



OMT Inc.

2006

Annual Report to Shareholders

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Message to our Shareholders

On behalf of the Board of Directors and Management, we are pleased to report on the many activities and developments in 2005.

OMT has continued on the strategic and operational path to improve performance and build stronger recurring revenue lines, as outlined at our last AGM and in our quarterly reports to our shareholders. While we were pleased to see improved results and higher recurring revenues from our core businesses in 2005, there is still more work to be done to fully achieve our growth objectives.

Our revenues are generated from two lines of business, *iMediaTouch* and *Intertain*. A key part of our financial evolution is a focus on increasing the percentage of revenues that are sourced from recurring service arrangements with our customers. Our Intertain pricing models support this strategic direction and we are realizing continued success as we continue to penetrate our markets.

iMediaTouch and *iMediaLogger*, our established broadcasting and multi-media products, continued to demonstrate wide market appeal and yearly revenue growth, even in a mature and increasingly competitive industry segment. In 2005, we won several very competitive opportunities to deploy our solutions into a growing number of radio stations. We also introduced new features to our core products in response to customer needs and new technology developments. With traditional radio broadcasters competing against newly emerging technologies such as satellite radio providers, we will continue to invest in our products to help our customers compete effectively.

We expanded our client base for *Intertain*, which includes our two newer product lines of *Retail Preview* and *Retail Radio*. By year-end 2005, our *Retail Preview* system, which provides the interactive capability to preview CDs, DVDs and video games prior to purchasing these products, was deployed at approximately 300 kiosks across Future Shop and Best Buy stores in Canada. Discussions for further deployments with new customers are advancing, although at a slower pace than expected, given the affects of digital music downloads on the retail entertainment niche market.

The customer base for the *Retail Radio* service, our personalized background or on-hold music and messaging service for retailers and commercial businesses, attracted its first large national retailer to add to a growing base of smaller and regional customers. As well, we renewed our contractual partnership with the Canadian Broadcasting Corporation's Galaxie service to ensure that our customers have a wide range of high quality music available to complement our advanced technology and service features. While we succeeded in gaining this further market traction, it is not yet at the pace we expect to achieve in 2006 and beyond. We will be heavily focused on increasing our penetration of this exciting product line in 2006, as our offering is highly differentiated over the older traditional service providers.

In the first quarter 2005, Bill Baines joined our Board of Directors as the Executive Chairman and Laurie Goldberg was appointed as a Director. Both bring considerable and relevant business leadership to our Board. In September 2005, Marieke Wijkamp was appointed President, having been with the company for over two years as Chief Operating Officer. Marieke's proven operational and leadership capabilities are very important skills that will drive our current product and market focus. Other organizational changes continue to be implemented as required to ensure we have a strong team and a knowledge base of very skilled people across all of our products and strategies.

Going forward, we continue to expect continued success in further market penetration and company growth. Our strategies are firmly focused on how we can best deliver shareholder value. We believe that our products and expertise are importantly differentiated to support growth within both the broadcast and retail market segments. For OMT, 2006 will be a year of sales focus and customer service to fully realize our market penetration, revenue goals and shareholder value objectives.

We would like to thank the hardworking and dedicated employees of OMT. Their creativity, drive for success and customer commitment is so very important to delivering on our goals.

Sincerely,

"Bill Baines"
Executive Chairman

"Marieke Wijkamp"
President

Description of Business

OMT Inc. (TSXV: OMT) is a digital media content and technology solution provider to radio broadcasters and retailers with two business units. Intertain Media, the digital entertainment division, offers background music and messaging services as well as media previewing systems to major retailers. The OMT Technologies division delivers radio automation systems to over 1,500 domestic and international clients. OMT's broadcasting, multi-media technology, and content are heard daily by over 50 million people worldwide through radio, satellite, television and Internet delivered broadcasts. To learn more about the Company, its products and services, visit its website at www.omt.net.

Management's Discussion and Analysis

Certain statements made, as of April 30, 2007, in the following Management's Discussion and Analysis contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent our current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Unless otherwise required by applicable securities law, we disclaim any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

Results of Operations

This review contains Management's discussion of the Company's operational results and financial condition, and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 and the associated notes, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts are in Canadian dollars unless otherwise indicated.

