

## Management's Discussion and Analysis of Operating Results and Financial Condition

The following discussion and analysis, prepared as of November 24, 2005, provides information Management believes is relevant to an assessment and understanding of RDM Corporation's ("RDM" or the "Company") consolidated results of operations and financial condition. The discussion should be read in conjunction with the audited consolidated financial statements of RDM Corporation and notes thereto for the fiscal years ended September 30, 2005 and September 30, 2004 prepared in accordance with Canadian generally accepted accounting principles. ("GAAP") All dollar amounts used in this discussion and analysis are expressed in Canadian dollars, unless otherwise noted.

### Forward-Looking Statements

*Certain statements contained in this Management's Discussion and Analysis ("MD&A") constitute forward-looking statements. These include statements about Management's expectations, beliefs, intentions or strategies for the future, which are indicated by words such as "anticipate, intend, believe, estimate, forecast and expect" and similar words. All forward-looking statements reflect Management's current views with respect to future events, and are subject to numerous risks, uncertainties and assumptions that have been made. Management has identified a number of important factors that could cause actual results, performance or achievements to be materially different from those expressed or implied by these forward-looking statements which are discussed in this MD&A, elsewhere in the Company's annual report, and in other continuous disclosure filings of the Company. Forward-looking statements are not guarantees of future performance. Actual results could vary materially from those that are expressed or implied by these forward-looking statements due to any of the risks and uncertainties that are described in this MD&A, risks and uncertainties that are unknown to Management, or from risks that Management currently believes to be immaterial. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. Additional information relating to the Company and the risks inherent in its business is provided in the Company's Annual Information Form and other documents available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.rdmcorp.com](http://www.rdmcorp.com).*

### Company Overview

RDM is a provider of solutions for the electronic commerce and payment processing industries. RDM has pioneered electronic check conversion systems and web-based image management and transaction processing services for retailers, banks, payment processors and government agencies, as well as print quality control and image quality systems for a variety of global customers.

RDM evaluates operational performance based on three operating segments: Digital Imaging, Electronic Payments Solutions, and Quality Assurance. The segments are managed separately because each segment requires unique marketing strategies and is exposed to different economic environments. The Digital Imaging segment produces electronic document readers and provides related Image and Transaction Management System ("ITMS") services to financial institutions and financial services providers. The Electronic Payments Solutions segment develops customer-specific electronic payment and e-commerce systems based on core RDM technologies to facilitate business-to-business and business-to-consumer electronic transactions. The Quality Assurance segment designs and manufactures test equipment that is used with the Company's proprietary software and algorithms to determine whether cheques and other financial documents have been designed or printed to applicable industry standards.

RDM also holds an 18% interest in Xign Corporation (13% on a fully diluted basis), a private U.S. based company that has developed and operates a proprietary business-to-business e-commerce payment network for Fortune 500 and other companies. Further information about Xign Corporation is available at its website: [www.xign.com](http://www.xign.com)

### Objectives and Strategies

The Company's long-term objective continues to be to build a high-growth, profitable business based on Digital Imaging product sales and recurring revenues from ITMS transaction processing. While the Company's long-term objective is to build a recurring revenue transaction processing business, markets for the Company's Digital Imaging products and ITMS services are still early stage and require significant ongoing investment by the Company. As a result, the Company attempts to source profitable Electronic Payments Solutions contracts and relies on Quality Assurance product sales where possible to mitigate the impact that growing the Digital Imaging business has on the Company's overall financial resources.

The focus of the Company's strategic plan is growth in each of the Company's operating segments. Progress towards the Company's long-term objective is measured in terms of growth in Digital Imaging revenues and progress towards building a sustainable transaction processing business based on Digital Imaging scanner sales and recurring ITMS transaction processing revenues. Similar to fiscal 2005, the Company intends to remain primarily focused on growing its revenues in 2006 through:

- Increasing document scanner sales and related product offerings including the Company's peripheral document scanners (EC6000 & EC7000) and all-in-one payment terminal (RDM Synergy);
- Increasing recurring ITMS transaction processing revenues through an innovative and robust service offering and strategic partnerships with large U.S.-based financial institutions;
- Sourcing custom development projects from both the private and public sectors; and
- Reducing reliance on legacy products for corporate profitability as their relative weighting declines.

