

Unaudited Consolidated Financial Statements of

OMT INC.

Six Months June 30, 2004 and Six Months ended June 30, 2003
(Unaudited)

These interim consolidated financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

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OMT INC.

Consolidated Balance Sheets

 June 30, 2004 and December 31, 2003
 (Unaudited)

	June	December
Assets		
Current assets:		
Cash	\$123,091	\$ 290,378
Accounts receivable	461,657	505,660
Inventory	106,826	127,246
Prepaid expenses	123,914	97,841
Current portion of lease receivable	7,000	-
	822,488	1,021,125
Lease receivable	21,000	-
Capital assets	292,670	340,669
Software and other intangible assets	127,021	147,031
Deferred costs (note 2)	97,800	96,241
	\$ 1,360,979	\$ 1,605,066

See accompanying notes to consolidated financial statements.

OMT INC.

Consolidated Balance Sheets (continued)

 June 30, 2004 and December 31, 2003
 (Unaudited)

	June	December
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank demand loan (note 3)	445,000	550,000
Accounts payable and accrued liabilities	328,986	237,379
Deferred revenue	350,751	343,888
Current portion of long-term debt (note 4)	730,755	694,883
Current portion of obligation under capital lease	35,191	33,174
	1,890,683	1,859,324
Long-term debt (note 4)	18,667	128,255
Obligation under capital lease	15,960	34,048
Liabilities to shareholders:		
Preferred shares (note 5)	2,303,875	2,175,375
Shareholders' deficiency:		
Capital stock (note 6)	82,672	82,672
Other paid-in capital	435,000	435,000
Contributed surplus (note 7)	138,150	109,630
Deficit (note 7)	(3,524,028)	(3,219,238)
	(2,868,206)	(2,591,936)
	\$ 1,360,979	\$ 1,605,066

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ "Jack Peterson" _____ Director

_____ "Steven Stang" _____ Director

OMT INC.

Consolidated Statements of Operations and Deficit

 Six Months Ended June 30, 2004 and June 30, 2003
 (Unaudited)

	2004		2003	
	Q2	YTD	Q2	YTD
Sales	\$ 848,735	\$ 1,764,255	\$ 1,293,336	3,653,148
Cost of sales	276,951	598,843	791,809	2,150,220
Gross profit	571,784	1,165,412	501,527	1,502,928
Selling and administrative	493,157	987,012	510,749	1,049,790
Research and development	76,877	149,173	65,480	131,114
Other expense (income)	(2,631)	(2,713)	80,878	97,854
	567,403	1,133,472	657,107	1,278,758
Income (loss) before the undernoted	4,381	31,940	(155,580)	224,170
Other expenses:				
Amortization	54,208	124,553	49,230	103,818
Interest	29,634	61,497	17,603	31,551
Dividends on preferred shares (note 5)	42,500	85,000	42,500	85,000
Foreign exchange gain	(4,744)	(6,340)		
Non-cash interest accretion (note 5)	21,750	43,500	21,750	43,500
	143,348	308,210	131,083	263,869
Loss before income taxes	(138,967)	(276,270)	(286,663)	(39,699)
Income tax payable	-	-	-	-
Loss for the period	(138,967)	(276,270)	(286,663)	(39,699)
Deficit, beginning of period	(3,385,061)	(3,219,238)	(1,817,622)	(2,064,586)
Stock-based compensation prior periods (note 7)	-	(28,520)	-	-
Deficit, end of period	\$(3,524,028)	\$(3,524,028)	\$(2,104,285)	\$(2,104,285)
Basic and diluted income (loss) per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.00)
Weighted average number of shares	11,844,250	11,844,250	12,319,250	12,319,250

See accompanying notes to consolidated financial statements.

OMT INC.

Consolidated Statements of Cash Flows

 Six Months ended June 30, 2004 and June 30, 2003
 (Unaudited)

	2004		2003	
	Q2	YTD	Q2	YTD
Cash provided by (used in):				
Operations:				
Net Income (loss) for the period	\$ (138,967)	\$ (276,270)	\$ (286,663)	\$ (39,699)
Items not involving cash:				
Amortization	54,208	124,553	49,230	103,818
Non-cash interest accretion	21,750	43,500	21,750	43,500
Gain on sale of capital assets	(940)	(940)	-	-
Change in non-cash operating working capital	115,268	108,821	187,373	(356,747)
	51,319	(336)	(28,310)	(249,128)
Financing:				
Increase (decrease) in bank demand loan	(20,000)	(105,000)	(123,000)	445,000
Principal payments on capital lease	(8,141)	(16,071)	(7,258)	(14,304)
Principal payments on long-term debt	(31,500)	(73,717)	(60,832)	(126,856)
Accrued dividends on preferred shares	42,500	85,000	42,500	85,000
Decrease in opening retained earnings	-	(28,520)	-	-
Increase in contributed surplus	-	28,520	-	-
	(17,141)	(109,788)	(148,590)	388,840
Investments:				
Additions to capital assets	(17,584)	(24,326)	(7,050)	(18,333)
Additions to software and intangible assets	(12,038)	(15,105)	(1,383)	(19,629)
Additions to deferred costs	(17,732)	(17,732)	-	-
	(47,354)	(57,163)	(8,433)	(37,962)
Increase (decrease) in cash position	(13,176)	(167,287)	(185,333)	101,750
Cash position, beginning of period	136,267	290,378	267,857	(19,226)
Cash position, end of period	\$ 123,091	\$ 123,091	\$ 82,524	\$ 82,524
Supplementary information:				
Interest paid	\$ 9,310	\$ 27,144	\$ 17,603	\$ 31,551

See accompanying notes to consolidated financial statements.

