



OMT Inc.

2005

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 Wijtkamp 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 Wijtkamp
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 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, 2005 and the associated notes.

The audited consolidated financial statements provide a comparison of the year ended December 31, 2005 to the year ended December 31, 2004.

Annual Review (numbers shown in '000s)

	<u>December</u> <u>31 2005</u>	<u>December</u> <u>31 2004</u>	<u>December</u> <u>31 2003</u>
Total Sales	\$4,176	\$3,482	\$5,095
Gross Profit	\$2,595	\$2,217	\$2,299
Gross Profit %	62.1%	63.7%	45.1%
Total Operating Expenses	\$2,392	\$2,378	\$2,529
Other Expenses	872	723	825
Net Income (Loss)	(\$669)	(\$884)	(\$1,155)
Net Income (Loss) per share (basic & diluted)	(\$0.02)	(\$0.07)	(\$0.10)
Dividends declared	Nil	Nil	Nil
Total Assets	\$1,594	\$2,395	\$1,605
Total Long-term liabilities	\$3,222	\$2,981	\$2,362

Results for the year ended December 31, 2005 reflect the total business of the OMT Technologies and Intertain Media divisions. Overall sales were 20% higher in 2005, as compared to 2004. The OMT Technologies division represented \$480,000 or 69% of the increased sales in 2005, while the Intertain division contributed \$214,000 or 31% of the increased sales.

Sales in 2003 were higher than 2004 due to revenues from large custom solutions projects in 2003, as well as sales from Oakwood Broadcast (an equipment distribution division sold in July 2003). In 2003, revenue from large custom projects amounted to approximately \$1,540,000. Sales from Oakwood Broadcast were approximately \$875,000. In 2004, there were no large custom solutions projects or Oakwood Broadcast sales. Without these two revenue areas, comparative sales in 2004 were higher by \$802,000 over 2003.

The 2004 and 2005 sales results reflect the Company's strategy to build stronger recurring revenues and higher gross profit sales. As a result of this focus, recurring revenues increased from approximately \$389,000 in 2003 to \$636,000 in 2004 and \$789,000 in 2005, representing 19% of total revenues. This growth reflects the positive change in the Company's shift towards higher margin, recurring subscription revenue from core OMT Technologies and Intertain Media products. Core products for the two divisions include Radio Automation Systems, in store Retail Preview Systems and Retail Radio Systems.

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.

Operating expenses were reduced by 6% from \$2,529,000 in 2003 to \$2,378,000 in 2004. The operating expense saving in 2004 was primarily due to a reduction in salaries and related expenses. Selling and administrative expenses increased from \$2,067,000 in 2004 to \$2,170,000 in 2005, an increase of \$103,000. The change is due to increases in professional fees and salaries. Research and development expenses declined from \$310,000 in 2004 to \$222,000 in 2005. Savings in this area are a result of high reliability levels of the Company's technologies and improved efficiencies in the ongoing process of developing new software products and technologies.

Other expenses were \$102,000 higher in 2003 as compared to 2004. The 2003 expense included severance costs of \$252,000 and foreign exchange losses of \$132,000. In 2004, interest expenses increased by \$85,000 and previously capitalized financing costs of \$65,000 were written off. Other expenses increased from \$723,000 in 2004 to \$872,000 in 2005, which included \$259,000 of non-cash amortized interest as a result of debt financing requirements on the \$4,000,000 of convertible debt secured in December, 2004. 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 \$77,000 in amortization expense.

The net loss in 2005 was \$669,000, an improvement of \$215,000 over 2004. The net loss in 2004 of \$884,000 was an improvement of \$271,000 over 2003 when the loss was \$1,155,000. In both years, this improvement was mainly due to increased gross profit. Improved gross profit is offset by interest expenses which have increased from \$322,000 in 2003 to \$386,000 in 2004 and to \$592,000 in 2005. Loss per share of \$0.02 in 2005 is calculated on an average of 28,901,131 shares issued as compared to \$0.07 in 2004 calculated on an average of 12,357,418 shares issued.

Eight Quarter Review (numbers shown in '000s)

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Sales	\$1,139	\$1,105	\$1,044	\$888	\$1,072	\$645	\$849	\$916
Gross Profit	\$661	\$695	\$611	\$628	\$616	\$435	\$572	\$594
Gross Profit %	58%	63%	58%	70%	57%	67%	67%	65%
Operating Expenses	\$622	\$598	\$633	\$539	\$698	\$544	\$570	\$566
EBITDA	\$39	\$97	(\$22)	\$89	(\$82)	(\$109)	\$2	\$28
Other Expenses	\$229	\$214	\$214	\$215	\$242	\$175	\$141	\$165
Net Income (Loss)	(\$190)	(\$117)	(\$236)	(\$126)	(\$324)	(\$284)	(\$139)	(\$137)
Net Income (Loss) per share (basic & diluted)	(\$0.007)	(\$0.004)	(\$0.008)	(\$0.004)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.01)

Sales by quarter increased throughout the current year. Early in the year the increase was due to OMT Technologies sales. In the fourth quarter, the increase was largely the result of increased Intertain hardware sales resulting from the continued expansion of a major retail customer as well as the first major retail chain deployment of the Retail Radio product. This increase in hardware sales explains why the gross margins in the fourth quarter were down by 4.9% when compared to the third quarter.