### **Overall Performance and Industry Trends**

Unlike Canada, where cheque usage has sharply declined, the U.S. payments industry and U.S. consumers continue to rely on cheques for a multitude of payments. Management believes the most significant trend impacting the Company, and the U.S. payments industry in general, is the Check Clearing for the 21<sup>st</sup> Century Act ("Check 21"), which took effect in the United States October 28, 2004. While Check 21 does not require the conversion of paper cheques into electronic transactions or digital images, it does encourage an industry shift away from traditional methods of handling paper cheques by granting Image Replacement Documents ("IRD's") the same legal status as the original paper cheque. While the current paper cheque clearing system in the U.S. is well established, the logistics of moving physical paper cheques across America to clear has long been an impediment to further efficiencies. The Check 21 Act was created primarily in response to the September 11<sup>th</sup>, 2001 terrorists' attacks that halted virtually all cheque payments and forced the U.S. Federal Reserve banks to rethink how paper cheques are processed.

Check 21 authorizes the creation of a substitute cheque from images of the front and back of an original paper cheque. Check 21 also enables U.S. banks to unilaterally choose to truncate all paper cheques and provide substitute cheques, or IRD's to those banks and customers who have not agreed to accept the electronic records or images of the original paper cheques. The significance of Check 21 is not that it allows the conversion of paper cheques, but rather that it encourages the use of technology to improve the overall efficiency of the U.S. payments system. By promoting the use of imaging technology such as RDM's ITMS, Check 21 encourages the elimination of many costly cheque processing steps and facilitates the development of improvements to bank back-office operations, while at the same time opening the door for new and improved service offerings to bank customers.

The Company believes that the most aggressive U.S. banks will want to be seen as the forerunners in adopting new Check 21 technologies and security measures, and other Financial Institutions will eventually follow their lead. However, similar to the adoption experience of most new technologies, the U.S. Payments Industry's adoption of Check 21 is proving to be a lengthy process. During fiscal 2005 the groundwork was laid to secure a marquee customer list of top tier US financial institutions as ITMS customers. Management expects that fiscal 2006 will be a year of assisting these customers in rolling out ITMS to their own deposit

customers. Large Financial Institutions implement their Check 21 solutions only after a careful evaluation period. Typically, implementations are phased in, beginning with an initial project to assess productivity benefits, test the features of ITMS and evaluate the performance of RDM's solution. Successful initial pilot implementations are followed by higher ITMS transaction volumes as the financial institution then begins selling and deploying the Company's service to their customer base, a process that can take several years.

Although the full impact of Check 21 on the Company remains to be seen, fiscal 2005 was clearly a strategic year for the Company's transaction processing business. The Company's fiscal 2005 performance improved significantly from 2004 and the Company's consolidated earnings were ahead of the fiscal 2005 operating plan prepared by Management and approved by the Company's Board of Directors. Consolidated revenues of \$19.5 million increased 12% from 2004 primarily due to strong Electronic Payments Solutions revenue growth. Revenue growth expressed in U.S. dollars was approximately 21% over the previous year, however the strengthening of the Canadian dollar from an average rate of \$0.76 in fiscal 2004 to \$0.82 in fiscal 2005 negated a significant amount of the Company's revenue growth. Net earnings for fiscal 2005 improved to \$757,000 compared to net earnings of \$114,000 in fiscal 2004, primarily due to improved consolidated operating margins. The Company ended fiscal 2005 with \$5.5 million in cash and cash equivalents and \$10.5 million in working capital.

Electronic Payment Solutions had a strong year as the Company continues to work with U.S. government agencies and marquee U.S. banks on their Check 21 initiatives and Quality Assurance segment results were in line with Management's expectations. Digital Imaging segment results were, however, below Management's expectations for the year. Although ITMS processing volume experienced continued growth, scanner sales were lower than expected due to weaker than anticipated demand in the Point of Presentment ("POP") market. During the fourth quarter, the Company dedicated additional sales resources to scanner sales and as a result, the Company achieved record scanner sales in the fourth quarter of fiscal 2005. By year-end, ITMS transaction volume also exceeded 500,000 items per week, compared to 325,000 items in fiscal 2004. The Quality Assurance and Electronic Payments Solutions business results in fiscal 2005 continued to fund the Company's investment in the Digital Imaging business.