OMT INC.

Notes to Consolidated Financial Statements

Six Months ended June 30, 2004 and June 30, 2003
(Unaudited)

General:

OMT Inc. (TSXV:OMT), is a technology and content delivery provider in the entertainment and broadcast industry. Intertain Media, the digital entertainment division, and iMediaTouch, the radio broadcast solution group, distribute multi-media content that is seen and heard by millions of people worldwide every day through television, radio, satellite, cable and Internet broadcasts.

1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of computation as were used for the financial statements for the year ended December 31, 2003 except for:

(a) Stock-based compensation:

On January 1, 2004 new accounting regulations require that stock-based compensation be expensed in the appropriate period. Compensation costs for previously awarded stock-based compensation awards have been adopted on a retroactive basis. Prior periods have not been restated. An adjustment has been made to the opening balance of retained earnings as at January 1, 2004 to reflect the cumulative effect of the change on prior periods.

(b) Deferred costs:

Deferred costs represent the cost of the issuance of the preferred shares and long term debt and the costs incurred to date regarding the proposed issuance of common shares in September, 2004. Amortization is provided on the costs related to the preferred shares and the long-term debt on a straight-line basis over five years. The costs related to the proposed issue of common shares will be netted against the proceeds received.

These consolidated financial statements should be read in conjunction with the financial statements for the year ended December 31, 2003.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)**1. Significant accounting policies (continued)**

These consolidated statements include the accounts of OMT Inc.'s wholly-owned subsidiaries OMT Technologies Inc. and Intertain Media Inc. All significant inter-company transactions and balances have been eliminated on consolidation.

2. Deferred Costs

	June 2004	December 2003
Financing costs	\$ 152,952	\$ 152,952
Share issue costs	17,732	-
	170,684	152,952
Accumulated amortization	72,884	56,711
	\$ 97,800	\$ 96,241

3. Bank demand loan

The bank demand loan, which bears interest at bank prime rate plus 1.25%, is limited to a maximum of \$600,000 and is secured by a general assignment of book debts and inventory. At June 30, 2004, the company was in violation of certain covenants related to this loan. However, the bank has waived compliance to September 30, 2004 when the company's financing activities are expected to be complete and all covenants will be back in compliance. In addition, Renaissance Capital Inc., has provided a guarantee in return for the waiver of the covenants.

4. Long-term debt

	June 2004	December 2003
Western Economic Diversification Canada loan, non-interest bearing as long as principal payments are met	\$ 67,588	\$ 73,588
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	63,000	92,300
Severance agreement	139,667	167,667
Subordinated debt loan	479,167	489,583
	749,422	823,138
Current portion of long-term debt	730,755	694,883
	\$ 18,667	\$ 128,255

OMT INC.

Notes to Consolidated Financial Statements

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)

4. Long-term debt (continued):

The company is in violation of certain covenants related to the loan payable to Business Development Bank of Canada and the subordinated debt loan and as a result these loans have been reclassified as current liabilities. Both lenders have waived compliance with their covenants to September 30, 2004 when the company's financing activities are expected to be complete and the covenants will be back in compliance.

Western Economic Diversification Canada loan:

The payment terms for the Western Economic Diversification Canada loan are as follows: \$1,000 per month until September, 2004, \$13,000 for October, 2004, \$5,000 per month for November and December 2004, \$10,000 per month from January 2005 to April 2005, with the final payment of \$1,588 due in May 2005. The company is current on its payments of this loan.

Severance agreement:

Effective October 31, 2003, an officer of the company ceased employment with the company. Under the terms of the employment contract, the employee was owed \$177,000, all of which was expensed in 2003. The balance owing at December 31, 2003 will be paid over the next two years. The company is current on its payment of this debt.

Subordinated debt loan:

In November 2003, the company obtained a subordinated debt loan in the amount of \$500,000. Proceeds were used to finance the purchase of certain capital assets and to increase working capital. The term of the loan is 48 months repayable in monthly installments of \$10,467 plus interest at 18%. The loan is guaranteed by a promissory note, a general security agreement and general assignment of book debts. Payments of principal and interest on the subordinated debt loan to ENSIS Growth Fund Inc. are subject to compliance with Bank of Nova Scotia covenants and have not been made since January 2004. However, ENSIS has waived payments and compliance with its covenants until September 30, 2004.

OMT INC.

