time. Stock prices at the dates of the grants were \$0.06, \$0.06 and \$0.05 respectively. Option price was \$0.10 in each case. Volatility is estimated at 75% and the interest rate used was 3%.

Stock based compensation in the amount of \$57,304 has been calculated for the options issued in 2005, with \$20,075 expensed in the current year. Amount of the expense is added to contributed surplus.

(e) Escrowed shares:

On February 16 and on August 16, 2005, 681,842 shares were released in accordance with the Surplus Security Escrow Agreement. As at December 31, 2005, an aggregate of 2,727,366 (December 31, 2004 - 4,091,050) of the common shares remain held in escrow. While these common shares are held in escrow, the holder has full voting rights. The remaining common shares will be released at a rate of 681,842 shares semiannually on August 16th and February 16th.

(f) Per share amounts:

The weighted average number of common shares outstanding for the year ended December 31, 2005 was 28,901,131 (2004 - 12,357,418).

11. Other paid-in capital:

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------|
| Balance at December 31, 2003 | \$ | 435,000 |
| Repurchase of preferred shares and related interest, net of \$519,784 of paid-in capital relating to the convertible loans issued as consideration | | (261,207) |
| Convertible debentures/loans | | 519,786 |
| Balance at December 31, 2004 and December 31, 2005 | \$ | 693,579 |

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

12. Segment Information:

The company manages its business and evaluates performance based on two operating segments. The commercial segment is primarily intended for automation of commercial radio stations. The retail segment is primarily intended to enhance the shopping experience of customers in retail businesses. The accounting policies of the company's operating segments are the same as those described in note 1. There are no significant inter-segment transactions. The following presents identifiable assets at December 31, 2005 and December 31, 2004 and segment operating results for the years then ended..

| | 2005 | | | | 2004 | | | |
|-----------------------------------------------------------------------------|------------|--------|---------|-------|------------|--------|---------|-------|
| | Commercial | Retail | Common | Total | Commercial | Retail | Common | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | [000's] | | | | [000's] | | | |
| Revenues | 3,027 | 1,149 | - | 4,176 | 2,547 | 935 | - | 3,482 |
| Expenses | | | | | | | | |
| Cost of sales | 1,015 | 566 | - | 1,581 | 809 | 455 | - | 1,264 |
| Selling, general and administrative | 1,241 | 223 | 725 | 2,189 | 1,139 | 237 | 849 | 2,225 |
| Research & development | 89 | 132 | - | 221 | 181 | 102 | 27 | 310 |
| Amortization | 104 | 91 | - | 195 | 186 | 86 | - | 272 |
| Interest | - | - | 592 | 592 | - | - | 230 | 230 |
| Deferred financing costs | | | 67 | 67 | | | 65 | 65 |
| | 2,449 | 1,012 | 1,384 | 4,845 | 2,315 | 880 | 1,171 | 4,366 |
| Net income for the year | 578 | 137 | (1,384) | (669) | 232 | 55 | (1,171) | (884) |
| Tangible assets | 39 | 98 | - | 137 | 70 | 168 | - | 238 |
| Intangible assets | 7 | 47 | - | 54 | 63 | 36 | - | 99 |
| Additions to property, plant and equipment, intangible assets, and goodwill | 16 | 34 | - | 50 | 46 | 33 | - | 79 |

Geographic information about the company's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at December 31, 2005.

| | 2005 | | 2004 | |
|---------------|---------|---------------------------------------------|---------|---------------------------------------------|
| | Revenue | Property, plant and equipment, and goodwill | Revenue | Property, plant and equipment, and goodwill |
| | \$ | [000's] | \$ | [000's] |
| Canada | 1,891 | 191 | 1,426 | 337 |
| United States | 2,285 | - | 2,056 | - |
| | 4,176 | 191 | 3,482 | 337 |

Sales to one Retail customer represent 94% [2004 – 89%] of the revenue of Retail Sales.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

13. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 37.1% (2004 – 37.1%) to income before income taxes. The reasons for the differences are as follows:

| | 2005 | 2004 |
|-------------------------------------|--------------|--------------|
| Computed income tax recovery | \$ (248,000) | \$ (328,000) |
| Increase (decrease) resulting from: | | |
| Dividends and interest accretion | 96,000 | 87,400 |
| Non-taxable portion of gains | – | (2,800) |
| Valuation allowance | 115,000 | 235,000 |
| Other | 37,000 | 8,400 |
| | \$ – | \$ – |

The tax effects of temporary differences that give rise to significant portions of the future tax asset are presented below:

| | 2005 | 2004 |
|-------------------------------------------------------------------------------------|-------------|-------------|
| Future tax assets: | | |
| Property and equipment - differences in net book value and unamortized capital cost | \$ 638,000 | \$ 562,000 |
| Share issue and acquisition costs | (10,000) | 4,000 |
| Losses carried forward | 902,000 | 816,000 |
| Severance | – | 32,000 |
| | 1,530,000 | 1,414,000 |
| Less valuation allowance | (1,530,000) | (1,414,000) |
| Net future tax asset | \$ – | \$ – |

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all the future tax asset will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term, based on future taxable income during the carry-forward period.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

13. Income taxes (continued):

The company has non-capital tax losses available for carry forward to reduce future years' taxable income totaling approximately \$2,430,000 expiring as follows:

| | |
|------|-----------|
| 2007 | \$ 21,000 |
| 2008 | 173,000 |
| 2009 | 79,000 |
| 2010 | 1,115,000 |
| 2014 | 670,000 |
| 2015 | 372,000 |

During the year, income tax losses of approximately \$85,000 were applied to reduce taxable income in one of the subsidiaries that was taxable.

14. Related party transactions:

In October 2005, ENSIS Growth Fund Inc., a significant stockholder of OMT Inc., with representation on its Board of Directors, provided a guarantee for \$400,000 to the Bank of Nova Scotia to support the company's Line of Credit at the bank. This guarantee is ongoing and requires payments of a monthly administration fee of \$1,000, as well as a monthly standby fee of \$1,000. In the event that the Company actually draws down on the guarantee, then the interest rate would be 20% of the amount received.

The company has contracted to supply Radio Automation Software and Services to AZCAR USA Inc. One of OMT's directors is also an officer and director of AZCAR. The amount of the contract is for approximately \$600,000. At December 31, 2005 the project was partially completed and \$60,000 had been invoiced. The project is scheduled for completion in October, 2006.

Related party transactions are recorded at the exchange amount which is the rate agreed upon by the related parties.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and 2004

15. Financial instruments:

(i) Credit risk:

The company's accounts receivable potentially subjects the company to credit and foreign exchange risk, as collateral is generally not required and exchange rates to US funds can change significantly. There is also a risk as one large customer accounts for 29% of the total accounts receivable. However, the risk of loss is limited due to the company's policy of collecting a deposit before any project is commenced. The company also bills in advance for service and support contracts.

(ii) Fair value:

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying amount of all other long-term debt approximates their fair values, as the obligations bear interest at rates that approximate market rates.

16. Contingency:

The financing transaction that was concluded by the company in December 2004 involved the outstanding preferred shares, and was initially described as a redemption of preferred shares. The intent of all parties was to repurchase the preferred shares on a tax neutral basis. Unfortunately, the wording used did not support the original intent and could result in a possible tax liability. Correcting this required a rectification order (the "Order"), with the proper wording, to be issued by the Manitoba Court of Queen's Bench. The rectification order with the proper wording has been issued in our favor. It is possible that Canada Revenue Agency (CRA) might appeal the Order, but management does not expect this to happen because the original intent was for the transaction to be tax neutral. If CRA were to appeal the order or the revised transaction and, if such appeals were successful, the company could face a potential income tax liability of approximately \$600,000. If such appeals were filed by CRA, the company would vigorously defend its position.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.