### **Selected Annual Information**

(In Thousands of Canadian Dollars, Except per Share Amounts)

	2005	2004	2003
Revenues	\$19,451	\$17,331	\$12,543
Net earnings (loss)	757	114	(479)
Earnings (loss) per share	0.04	0.01	(0.03)
Total assets	\$21,684	\$20,194	\$18,356

### **Divisional Performance**

#### Digital Imaging

The primary objectives of the Company's Digital Imaging division in fiscal 2005 were i) Increasing Digital Imaging product revenues and ii) Establishing an industry leadership position with the Company's ITMS service. While the Company was successful in achieving the second objective, Digital Imaging revenues were relatively unchanged from the prior year at \$10 million, although expressed in U.S. dollars, Digital Imaging revenues increased approximately 8%. Revenue growth was impacted by slower than expected bank rollouts of both scanner sales and ITMS. The Company's objective in fiscal 2006 is to increase product sales to new customers and larger financial institutions. While ITMS revenues were not significant in 2005, ITMS volumes increased significantly and by year-end average weekly ITMS volume surpassed 500,000 items. The Company was also successful in continuing to expand its ITMS customer base to seven large U.S.-based financial institutions.

The Company endeavors to achieve Digital Imaging gross profit margins of at least 30%, however, in fiscal 2005 gross profit margins were lower than planned due to delays in getting the Company's next generation EC7000 and RDM Synergy products to market, the continued appreciation of the Canadian dollar, and continued price pressure in the overall point-of-sale hardware industry. The Digital Imaging segment recorded a loss of \$3.9 million in fiscal 2005 compared to a loss of \$2.5 million in 2004. The main reason for the increased Digital Imaging segment loss was that ITMS volumes were lower than the Company's financial institution's volume forecasts while ITMS operations and customer support costs were as planned. The Company expects higher Digital Imaging gross margins and lower research and development costs in fiscal 2006.

The Company still believes that the enactment of Check 21 will contribute to a number of customers increasing their commitment to Electronic Cheque Conversion, however both ITMS adoption and scanner sales are and will continue to be impacted by the Company's bank customers' slower than anticipated rollouts to their corporate clients. Although the switch to electronic cheque processing enabled by Check 21 is gaining momentum, now that the Company has been successful in gaining a foothold in the market by signing up a significant number of financial institution customers as distribution partners, the next step is to increase both ITMS volumes and scanner sales as these financial institutions roll out their service offerings to their corporate clients. Bank product sales cycles can be lengthy, and in the interim the Company continues to explore complementary distribution channels and has also begun targeting end users directing through other Value Added Resellers (VAR's) to help create pull in the marketplace and encourage the banks to expedite their rollouts by increasing bank customers' demand.

#### Electronic Payments Solutions

The primary objectives of the Company's Electronic Payments Solutions division in fiscal 2005 were i) Continuing to work with U.S. government agencies to improve the U.S. payments system and ii) Broadening the scope of the division to include more custom development work for private sector U.S. financial institutions. Both objectives were achieved, as fiscal 2005 was an extremely strong year for the division. Electronic Payments Solutions revenues increased from \$5.0 million in fiscal 2004 to \$6.8 million in fiscal 2005, while the division's operating contribution rose from \$2.2 million to \$4.2 million. While the majority of Electronic Payments Solutions revenues were still generated from government organizations in fiscal 2005, in excess of 20% of the division's revenues in fiscal 2005 were generated from large private sector U.S. financial institutions looking to implement RDM's custom payment solutions, a significant increase from the previous year and an indication that ITMS adoption is increasing.

The company has chosen to reflect custom development revenue from financial institution customers that sign on for ITMS services in Electronic Payment Solutions segment results while Digital Imaging continues to bear the majority of the Company's research and development expenditures. Although the Company segments its operations in this manner, Management continues to believe that the results of Digital Imaging and Electronic Payments Solutions should be viewed in tandem when evaluating overall Company performance. On a combined basis revenues from these divisions increased 12% to \$16.8 million while combined operating earnings increased \$647,000 to \$308,000.

#### Quality Assurance

The primary objectives of the Company's Quality Assurance division in fiscal 2005 were i) Generating revenues in excess of \$2 million while maintaining strong gross margins and ii) Investing in new product development to broaden the scope of the division's product offerings. The Company was again successful on both fronts. In fiscal 2005, Quality Assurance revenues were \$2.6 million compared to \$2.4 million in 2004 and the Company was successful in launching its new In-line Verifier. The Company was pleased with the division's revenue performance and \$714,000 contribution toward overall corporate profitability.