The Company operates with tight control on expenses, and as a result, operating expenses in 2005 have remained fairly consistent with those in 2004. While the revenue increase in 2005 was achieved with similar expense levels as 2004, management expects to incur increased expenses in 2006, especially in the sales and service areas to support increases in revenues.

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 three quarters in 2005 and amounted to \$206,000 for the year. This is an improvement of \$355,000 over 2004 when EBITDA was a loss of \$149,000 and both of the last two quarters of 2004 were negative.

Other expenses that reduce EBITDA to arrive at net loss include:

	<u>2005</u>	<u>2004</u>
Interest, finance and related expense	\$658	\$435
Amortization	\$195	\$272
Other	<u>\$ 19</u>	<u>\$ 16</u>
Total	\$872	\$723

The Company has incurred losses in the last eight quarters of operation. However, the quarterly losses in 2005 showed improvement over the comparable quarters in 2004 with the exception of the second quarter.

Fourth Quarter

Fourth quarter revenue at \$1,139,000 was \$67,000 higher than the same quarter last year and \$34,000 higher than the third quarter this year. The increased sales over the third quarter this year were due to hardware which is a low margin product, and as a result the gross profit for the quarter was actually lower than the third quarter even though sales were higher. The gross margin in this quarter in 2005 was similar to 2004 resulting in an increase in gross profit because of the increase in sales.

Operating expenses at \$622,000 remained flat compared to previous quarters in 2005. Fourth quarter 2004 had operating expenses of \$698,000, which were \$76,000 higher than 2005. Last year's expenses included a one-time charge of \$60,000 related to the financing initiative.

Cash flow in the fourth quarter of 2005 was negative \$74,000. This compares to a positive cash flow in the fourth quarter of 2004 of \$1,111,000. In 2004, the Company had raised \$1,430,000 through new financing. No additional financing occurred in 2005 and none is anticipated in 2006.

Changes in Accounting Policies

No changes in accounting policies were contemplated or implemented in 2005. Details of significant accounting policies are fully disclosed in the financial statements.

Liquidity

OMT was in compliance with its financial covenants with all lenders as at December 31, 2005.

OMT had a working capital balance of \$170,000 as of December 31, 2005, which represents a decrease of \$186,000 since December 31, 2004. The current working capital ratio, at 1.17:1, is slightly less than the 1.25:1 at December 31, 2004. However, total current liabilities are down \$396,000 from a year ago and more than 50% of the current liabilities are a result of deferred income, which does not affect cash. Management does not expect to require any new funding for its operations in the coming year. At the time of writing (April 28, 2006), the Company had no borrowings on its operating line of credit of \$400,000.

Related Party Transactions

In October 2005, ENSIS Growth Fund Inc. provided a guarantee for \$400,000 to the Bank of Nova Scotia in support 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 needed to consummate 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, ENSIS Growth Fund Inc., ENSIS Investment Limited Partnership and Renaissance Capital Manitoba Ventures Fund Limited Partnership 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 corporation in which one of OMT's directors is also an officer and director. 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.

Disclosure Controls

Under new rules, which became effective on December 31, 2005, all public companies are required to certify that certain procedures have been put in place to ensure that information required to be disclosed is reported in a timely and appropriate manner. The President and CFO have evaluated the effectiveness of the procedures and disclosure controls and are satisfied that the procedures are, in fact, in place and they have reviewed such procedures and find them adequate and effective.

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.

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.

Capital requirements

OMT Inc. would need to find the necessary funds to execute its strategic goals if net revenues from operations were insufficient to do so. In the event that financing were required, there can be no assurance that additional capital will be available under acceptable conditions for OMT and according to terms favorable to its growth.

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, 2005 and 2004

AUDITORS' REPORT

Ernst & Young LLP

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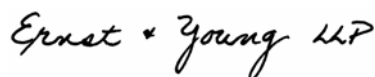
To the Shareholders of **OMT Inc.**

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.



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
<u>Total current assets</u>	<u>1,188,605</u>	<u>1,770,522</u>
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
<u>Total assets</u>	<u>\$ 1,594,018</u>	<u>\$ 2,394,907</u>

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
<u>Total current liabilities</u>	<u>1,018,215</u>	<u>1,414,168</u>
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
<u>Total liabilities</u>	<u>4,240,276</u>	<u>4,395,639</u>
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)
<u>Total shareholders' deficiency</u>	<u>(2,646,258)</u>	<u>(2,000,732)</u>
<u>Total liabilities and shareholders' deficiency</u>	<u>\$ 1,594,018</u>	<u>\$ 2,394,907</u>

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
	<u>\$ 749,548</u>	<u>\$ 612,296</u>	<u>\$ 137,252</u>

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
	<u>\$ 827,165</u>	<u>\$ 589,325</u>	<u>\$ 237,840</u>

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
	<u>\$ 1,442,575</u>	<u>\$ 1,388,372</u>	<u>\$ 54,203</u>

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
	<u>\$ 1,610,603</u>	<u>\$ 1,511,668</u>	<u>\$ 98,935</u>

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	—
	<u>\$ 199,958</u>	<u>\$ 266,610</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 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
	<u>\$ 2,204</u>	<u>\$ 10,028</u>

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.

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)).

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

7. Long-term debt (continued):

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).

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.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2005 and
2004

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
	<u>\$ 3,560</u>

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 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	<u>28,922,090</u>	<u>\$1,278,458</u>

Holder 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
<hr/>		
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.