Notes to Consolidated Financial Statements

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)

5. Preferred shares

The company issued voting, convertible, cumulative preferred shares due August 2006 for proceeds of \$2,000,000. The preferred shares have a dividend rate of 8.5%. 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%, 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 is reflected in shareholders' deficiency as "other paid-in capital." The \$435,000 discounted liability will be amortized to interest expense over five years.

The amount recorded for preferred shares is comprised of the following:

	June 2004	December 2003
Original amount recorded on a discounted basis	\$ 1,565,000	\$ 1,565,000
Accrued unpaid dividends	488,750	403,750
Non-cash accretion	250,125	206,625
	\$ 2,303,875	\$ 2,175,375

The preferred shares have the following characteristics:

- Convertible to common shares any time during the third year after date of issue on the basis of 1 common share for each preferred share at \$0.40 per common share with the conversion price increasing to \$0.45 per common share in year four and \$0.50 per common share in year five.
- Redeemable by the company in three years from the date of issue, and on each anniversary thereafter at an amount equivalent to the principal amount plus a 20% compounded annual rate of return including any paid dividends, calculated from the date of issue.
- Retractable by the holder in five years from the date of issue at an amount equivalent to the principal amount plus a 15% compounded annual rate of return including any paid dividends calculated from the date of issue. If the company is unable to pay the full amount due at the retraction date, the preferred shares become convertible to a debt instrument secured by a charge on the intellectual property of the company. Interest at a rate of 2% per month on the unpaid amount will be payable monthly to the holder until satisfied.

OMT INC.

Notes to Consolidated Financial Statements

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)

6. 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 preferred voting shares issuable in series.

(b) Issued common shares are summarized below:

	Number of shares	Amount
Balance at December 31, 2003 and June 30, 2004	11,844,250	\$ 82,672

(c) Warrants:

In August 2001, the company issued 2,500,000 warrants to purchase common shares at any time during the third year after date of issue at an exercise price of \$0.40 per common share with the exercise price increasing to \$0.45 per common shares in year four and \$0.50 per common share in year five. The warrants expire on August 15, 2006.

(d) Options:

The company has stock options outstanding to directors and officers to purchase up to 710,000 common shares and to employees to purchase up to 49,000 common shares.

OMT INC.

Notes to Consolidated Financial Statements

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)

6. Capital stock (continued):

Information related to the stock options outstanding at June 30, 2004 is presented below:

Issue (expiry date)	Original granted	Exercise price per share	December 31, 2003	Granted	Expired	June 30, 2004
Directors (February 2006)	400,000	\$ 0.10	210,000	-	-	210,000
Officers (June 2007)	250,000	0.25	200,000	-	-	200,000
Directors (May 2004 and May 2007)	100,000	0.40	80,000	-	-	80,000
Officer (February 2008)	100,000	0.25	100,000	-	-	100,000
Officer and employee (April 2008)	80,000	0.25	80,000	-	50,000	30,000
Directors and officers (May 2008)	90,000	0.11	90,000	-	-	90,000
Employees (September 2008)	64,000	0.07	57,000	-	8,000	49,000

(e) Escrowed shares:

As at June 30, 2004, an aggregate of 5,459,568 (December 31, 2003- 6,141,410) of the common shares were held in escrow. A total of 681,842 shares were released from escrow on February 16, 2004. While these common shares are held in escrow, the holder has full voting rights. Of the shares held in escrow, 686,676 will be released on August 16, 2004. The remaining common shares will be released at a rate of 681,842 shares semiannually on August 16th and February 16th.

(f) Loss per share:

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method which assumes all common share equivalents such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained thereby were used to purchase common shares of the company at the average trading price of the common shares during the period.

OMT INC.

Notes to Consolidated Financial Statements (continued)

Six Months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)**6. Capital stock (continued):**

(g) Per share amounts:

The weighted average number of common shares outstanding for the six months ended June 30, 2004 were 11,844,250 (year ended December 31, 2003 - 12,100,620).

7. Contributed Surplus and Opening Retained Earnings

Stock-based compensation for prior years in the amount of \$28,520 has been accounted for on a retroactive basis by reducing the opening balance of retained earnings and increasing the contributed surplus at January 1, 2004.

8. Related Party Transactions

The company has made operating lease payments for equipment amounting to \$2,381 plus taxes to Capron Leases (Ron Paley) for the six months ended June 30, 2004. There were no new related party lease financings during the period. These operating leases are on normal commercial terms.

Subsequent to June 30, 2004, Renaissance Capital Inc., a preferred shareholder, has provided a guarantee for \$100,000, to the Bank of Nova Scotia to support the Company's bank demand loan and obtain a waiver of covenants until September 30, 2004, by which time the Company's financing is expected to be complete.

9. Planned Equity Financing

On June 30, 2004, an engagement letter was signed with Kingsdale Capital Markets Inc. to raise a maximum of \$2.5 million in equity financing in common shares. In conjunction with this equity financing, the preferred shareholders will convert their preferred shares to common shares upon conclusion of a successful financing. One of the preferred shareholders has provided a guarantee for the bank demand loan in return for a waiver of covenants until September 30, 2004.