## **Operating Expenses and Consolidated Operating Results**

The Company continued to invest in a U.S.-based sales & marketing team in fiscal 2005 to better exploit RDM's largest target market, and sales & marketing expenses increased slightly to \$2.6 million for the year ended September 30, 2005. The Company's spending plan reflected the Company's sales penetration in the Electronic Check Conversion and bill-pay markets and product branding initiatives. Research & development expenses increased \$486,000 or 19% to \$3.0 million for the year ended September 30, 2005, as the Company continued to invest in Digital Imaging new product development, primarily EC7000 and RDM Synergy. General and administration expenses increased \$236,000 to \$1.3 million as a result of higher staffing requirements, audit, and regulatory compliance costs. Depreciation and amortization expenses for the year ended September 30, 2005 increased \$242,000 or 37%, as a result of new production equipment, patent, and tooling depreciation. Interest income and other decreased \$59,000, primarily due to higher foreign exchange losses in fiscal 2005.

The Company's earnings for the year ended September 30, 2005 were \$757,000 compared to \$114,000 in the year ended September 30, 2004.

During fiscal 2003, a number of companies in the financial services industry, including RDM and other major U.S. banks and technology providers, were subject to patent infringement lawsuits from DataTreasury Corporation ("DTC"). DTC claimed to have patent rights to the broad concept of electronically archiving paper-based information. While the Company and the industry clearly view the claims to be without merit, the Company nevertheless found itself having to defend itself in the expensive and time-consuming U.S. court system. As disclosed in Note 11 to the Company's consolidated financial statements, the Company has settled its outstanding patent litigation with DTC. Although the Company does not believe DTC's patents to be valid, the Company concluded that defending itself through the unpredictable and costly court system in the state of Texas was not an option that was in the best interests of the Company or its shareholders. The Company agreed to settle with DTC and, without acknowledging the validity of DTC's patents or committing to any future business relationship with DTC, the Company has agreed to pay DTC a royalty that is significantly less than the estimated ongoing cost of litigation.

Included in the Company's settlement agreement with DTC are provisions that allow the Company to cancel the agreement at any time upon 90 days written notice to DTC. The Company fully expects that DTC's patents will be found unenforceable or invalid in DTC's remaining cases against numerous major U.S. banks, payment processors, and equipment manufacturers. Based on current sales volumes, the Company estimates that royalty payments under its agreement with DTC will approximate U.S. \$50,000 per month in fiscal 2006, until the Company exercises its 90-day cancellation option.

During fiscal 2003 the Company also filed a claim against Ingenico Corporation ("Ingenico") of Roswell, Georgia. The claim alleged that Ingenico infringed on certain of the Company's copyrights and other intellectual properties. On January 13, 2004 the Company and Ingenico entered into a settlement agreement whereby in exchange for the Company dismissing all outstanding claims, Ingenico agreed to pay the Company a one-time \$200,000 license fee and additional royalties on RDM Command Protocols licensed to Ingenico. The one-time license fee has been included in fiscal 2004 Digital Imaging revenues while future royalties, while not expected to be significant, are to be recognized as revenue in the consolidated statement of operations when received.

## **Liquidity and Capital Resources**

The Company has historically financed its operations primarily through the sale of capital stock and operating cash flow. For the year ended September 30, 2005, cash provided by operations was \$921,000 compared with cash used in operations of \$369,000 in the year ended September 30, 2004.

At September 30, 2005 the Company held cash and cash equivalents of \$5.5 million, an increase of \$1.5 million from the \$4.0 million on hand at September 30, 2004. The majority of the increase in cash and cash equivalents was a result of the Company's strong cash flow from Operations and the proceeds of the

Company's fiscal 2005 share issuance. At September 30, 2005 the Company had working capital of \$10.5 million as compared to working capital of \$8.1 million at September 30, 2004. The Company expects that it will have similar working capital and capital expenditure requirements in fiscal 2006, however, the level of capital expenditures necessary is contingent on the infrastructure expectations of the Company's financial institution customers as transaction processing volumes increase.

On December 23, 2004, the Company issued 1,400,000 common shares and 700,000 common share purchase warrants for gross proceeds of \$1.4 million and net proceeds of \$1.375 million. The share purchase warrants, which have an exercise price of \$1.35 each, are exercisable into common shares of the Company at the holder's option on a one for one basis at any time up to December 23, 2006.

Even though the Company has been successful in raising equity capital in the past, the Company intends to continue to review its level of operating costs, restrict the acquisition of capital assets to match the replacement cycle of its current and future product offerings, and continue to drive operations with cash-positive earnings where possible. The Company maintains a \$1 million revolving credit facility with its bank. The primary use of the facility is to fund short-term working capital requirements and at September 30, 2005 this facility was not drawn upon. While the Company does not anticipate the need for additional working capital in the short term, building a recurring Application Service Provider business such as ITMS does require periodic and routine capital outlays for related hardware and software upgrades. The Company intends to monitor these outlays and determine when and if any additional debt or equity financing may be required.