The audited consolidated financial statements provide a comparison of the year ended December 31, 2006 to the year ended December 31, 2005.

Annual Review (numbers shown in '000s)

	December 31 2006	December 31 2005	December 31 2004
Total Sales	\$3,726	\$4,176	\$3,482
Gross Profit	\$2,492	\$2,595	\$2,217
Gross Profit %	66.9%	62.1%	63.7%
Total Operating Expenses	\$2,340	\$2,392	\$2,378
Other Expenses	\$800	\$872	\$723
Net Income (Loss)	(\$648)	(\$669)	(\$884)
Net Income (Loss) per share (basic & diluted)	(\$0.02)	(\$0.02)	(\$0.07)
Dividends declared	Nil	Nil	Nil
Total Assets	\$1,357	\$1,594	\$2,395
Total Long-term liabilities	\$3,476	\$3,222	\$2,981

Results for the year ended December 31, 2006 reflect the total business of the OMT Technologies and Intertain Media divisions. OMT Technologies includes our iMediaTouch radio automation and related products. Intertain Media includes our Retail Radio and Retail Preview product offerings.

Overall sales were 11% lower in 2006, as compared to 2005. The OMT Technologies division represented \$226,000 of the decrease in sales while the Intertain Media division represented \$224,000. The reduced revenue in the Technology division is attributed to an overall reduction in capital spending within the radio automation sector in 2006. Management believes that reduced activity in this sector is short term and expects a return to normal levels in the future. The revenue reduction in the Intertain division was a result of lower sales of new Retail Preview music kiosks to media retailers. There continues to be a shift in consumer purchasing trends of CD's, requiring both our retail customers and Intertain to evolve in response. Intertain's In-store music system subscription revenue from Retail Radio increased in 2006 at a rate of over 500% and shows a strong continuing upward trend.

The 2004, 2005 and 2006 sales results reflect the Company's strategy to build stronger recurring revenues. As a result of this focus, recurring revenues increased from approximately \$636,000 in 2004 to \$789,000 in 2005 and \$1,048,000 in 2006, and now represents 28% (2005-19%) of total revenues. This growth reflects the positive change in the Company's shift towards recurring subscription revenue from core OMT Technologies and Intertain Media products.

Gross profit decreased by \$103,000 from \$2,595,000 in 2005 to \$2,492,000 in 2006. The OMT Technologies division represented \$85,000 or 83% of the decrease in gross profit in 2006 over 2005 while the Intertain division represented \$18,000 or 17% of the decrease. As a percentage of total sales, gross profit increased from 62.1% in 2005 to 66.9% in 2006. The increase in gross profit is attributed to a decrease of lower margin hardware sales across both divisions from 2005 to 2006.

In previous years, gross profit increased by \$378,000 from \$2,217,000 in 2004 to \$2,595,000 in 2005. The OMT Technologies division represented \$275,000 or 73% of the increased gross profit in 2005 over 2004 while the Intertain division represented \$103,000 or 27% of the increase. As a percentage of total sales, gross profit declined slightly from 63.7% in 2004 to 62.1% in 2005. The decrease in gross profit is attributed to an increase of lower margin hardware sales across both divisions from 2004 to 2005.

The Company operates with tight control on expenses, and as a result operating expenses in 2006 of \$2,340,000 were \$52,000 less than in 2005. Operating expenses increased \$14,000 in 2005 over 2004. In 2006, greater emphasis in the Intertain division sales area caused sales expenses to increase by \$79,000 while administrative expenses decreased \$136,000 primarily due to a reduction in professional fees. In other areas, expenses were generally consistent with previous years.

Other expenses were reduced in 2006 by \$72,000 over 2005, as compared to a \$149,000 increase in 2005 over 2004. In 2005, interest expenses increased by \$85,000 and previously capitalized financing costs of \$65,000 were included. In 2006, other expenses, which include \$260,000 of non-cash amortized interest as a result of debt financing requirements on the \$3,995,000 of convertible debt secured in December, 2004 decreased from \$872,000 in 2005 to \$800,000 in 2006. Payments on this debt are for interest only, and no principal payments are required until December, 2008. Many of the Company's assets are almost fully depreciated and this resulted in a decrease of \$59,000 in amortization expense.