#### Share Data

At October 31, 2005 the Company has 20,024,076 common shares outstanding. In addition, as of October 31, 2005, the Company has outstanding (i) 1,235,000 stock options each of which is exercisable into one common share and (ii) 700,000 common share purchase warrants each of which are exercisable into one common share.

#### Contractual Obligations and Off-Balance Sheet Arrangements

The Company does not enter into off-balance sheet arrangements, other than derivative foreign exchange contracts, purchase commitments for inventory and capital assets and operating leases for certain ITMS and office equipment, and facility leases. Contractual obligations of the Company at September 30, 2005 are as follows:

Contractual Obligations	Payments Due By Period				Total
	Less than One Year	One to Three Years	Four to Five Years		
Inventory and Capital Asset Purchase Obligations	\$ 1,618,000	\$ -	\$ -	\$	1,618,000
Operating Lease Obligations	\$ 332,000	\$ 718,000	\$ 96,000	\$	1,146,000
	<u>\$ 1,950,000</u>	<u>\$ 718,000</u>	<u>\$ 96,000</u>	<u>\$</u>	<u>2,764,000</u>

The Company utilizes derivative financial instruments to manage a portion of its foreign exchange exposure, typically for a maximum of twelve months out and based on the level of predictable U.S. denominated cash flows. The use of derivative financial instruments is limited to risk management activities and is subject to Management and Board controls and approvals. At September 30, 2005 the Company has outstanding through March 31, 2005 U.S. \$7.2 million foreign exchange contracts at rates ranging from CDN \$1.24 to CDN \$1.16. The fair value of these instruments is approximately \$7.5 million, and based on exchange rates as at September 30, 2005 for contracts with similar remaining terms to maturity, unrecognized net gains relating to the Company's foreign exchange contracts approximate \$300,000. The Company is exposed to credit risk on derivative financial instruments arising from the potential for counter parties to default on their contractual obligations to the Company, however the Company minimizes this risk by limiting counter parties to these contracts to Canadian Schedule A Chartered Banks.

## Critical Accounting Estimates and Significant Accounting Policies

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from the estimates, however, there have been no changes made to critical accounting estimates during the past two fiscal years. The following accounting policies reflect the more significant estimates and assumptions used in the preparation of the Company's financial statements.

**Revenue Recognition:** Revenue recognition is critical because it is a key indicator of the Company's financial performance. Management follows specific guidelines in recognizing revenue and makes estimates and assumptions that affect the reported amounts of revenue. A delay in recognizing revenue could cause operating results to vary significantly from quarter to quarter.

The Company's revenues are derived from product sales and technology licenses, service revenues, transaction fees, and custom development contracts. The Company's operating segments typically derive their revenues from the following sources:

Operating Segment	Revenues
Digital Imaging	Product sales and transaction processing fees
Electronic Payments Solutions	Custom development contracts
Quality Assurance	Product sales, service processing and extended warranty contracts

Revenue from product sales is recognized upon delivery, provided that no significant obligations on the part of the Company remain and collection of the related receivable is deemed probable by management. Revenue from transaction fees is recognized on a per item basis as transaction processing services are provided and when collection of the related receivable is considered probable by management.

Custom development contract revenue is recognized using the percentage of completion method. At September 30, 2005 the Company estimates it is a weighted average 60% complete on custom development contracts in progress based on development labour incurred to date, which accounts for approximately \$1.5 million in fiscal 2005 Electronic Payments Solutions revenues. Revisions in custom development and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known. Such revisions could occur as the company continues to measure progress towards completion of these projects.

Service revenue is recognized ratably over the term of the related agreement, which is typically twelve to twenty-four months.

Revenue that has been prepaid but does not yet qualify for recognition as revenue under the Company's revenue recognition policies is reflected as deferred revenue.

**Allowance for Doubtful Accounts:** Allowance for doubtful accounts relate to estimated losses that may arise if any customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debt experience, customer credit-worthiness and changes in customer payment terms when making estimates of the uncollectability of the Company's amounts receivable balance. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance are made.

**Impairment of Inventories and Capital Assets:** Whenever events or changes in circumstances indicate that the carrying value of inventories or capital assets may not be recoverable, the Company assesses the impairment of these assets. Factors the Company considers important include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic

trends. When the Company believes that the carrying value of inventories or capital assets may not be recoverable based upon the existence of one or more of the above indicators of potential impairment, the Company determines what impairment, if any, exists and provides for such impairment in the period known.

Income Taxes: The Company believes that it has adequately provided for income taxes based on all of the information that is currently available. Tax filings are subject to audits, which could materially change the amount of current and future income tax assets and liabilities. As outlined in Note 12 in the consolidated financial statements of the Company, a full valuation reserve has been taken against all future tax assets of the Company, resulting in no future tax asset being recorded in the financial statements. Any change to the valuation allowance of the future tax asset would result in an income tax recovery on the income statement. If the Company achieves a consistent level of profitability, the likelihood of the Company recording a future tax asset for some portion of the losses incurred in prior periods may increase.

Investment in Xign Corporation: The Company holds an interest in Xign Corporation, a privately held California-based technology company that does not publicly disclose detailed financial results. Xign is still an early stage company working towards profitability, with under U.S. \$5.0 million in total revenues in their most recently completed fiscal year ended December 31, 2004. In March 2004 Xign entered into a financing arrangement with MasterCard International, whereby upon closing of the financing, the Company's equity interest in Xign was reduced from 20% (16% on a fully diluted basis) to 18% (13% on a fully diluted basis). The Company's investment in Xign Corporation is accounted for using the cost method, whereby any earnings from the Company's investment are recognized only to the extent dividends are received. To date there have been no dividends declared by Xign Corporation and the Company does not expect dividends to be declared in the foreseeable future. The Company's policy is to review the carrying value of Xign annually at September 30, or when information is received that may indicate an impairment exists, to determine if any impairment provision is required. This review is based on available internal Xign financial information and Xign's progress against its operating plan.

#### **Changes in Accounting Policies and Impact of New Accounting Pronouncements**

The Company adopted CICA Handbook Section 3870; *Stock-Based Compensation*, effective October 1, 2004. The result of this change in accounting policy was that the value of all stock options granted subsequent to October 1, 2002 were recorded in the Consolidated Statement of Operations as an expense rather than disclosed in the Company's financial statements notes, as was the Company's previous policy. The Company had the option of restating comparative periods or recording a charge to opening shareholders' equity in the year of adoption. Similar to many other Canadian public companies, the Company chose to restate comparative financial information and recorded an initial charge to shareholders' equity at October 1, 2004 of \$125,000. Fiscal 2004 net earnings of \$364,000 were retroactively restated and reduced by \$250,000, reflecting the fiscal 2004 impact of recognizing compensation expense for stock options awarded subsequent to October 1, 2002.

In January 2005, the CICA issued Section 3855, "Financial Instruments- Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3865, "Hedges". The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. Most significantly for the Company, the new standards will introduce comprehensive income to Canadian GAAP. Mark-to-market adjustments on available for sale investments will be recorded in comprehensive income. Derivative financial institutions will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income.

#### **Disclosure Controls and Procedures**

As of the end of the period covered by this MD&A, the Chief Executive Officer and the Chief Financial Officer of the Company reviewed and evaluated the Company's disclosure controls and procedures (as that term is defined in Multilateral Instrument 52-109) and, based upon that review and evaluation, concluded that those disclosure controls and procedures were effective and met the requirements thereof.

## **Risks and Uncertainties**

The Company operates in a highly competitive technological market and faces a number of risks and uncertainties associated with its operations:

General: RDM faces the risks normally associated with emerging technology companies. While the market for RDM's Quality Assurance products has historically provided a stable source of revenue for the Company, the market for RDM's Digital Imaging products and services and Electronic Payments Solutions business is characterized by rapidly changing technology, evolving industry standards, and frequent new product introductions. In fiscal 2004 and 2005, the Company generated the majority of its earnings and operating cash flow from the Quality Assurance and Electronic Payments Solutions segments and the results of those segments allowed the Company to fund its investment in growing the Digital Imaging Business. In fiscal 2004 and 2005, all Electronic Payments Solutions segment revenues were derived from a small number of U.S.-based customers. Given the current political climate in the U.S., there can be no assurance that these segments will continue to generate results in the future at fiscal 2005 levels. Furthermore, the Company's Digital Imaging segment operates in an industry with significant existing and new competitors, and Management expects competition will continue to increase as more companies compete for Check 21 opportunities.