The net loss in 2006 was \$648,000, an improvement of \$21,000 over 2005. The net loss in 2005 of \$669,000 was an improvement of \$215,000 over 2004 when the loss was \$884,000. The 2006 improvement was a result of higher gross margin percentage and continued expense controls. In 2005, the improvement was mainly due to an increased overall gross profit of \$378,000. The increase in gross profit in 2005 was offset by additional interest expenses which increased from \$386,000 in 2004 to \$592,000 in 2005.

Loss per share of \$0.02 in 2006 is calculated on an average of 28,922,090 shares issued as compared to \$0.02 in 2005 calculated on an average of 28,901,131 shares issued.

Eight Quarter Review (numbers shown in '000s)

	2006				2005			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Total Sales	\$856	\$867	\$1,074	\$929	\$1,139	\$1,105	\$1,044	\$888
Gross Profit	\$620	\$579	\$668	\$625	\$661	\$695	\$611	\$628
Gross Profit %	72%	67%	62%	67%	58%	63%	58%	70%
Operating Expenses	\$586	\$573	\$599	\$582	\$622	\$598	\$633	\$539
EBITDA	\$34	\$6	\$69	\$43	\$39	\$97	(\$22)	\$89
Other Expenses	\$213	\$197	\$196	\$194	\$229	\$214	\$214	\$215
Net Income (Loss)	(\$179)	(\$191)	(\$127)	(\$151)	(\$190)	(\$117)	(\$236)	(\$126)
Net Income (Loss) per share (basic & diluted)	(\$0.006)	(\$0.007)	(\$0.004)	(\$0.004)	(\$0.007)	(\$0.004)	(\$0.008)	(\$0.004)

Sales in the third and fourth quarters in 2006 were \$238,000 and \$283,000 lower than the same period of the previous year. The decreases, as indicated above, are largely related to fewer new music kiosk system deployments. Management expects the slower new music kiosk deployment trend to continue and is focused on developing revenue in higher growth areas such as Retail Radio. Sales of the Retail Radio product have demonstrated a growth trend, as subscription revenue sales in the third and fourth quarter of 2006 were \$18,000 and \$21,000 higher respectively than in 2005.

Gross Profit percentages always fluctuate because of the mix of hardware and software sales and recurring revenue. Recurring revenue is growing and the trend is expected to continue. This has caused overall gross margins to rise.

EBITDA is defined as Earnings before interest, tax, depreciation and amortization and is a measure that has no standardized meaning under Canadian GAAP and is considered a non-GAAP earnings measure. Therefore this measure may not be comparable to similar measures reported by other companies. EBITDA can be used to compare the Company's operating performance on a consistent basis. It is presented in this MD&A to provide the reader with additional information regarding the Company's liquidity and ability to generate funds to finance its operations. EBITDA was positive in all quarters of 2006 and in three quarters in 2005 and amounted to \$147,000 in 2006 and \$203,000 in 2005.

Other expenses that reduce EBITDA to arrive at net loss include:	<u>2006</u>	<u>2005</u>
Interest, bank charges, non-cash interest accretion and amortization of deferred costs	\$658	\$658
Amortization	\$136	\$195
Other	\$ 6	\$ 19
Total	\$800	\$872

Fourth Quarter

Fourth quarter revenue at \$856,000 was \$283,000 lower than the same quarter last year and \$11,000 lower than the third quarter this year. The decrease in sales in the fourth quarter as compared to last year was primarily due to fewer new installations of the Retail Preview in-store kiosks. This kiosk is a low margin product, and as a result the gross profit percentage for the quarter was up 14% over the same quarter last year, and the gross profit for the quarter was down only \$41,000 from last year.

Operating expenses at \$586,000 remained generally consistent compared to previous quarters in 2006. Fourth quarter 2005 had operating expenses of \$622,000, which were \$36,000 higher than 2006. Last year's fourth quarter expenses included an allowance for bad debt losses, which was not needed this year. Customer accounts are current and no significant losses are anticipated.

Cash flow in the fourth quarter of 2006 was positive \$135,000. This compares to a negative cash flow in the fourth quarter of 2005 of \$74,000. The Company normally invoices customers for the purpose of receiving a deposit on approved orders. This results in increased deferred revenue, and the cash flow is increased when these "deposit invoices" are collected. Deferred revenue at December 31, 2006 amounted to \$729,000 as compared to \$368,000 at the end of the third quarter, which is indicative of a positive outlook in OMT Technologies revenue in 2007.