Management of Growth: The Company has in the past experienced significant growth in its business, including an expansion in the Company's staff and customer base, the establishment of new distribution channels and the expansion of its product lines. Such growth placed, and may continue to place, a significant strain on the Company's management and operations. The Company's ability to manage growth effectively in the future will require it to further develop and improve its operational, financial and other internal systems, and to hire, train and manage employees. If the Company is unable to manage its growth effectively, the Company's business, results of operations, liquidity and financial condition could be materially and adversely affected.

Risks Inherent in Transaction Processing: The Company has recently shifted its focus from manufacturing small document scanners to providing related transaction processing services to large U.S. financial institutions. There can be no certainty that the Company will be successful in gaining and maintaining a leadership position as Check 21 gains prominence or that the Company's ITMS will garnish sufficient transaction volume to become a profitable business. The Company is party to agreements with its customers that, among other things, obligate the Company to accurately process transaction data within prescribed processing windows. Should the Company breach its service level agreements with its customers penalties ranging from service credits to outright contract termination may result. Furthermore, the Company is obligated to maintain confidentiality of customer information and maintain adequate backup and recovery systems. Although the Company has designed operational processes and controls to meet these obligations, there can be no certainty that the Company can meet its obligations 100% of the time and the Company could be subject to fines, penalties, and legal defense costs should the Company's transaction processing capabilities or operations be compromised. Furthermore, given that the majority of the company's revenues are from U.S. based Financial Institutions, there can be no assurance that changes in U.S. legislation or government policy will not render the Company at a competitive disadvantage in the future.

Impact of Competition and Market Acceptance: Many of RDM's competitors and potential competitors have significantly greater financial, technical, marketing, and other resources and greater name recognition. This competition could have a material adverse effect on RDM's business, results of operations and financial condition in the future. As investor protection, corporate governance, privacy, and other forms of regulations increase, there can be no certainty that the Company will continue to have or have access to increased financial resources that may be necessary to continue to meet these regulations. The Company's future success is also dependent on the continued acceptance of the Company's document scanners, which in turn is dependent on Electronic Check Conversion gaining widespread acceptance in the U.S. and Check 21 resulting in an industry shift towards distributed image capture and transaction processing systems.

Proprietary Technology: RDM has relied, and expects to continue to rely, on a combination of copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions to establish, patent, maintain, and protect the Company's proprietary rights. Unauthorized parties have, and may continue to attempt to copy aspects of RDM's products or to obtain information regarded as proprietary. With increased competition comes companies attempting to emulate RDM's technologies and products. Policing unauthorized use of the Company's technology is difficult, time-consuming, and costly. Furthermore, the U.S. patent system is fraught with numerous patent litigants claiming ownership to patents on broad systems, concepts, and processes. The Company cannot be certain it is not infringing on the patents or intellectual property rights of others or that the Company will not be the target of unfounded, yet expensive, patent infringement lawsuits.

Product Development: The Company currently has a limited number of product offerings. RDM has experienced product development delays in the past and may experience delays in the future. If RDM experiences significant new product development delays, its position in the market could be harmed, and revenue could be substantially reduced, which could adversely affect operating results. Delays may occur for many reasons, including an inability to hire and manage experienced developers, discovery of bugs and errors in software, or the inability of current or future products to conform to industry or quality requirements.

Reliance on Third Party Relationships: The Company has a number of third-party relationships that are significant to its marketing, sales and related support activities and product development efforts. The Company relies upon relational database management systems applications, and development tool vendors, software and hardware vendors to strengthen its product offerings through integration with industry-standard tools and utilities. The Company's intent in entering into these relationships is to keep pace with the technological and marketing developments of major software vendors, to acquire technical assistance for the Company's product development efforts and to leverage the Company's sales and marketing capabilities. There can be no assurance that these companies, many of which have significantly greater financial and marketing resources than the Company, will not develop or market software products that compete with the company's products in the future or will not otherwise discontinue their relationship with or support the Company. The failure of the Company to maintain its existing relationships, or to establish new relationships in the future, for any reason, could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

Manufacturing and Production: The Company's manufacturing operations are dependent on the Company sourcing high quality electronic and mechanical components from reliable and timely suppliers. In some cases the Company is reliant on sole-source suppliers and can be impacted by industry-wide component allocation issues that can impact the continuity of manufacturing operations. There can be no assurance that the Company will not be affected by component shortages, which could impact the Company's ability to fulfill customer orders on a timely basis.

Currency Risk: Substantially all the Company's revenues are in, and are anticipated in the future to be in, U.S. dollars. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar and other currencies may have a material adverse effect on the Company's results from operations. The Company closely monitors the exchange rate between the U.S. and Canadian dollars, however, the Company's current hedging strategy envisions only hedging a portion of projected fiscal 2006 revenues and there can be no assurance that future exchange rate fluctuations will be favourable to the Company. Management believes that each one-cent increase in the value of the Canadian dollar, relative to the U.S. dollar, negatively impacts the Company's revenues and profitability by approximately \$250,000 and \$175,000, respectively, since the majority of the Company's revenues are denominated in U.S. dollars and the majority of the Company's expenses are denominated in Canadian dollars. While the Company has hedged a portion of expected fiscal 2006 U.S. dollar exposure, should the Canadian dollar rise above U.S. \$0.85 for a prolonged period of time, the Company's operations could be negatively impacted. Management's strategy as the Canadian dollar rises is to i) Hedge a significant portion of the Company's U.S. dollar revenues, ii) Source raw material costs

in U.S. dollars, when possible, and iii) Endeavor to source additional custom development opportunities at higher margins to mitigate gross margin pressure that accompanies a rising Canadian dollar.

Investment in Xign Corporation: The Company holds an 18% interest in Xign Corporation (13% on a fully diluted basis), a privately held California-based technology company that does not publicly disclose its financial results. As Xign competes with much larger enterprise solution providers, there can be no assurance that Xign will achieve revenue growth and profitability necessary to sustain operations without additional financing, which could dilute RDM's equity interest. Furthermore, there can be no certainty that, if required, such financing will be available. There is currently no liquid market for the Company's investment in Xign.

Executive Officers: RDM's future success largely depends on the continued efforts and abilities of its executive officers. Although RDM has employment and non-competition agreements with certain of its executive officers, if RDM were to lose the services of one or more of its executive officers, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with RDM, the Company's future business, operating results, and financial condition could be affected.

Accumulated Deficit: While the Company has been profitable in its recent history, the Company has incurred losses in certain previous years. As a result of these losses, RDM has an accumulated deficit at September 30, 2005. As the Company shifts its focus towards building a viable transaction processing business, short-term profitability may be negatively affected. As a result, there can be no assurance that RDM will be able to sustain or increase profitability or cash flows from operations on a quarterly or annual basis in the future.

Potential Fluctuations in Quarterly Results: The Company's quarterly operating results fluctuate depending on the timing and size of orders, the number, timing and significance of new product announcements by the Company and its competitors, the ability of the Company to develop, introduce and market new and enhanced versions of the Company's products and services on a timely basis, the level of product and price competition, and general economic factors. Quarterly results in the future may be influenced by these or other factors, including possible delays in the development and shipment of new products.

**Summary of Quarterly Results** (In thousands of Canadian dollars, except per share amounts)

Year ended September 30		2005 (unaudited)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenue	\$ 4,344	\$ 4,718	\$ 4,133	\$ 6,256	
Net earnings (loss)	\$ (199)	\$ 244	\$ 88	\$ 624	
Earnings (loss) per share:					
Basic and diluted	\$ (0.01)	\$ 0.01	\$ 0.00	\$ 0.03	
Total assets	\$ 20,225	\$ 20,578	\$ 20,373	\$ 21,684	

Year ended September 30 (as restated; see note 8 to the Company's fiscal 2005 consolidated financial statements)		2004 (unaudited)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenue	\$ 3,429	\$ 4,444	\$ 5,380	\$ 4,078	
Net earnings (loss)	\$ (333)	\$ (159)	\$ 335	\$ 271	
Earnings (loss) per share:					
Basic and diluted	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.02	
Total assets	\$ 18,613	\$ 19,058	\$ 20,496	\$ 20,194	

**Results for the Quarter Ended September 30, 2005**

The Company's fourth quarter results included revenues of \$6.3 million, gross margins of 46%, operating expenses of \$2.3 million and net earnings of \$624,000. Fourth quarter earnings were primarily generated by the Company's Quality Assurance and Electronic Payments Solutions businesses, similar to the Company's third quarter 2005 results. Both revenues and gross margins from the Digital Imaging division improved over 50% from both the fourth quarter of fiscal 2004 and the third quarter of fiscal 2005 as the Company experienced record fourth quarter scanner sales. There were no significant year-end or other adjustments that affected the Company's financial condition, cash flows, or results of operations.