Liquidity

OMT was in compliance with its financial covenants with all lenders as at December 31, 2006.

Working capital, as defined by the Company's principal lenders, includes all of the current liabilities except deferred revenue. Deferred revenue at December 31, 2006 and 2005 was \$729,000 and \$529,000 respectively. Working capital at December 31, 2006 was \$722,000 as compared to \$698,000, an increase of \$24,000. The working capital ratio of 2.7:1 is well within the limit as set by the Company's lenders.

Management does not expect to require any new funding for its operations in the coming year. At the time of writing (April 30, 2007), the Company had no borrowings on its operating line of credit of \$400,000.

The subordinated debt of \$3,995,000 will mature on December 20, 2008. Management anticipates that the Company will not be able to generate enough cash from normal business operations and that additional financing may be required to retire this debt. Management continues to explore additional options to address this issue.

Related Party Transactions

In October 2005, a major shareholder provided a guarantee for \$400,000 to the Bank of Nova Scotia in support of the Company's line of credit. 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. If the Company actually draws down on the guarantee, then the interest rate would be 20% of the amount received. The Company consummated this related party transaction to support the operating Line of Credit with the Bank.

During the year, the Company made interest payments to its three major shareholders in the amounts of \$140,000, \$20,000 and \$80,000 respectively.

The Company has contracted to supply Radio Automation Software and Services to a company of which one of OMT's directors is also an officer and director. The project which is valued at approximately \$600,000 began in 2005 and at December 31, 2006 the revenue for the work completed and invoiced in 2005 and 2006 amounted to \$320,000.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

An evaluation of the effectiveness of the Company's disclosure controls and procedures ("DC&P") and an assessment of the design of its internal control over financial reporting ("ICFR") was conducted as of the end of the period covered by this MD&A, by and under the supervision of the President and the Chief Financial Officer (CFO), pursuant to the requirements of Multilateral Instrument 52-109.

Management has established and maintained DC&P for the Company in order to provide reasonable assurance that material information relating to the Company is made known to it in a timely manner, particularly during the period in which the annual filings are being prepared. Management has evaluated the effectiveness of the Corporation's DC&P as of the date of this report and believes them to be effective in providing such reasonable assurance.

Management is responsible for designing internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting

principles. There are inherent weaknesses in the systems of internal control due to the small size of the company and its inability to segregate incompatible functions and the use of manual systems as a result. Management believes that this weakness has not caused any material information to be withheld in its financial disclosures, or impacted reported financial results. The Company plans to remediate these weaknesses by expanding the number of individuals involved in accounting and administrative functions as the Company grows. Effective design of internal controls over financial reporting are achieved, despite this weakness, because of management's direct involvement in the internal controls over financial reporting process.

During the process of review and evaluation it was determined that the design of internal controls over financial reporting as of December 31, 2006 was adequate and provided management with the ability to fairly represent the financial affairs of OMT.

Management has performed supplementary procedures in addition to the normal recurring control procedures over the above business cycles to conclude that the 2006 consolidated financial statements are fairly stated.

Changes in Accounting Policies

No changes in accounting policies were contemplated or implemented in 2006. Details of significant accounting policies are disclosed in the financial statements.

Changes in Internal Control over Financial Reporting

During fiscal 2006, the Company made changes to its systems of internal controls over financial reporting that did not materially affect internal control over financial reporting.

Recent Accounting Pronouncements

The following new handbook sections will be effective for fiscal years beginning on or after October 1, 2006. The Company believes that adoption of these standards will not have a material effect on the results of operations and financial positions.

CICA 3855 – Financial Instruments – Recognition and Measurement

This section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, either fair value or a cost-based measure. The section also provides standards for reporting gains and losses on financial instruments.

CICA 1530 – Comprehensive Income

This section provides a new requirement that certain gains and losses are to be temporarily presented outside of net earnings and recognized as "other comprehensive income". Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net earnings.

Financial Instruments

The current assets and liabilities of the Company, which are subject to normal trade terms, are financial instruments for which the recorded carrying values approximate the fair value. The long-term debt obligations of the Company, for which no ready market exists, have been evaluated on the basis of discounted cash flows and it is believed that the fair value of these obligations is approximately equal to the current carrying value.

Risks and Uncertainties

We are confident about OMT Inc.'s long-term prospects. However, the risks and uncertainties discussed below must be taken into account, as they may affect our ability to achieve our strategic

goals. Investors are therefore advised to consider the following items in assessing the Company's future prospects as an investment.

Revenue recognition on a large contract

The \$600,000 project referred to under the heading Related Party Transactions, has been delayed due to technical issues. Correction of the problems could result in additional costs over and above those originally estimated, but the amount is unknown. Revenue has been recorded on this contract under the percentage of completion method based upon management's best estimate of costs still to be incurred. It is unknown if additional costs due to the technical issues will be incurred, but if there are, management estimates that the difference between revenue recognized in the financial statements and that should have been recognized could amount to \$50,000.

Competition and technological obsolescence

Our products' markets experience ongoing technological changes and apart from the fact that OMT Inc. must compete with existing technology and service providers, new companies and advancing technologies remain a competitive fact. In order to remain fully competitive in our target markets, OMT must continue to innovate and respond with advanced generations of software, products and services. The inability to react in a timely fashion to technological and competitive changes could have an impact on the value of the Company's intangible assets and our ability to attract and retain our customers. Moreover, the highly competitive market in which we operate could cause the Company to reduce its prices and offer other favorable terms in order to compete successfully with its rivals. These practices could, over time, limit the prices that OMT can charge for its products. If we were unable to offset such potential price reductions by a corresponding increase in sales or to lower expenses, such a decline in revenues from software sales and related products could negatively impact our profit margins and operating results.

Growth management and market development

There can be no assurance that OMT Inc. will be able to significantly develop its market, which would affect its profitability. On the other hand, rapid growth would put significant pressure on management, operations and technical resources. To manage growth, the Company would have to increase its technical and operational complement and manage its staff while effectively maintaining numerous relationships with third parties.

Significant customer

Sales to one customer represents 75% [2005 – 94%] of the Retail segment sales revenues and 18% [2005 – 26%] of total revenue for the year. The contract with this customer will expire in 2007. Failure to extend the contract could result in a significant loss of revenue.

Capital requirements

OMT Inc. will need to secure new financing or renegotiate the terms of repayment on the subordinated debt which will mature on December 20, 2008, as it is anticipated that cash flow from operations will not be sufficient to repay the subordinated debt. As such, the ability of the Company to continue operating as a going concern is dependant on obtaining new financing and/or renegotiating the repayment terms of the subordinated debt. Readers should refer to notes 1(a) and 7 in the consolidated financial statements.

Additional Information

Additional information related to the Company, including all public filings, is available on SEDAR (www.sedar.com).

Consolidated Financial Statements of

OMT INC.

Years ended December 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of **OMT Inc.**

We have audited the consolidated balance sheets of **OMT Inc.** as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Winnipeg, Canada,
April 5, 2007.

Chartered Accountants

OMT INC.

Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
Assets (notes 5 and 7)		
Current assets:		
Cash	\$ 366,947	\$ 186,214
Accounts receivable	520,314	720,704
Inventory	81,868	175,352
Prepaid expenses	173,241	99,335
Current portion of lease receivable	7,000	7,000
Total current assets	1,149,370	1,188,605
Lease receivable	7,000	14,000
Property and equipment (note 2)	28,215	137,252
Software and other intangible assets (note 3)	38,906	54,203
Deferred financing costs (note 4)	133,305	199,958
Total assets	\$ 1,356,796	\$ 1,594,018

Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 423,424	\$ 483,495
Current portion of deferred revenue (note 6)	728,333	527,267
Current portion of obligation under capital lease (note 8)	3,560	7,453
Total current liabilities	1,155,317	1,018,215
Deferred revenue (note 6)	596	2,204
Long-term debt (note 7)	3,475,865	3,216,297
Obligation under capital lease (note 8)	-	3,560
Total liabilities	4,631,778	4,240,276
Commitments and contingency (notes 9, 14 and 16)		
Shareholders' deficiency:		
Capital stock (note 10)	1,278,458	1,278,458
Other paid-in capital (note 11)	693,579	693,579
Contributed surplus (note 10(c))	197,326	178,225
Deficit	(5,444,345)	(4,796,520)
Total shareholders' deficiency	(3,274,982)	(2,646,258)
Total liabilities and shareholders' deficiency	\$ 1,356,796	\$ 1,594,018

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, 2006 and 2005

	2006	2005
Sales	\$ 3,725,730	\$ 4,175,804
Cost of sales	1,233,890	1,580,723
Gross profit	2,491,840	2,595,081
Selling and administrative	2,113,966	2,170,405
Research and development	226,160	221,458
	2,340,126	2,391,863
Income (loss) before the undernoted	151,714	203,218
Other expenses (income):		
Amortization	136,155	195,446
Interest and bank charges	12,371	12,223
Long term interest	319,600	319,764
Non-cash interest accretion (note 7)	259,568	259,703
Foreign exchange gain	(5,242)	(2,816)
Stock-based compensation (note 10(c))	19,101	20,075
Amortization of deferred financing costs (note 4)	66,652	66,652
Miscellaneous	(8,666)	1,608
	799,539	872,655
Loss for the year	(647,825)	(669,437)
Deficit, beginning of year:	(4,796,520)	(4,127,083)
Deficit, end of year	\$ (5,444,345)	\$ (4,796,520)
Basic and diluted loss per share (note 10(e))	\$ (0.02)	\$ (0.02)

See accompanying notes to consolidated financial statements.

OMT INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (647,825)	\$ (669,437)
Items not involving cash:		
Amortization	136,155	195,446
Non-cash interest accretion	259,568	259,703
Stock-based compensation	19,101	20,075
Amortization and write-off of deferred financing costs	66,652	66,652
Change in non-cash operating working capital	366,358	(209,702)
	<u>200,009</u>	<u>(337,263)</u>
Financing:		
Decrease in bank demand loan	-	(328,000)
Principal payments on capital lease	(7,454)	(40,297)
Principal payments on long-term debt	-	(179,762)
	<u>(7,454)</u>	<u>(548,059)</u>
Investments:		
Additions to property and equipment	(7,001)	(24,858)
Additions to software and other intangible assets	(4,821)	(25,268)
	<u>(11,822)</u>	<u>(50,126)</u>
Increase (decrease) in cash	180,733	(935,448)
Cash, beginning of year	186,214	1,121,662
Cash, end of year	<u>\$ 366,947</u>	<u>\$ 186,214</u>
Supplementary information:		
Interest paid	\$ 331,971	\$ 331,987

See accompanying notes to consolidated financial statements.

OMT INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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 retail and broadcast industries.

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 four years. The Company is not in violation of any of its covenants at December 31, 2006.

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 with related parts and accessories held for resale. Custom projects in process are recorded at the lower of cost, which includes direct project expenses, and net realizable value. Computers with related parts and accessories 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, 2006 and 2005

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	
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, 2006 and 2005

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, 2006 and 2005

1. Significant accounting policies (continued):

(j) Stock-based compensation plan:

The Company has a stock option plan as described in note 10(c). 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(c). 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, 2006 and 2005, no development costs have been deferred.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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, 2006, 2,012,000 options (2005 – 2,219,500) 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, 2006 and 2005

2. Property and equipment:

2006	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 567,552	\$ 553,748	\$ 13,804
Furniture and equipment	154,449	141,260	13,189
Assets under capital lease	22,000	20,778	1,222
	\$ 744,001	\$ 715,786	\$ 28,215

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

3. Software and other intangible assets:

2006	Cost	Accumulated amortization	Net book value
Purchased intellectual properties	\$ 1,255,570	\$ 1,254,276	\$ 1,294
Other software	133,130	95,655	37,475
Other intangibles	58,696	58,559	137
	\$ 1,447,396	1,408,490	38,906

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

During the year, software and other intangible assets amortization of \$16,148 (2005 - \$67,737) was included in amortization expense.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

4. Deferred financing costs:

	2006	2005
Financing costs	\$ 266,610	\$ 266,610
Accumulated amortization	133,305	66,652
	<u>\$ 133,305</u>	<u>\$ 199,958</u>

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 line of credit:

The bank line of credit, which bears interest at bank prime rate plus 1.25% 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 a major shareholder. The Company had no amounts owing at December 31, 2006 and December 31, 2005.

6. Deferred revenue:

	2006	2005
Deferred revenue	\$ 728,929	\$ 529,471
Current portion of deferred revenue	728,333	527,267
	<u>\$ 596</u>	<u>\$ 2,204</u>

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

7. Long-term debt:

	2006	2005
Convertible loans (face value at maturity of \$3,000,000), interest only at 8%, payable monthly, due December 20, 2008	\$ 2,610,162	\$ 2,415,242
Convertible debentures (face value at maturity of \$995,000), interest only at 8%, payable monthly, due December 20, 2008	865,703	801,055
	<u>3,475,865</u>	<u>3,216,297</u>

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.

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

During the year ended December 31, 2005, convertible debentures with a face value of \$5,000 were converted to common stock (note 10).

The subordinated debt was originally recorded on the balance sheet at its combined discounted values of \$2,960,430 and will be accreted 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 2006, imputed interest on the subordinated debt amounted to \$259,568 (2005 - \$259,703). Monthly interest payments of 8% are paid on the subordinated debt. When interest paid is combined with interest accretion, the effective interest rate is 14.5%. 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, subordinate only to the bank (see note 5).

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

8. Obligations under capital lease:

The \$3,560 amount owing represents payments related to one lease which matures in 2007.

Interest of \$1,252 (2005 - \$2,568) relating to capital lease obligation has been included in interest expense.

9. Commitments:

The Company has entered into a lease for premises which calls for lease payments of \$51,000 per year in 2007, 2008, and \$21,000 in 2009. The total commitment is \$123,000.

The Company has also entered into a lease on office equipment which requires lease payments of \$2,256 per year from 2007 to 2011. The total commitment is \$11,280.

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 1/2% preferred voting shares issuable in series.

(b) Issued common shares are summarized below:

	Number of shares	Amount
Balance at December 31, 2005 and 2006	28,922,090	\$1,278,458

During the year ended December 31, 2005, 50,000 common shares were issued upon conversion of debentures with a face value of \$5,000 (note 7). This increased share capital by \$3,836 for that period.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

10. Capital stock (continued):

(c) Options:

At the 2005 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, the options 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 1,975,000 common shares and to employees to purchase up to 37,000 common shares.

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

	2006		2005	
	Number of shares	Weighted-average exercise price \$	Number of shares	Weighted-average exercise price \$
Outstanding at beginning of year	2,219,500	0.14	733,500	0.20
Granted	-	-	1,848,500	0.10
Exercised	-	-	-	-
Cancelled	(207,500)	0.16	(362,500)	0.16
Outstanding at end of year	2,012,000	0.12	2,219,500	0.14
Options exercisable at end of year	1,395,832	0.12	962,166	0.18

The following table summarizes information about share options outstanding at December 31, 2006:

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 \$
0.25	2003	100,000	1.1	0.25	100,000	0.25
0.12	2003	35,000	1.4	0.12	35,000	0.12
0.12	2003	28,500	1.7	0.12	28,500	0.12
0.11	2005	448,500	3.1	0.11	299,000	0.11
0.11	2005	1,400,000	3.8	0.11	933,332	0.11
0.14		2,012,000	3.4	0.12	1,395,832	0.12

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

10. Capital stock (continued):

Stock based compensation has been calculated on the options vested to employees, officers and directors. 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. The 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 \$19,101 expensed in the current year. The expense is added to contributed surplus.

(d) Escrowed shares:

On February 16, 2006 681,842 shares and on August 16, 2006, 1,363,684 shares were released from escrow. As at December 31, 2006, 681,843 (December 31, 2005 - 2,727,366) 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 on August 16, 2007.

(e) Per share amounts:

The weighted average number of common shares outstanding for the year ended December 31, 2006 was 28,922,090 (2005 - 28,901,131).

11. Other paid-in capital:

Balance at December 31, 2005 and December 31, 2006	\$ 693,579
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\$435,000 of the balance in other paid-in capital arose prior to January 1, 2003. The remaining amount arose upon a refinancing transaction that occurred during the year ended December 31, 2004 which resulted in the issuance of the debt identified in note 7.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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, 2006 and December 31, 2005 and segment operating results for the years then ended.

	2006				2005			
	Commercial \$	Retail \$	Common \$	Total \$	Commercial \$	Retail \$	Common \$	Total \$
	[000's]				[000's]			
Revenues	2,801	925	-	3,726	3,027	1,149	-	4,176
Expenses								
Cost of sales	874	360	-	1,234	1,015	566	-	1,581
Selling, general and administrative	976	481	662	2,119	1,241	223	725	2,189
Research & development	138	88	-	226	89	132	-	221
Amortization	41	95	-	136	104	91	-	195
Interest	-	-	592	592	-	-	592	592
Deferred financing costs			67	67			67	67
	2,029	1,024	1,321	4,374	2,449	1,012	1,384	4,845
Net income (loss) for the year	772	(99)	(1,321)	(648)	578	137	(1,384)	(669)
Tangible assets	7	21	-	28	39	98	-	137
Intangible assets	1	38	-	39	7	47	-	54
Additions to property, plant and equipment and intangible assets	4	8	-	12	16	34	-	50

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, 2006.

	2006		2005	
	Revenue \$	Property, plant and equipment, [000's] \$	Revenue \$	Property, plant and equipment, [000's] \$
Canada	1,640	67	1,891	191
United States	2,086	-	2,285	-
	3,726	67	4,176	191

Sales to one customer represents 75% [2005 – 94%] of the Retail segment sales revenues and 18% [2005 – 26%] of total revenue for the year.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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 36.62% (2005 – 37.1%) to income before income taxes. The reasons for the differences are as follows:

	2006	2005
Computed income tax recovery	\$ (237,000)	\$ (248,000)
Increase (decrease) resulting from:		
Interest accretion	95,000	96,000
Valuation allowance	(61,000)	177,000
Reduction in enacted tax rates	165,000	–
Other	38,000	(25,000)
	\$ –	\$ –

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

	2006	2005
Future tax assets:		
Property and equipment - differences in net book value and unamortized capital cost	\$ 480,000	\$ 638,000
Share issue and acquisition costs	(7,000)	(10,000)
Losses carried forward	1,025,000	926,000
Investment tax credits	32,000	37,000
	1,530,000	1,591,000
Less valuation allowance	(1,530,000)	(1,591,000)
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, 2006 and 2005

Income taxes (continued):

The Company has non-capital tax losses available for carry forward to reduce future years' taxable income totaling approximately \$3,104,000 expiring as follows:

2007	\$	21,000
2008		173,000
2009		79,000
2010		1,115,000
2014		670,000
2015		438,000
2016		608,000

The Company also has an undeducted research and development expenditure pool available for carry forward totaling approximately \$24,000, for which no benefit has been recognized in the financial statements. These amounts are available to be carried forward and applied against future taxable income and have no expiry date.

14. Related party transactions and measurement uncertainty:

The Company has contracted to supply Radio Automation Software and Services to a company of which one of OMT's directors is also an officer and director. The project which is valued at approximately \$600,000 began in 2005 and at December 31, 2006 the revenue for the work completed and invoiced in 2005 and 2006 amounted to \$320,000.

The project has been delayed due to technical issues. Correction of the problems could result in additional costs over and above those originally estimated, but the amount is unknown. Revenue has been recorded on this contract under the percentage of completion method based upon management's best estimate of costs still to be incurred. It is unknown if additional costs due to the technical issues will be incurred, but if there are, management estimates that the difference between revenue recognized in the financial statements and what should have been recognized could amount to \$50,000.

In October 2005 a major shareholder 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.

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, 2006 and 2005

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 two large customer account for 34% 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, lease receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying amount of long-term debt approximates its fair value, as the obligations bear interest at rates that approximate market rates.

16. Contingencies:

(a) 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.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

16. Contingencies (continued):

(b) Payments received on a project contracted with a company of which one of OMT's directors is also an officer and director as defined in note 14 are guaranteed up to a maximum amount of US \$358,106. Progress payments received to date on the project total US \$263,021 (Cdn.\$320,000). The contracting company has the right to demand repayment of these funds based on a "Performance Security Guarantee" (PSG). OMT has purchased "Performance Security Insurance" (PSI) for up to 95% of the money advanced to date, from the Export Development Corporation (EDC) to protect itself against this possibility. The Guarantee is valid until July 30, 2007 or completion of the project, whichever comes sooner, but the insurance would be extended should the project be incomplete at that time. At December 31, 2006 there is a contingent liability for the 5% deductible or US \$13,151 which has not been recorded in the financial statements.

17. Comparative figures:

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