

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

The following discussion and analysis, prepared as of November 17, 2006, 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, 2006 and September 30, 2005 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. Other documents are available on SEDAR at www.sedar.com and on the Company's website at www.rdmcorp.com.

Company Overview

RDM is a provider of solutions for the electronic commerce and payment processing markets. RDM has pioneered Remote Check Deposit systems and web-based image management and transaction processing services for retailers, banks, financial institutions, 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 & 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

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 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 maintain Quality Assurance product sales and grow Digital Imaging scanner revenue where possible to mitigate the impact that growing the ITMS business has on the Company's overall financial resources.

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 2006, the Company intends to remain primarily focused on growing its revenues in 2007 through:

- Increasing document scanner sales and related product offerings including the Company's peripheral document scanners (EC6000i[®] & EC7000i[®]) 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 and Value Added Resellers ("VAR's").
- Sourcing custom electronic payment solutions development projects from both the private and public sectors; and
- Continuing sales of legacy quality assurance products for corporate profitability.

Overall Performance and Industry Trends

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, continues to be the Check Clearing for the 21st Century Act ("Check 21"), which became effective 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 11th, 2001 terrorist 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 has been a lengthy process. During fiscal 2006 we continued to secure a marquee customer list of top tier U.S. financial institutions as ITMS customers. Management expects that fiscal 2007 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 2006 was clearly a strategic year for the Company's transaction processing business. The Company's fiscal 2006 performance improved significantly from 2005 and the Company's consolidated earnings were ahead of the fiscal 2006 operating plan prepared by Management and approved by the Company's Board of Directors. Consolidated revenues of \$24.3 million increased 25% from 2005 primarily due to strong Digital Imaging revenue growth. Revenue growth expressed in U.S. dollars was approximately 34% over the previous year, however the strengthening of the Canadian dollar from an average rate of \$.82 in fiscal 2005 to \$.88 in fiscal 2006 negated a significant amount of the Company's revenue growth. The Gross Profit margin % was 41% compared to 45% in the prior year due to a business mix change. Electronic Payments and Quality Assurance represented a smaller portion of the overall business than the prior year. Earnings from Operations for fiscal 2006 improved to \$1,272,000 compared to net earnings of \$757,000 in fiscal 2005, primarily due to the growth in digital imaging scanners. Net earnings were \$2,056,000 compared to \$757,000 in fiscal 2005. The Company recognized a future tax asset of \$850,000 for unclaimed scientific research and experimental development expenditures. The Company ended fiscal 2006 with \$6.2 million in cash and cash equivalents and \$13.1 million in working capital.

Electronic Payment Solutions performed in line with Management's expectations 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 lower than Management's expectations. Digital Imaging segment results exceeded Management's expectations for the year. Digital imaging scanner revenue growth and margins were stronger than expected. A significant scanner order backlog remains, despite the addition of a second production line. Although ITMS processing volume experienced significant continued growth, growth occurred at a slower rate than planned. By year-end, ITMS transaction volume exceeded 850,000 items per week, compared to 500,000 items at the end of fiscal 2005 a 70% growth rate. The Quality Assurance and Digital Imaging scanner products and Electronic Payments Solutions business results in fiscal 2006 continued to fund the Company's investment in its growing ITMS business.

Selected Annual Information

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

	2006	2005	2004
Revenues	24,340	\$ 19,451	\$ 17,331
Earnings from operations	1,272	757	114
Net earnings	2,056	757	114
Earnings per share	.10	.04	.01
Total assets	25,877	\$ 21,684	\$ 20,194

Divisional Performance

Digital Imaging

The primary objectives of the Company's Digital Imaging division in fiscal 2006 were i) Increasing Digital Imaging product revenues and ii) Establishing an industry leadership position with the Company's ITMS service by securing major banks. Significant progress was made towards these objectives. Digital Imaging revenue increased 70% compared to 2005. Revenue growth for ITMS was impacted by slower than expected bank rollouts. The Company's objective in fiscal 2007 is to continue to increase product sales to new customers and larger financial institutions. ITMS revenues were not significant in 2006, as a % of total revenue. ITMS volumes increased significantly during the year and by year-end average weekly ITMS volume surpassed 850,000 items. The Company was also successful in continuing to expand its ITMS customer base to 15 large U.S.-based financial institutions, up from seven a year earlier.

The Company exceeded its target of achieving Digital Imaging scanner gross profit margins of at least 30%. This was achieved by cost reduction initiatives and the gross margin improved to 33% in spite of the continued appreciation of the Canadian dollar. The Digital Imaging segment recorded an improvement of \$2.7 million to a loss of \$1.2 million. The main reasons for the improvement were a 70% increase in the revenue as well as, the impact of scanner cost reduction activities on the gross margin. The Company expects Digital Imaging scanner revenue to continue to be the most significant driver of overall growth in 2007.

The Company still believes that the enactment of Check 21 will contribute to a number of customers increasing their commitment to Electronic Cheque Conversion. While significant growth in ITMS volume has occurred, growth has been slower than expected due to the Company's bank customers' slower than anticipated rollouts to their corporate clients. Although the changeover 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 ITMS volumes as these leading 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 directly 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 2006 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 2006 was a strong year compared to internal plans for the division. Although revenues decreased from \$6.8 million in fiscal 2005 to \$5.5 million in fiscal 2006, and the division's operating contribution decreased from \$4.2 million to \$2.5 million, results were nevertheless ahead of budget since 2005 was an exceptionally strong year that was not expected to be repeated. While the majority of Electronic Payments Solutions revenues were still generated from government organizations in fiscal 2006, in excess of 25% of the division's revenues in fiscal 2006 were generated from large private sector U.S. financial institutions looking to implement RDM's custom payment solutions.

The Company has chosen to reflect custom development revenue from financial institution customers that sign on for ITMS services in the Electronic Payment Solutions segment results while Digital Imaging continues to bear the majority of the Company's research and development expenditures.

Quality Assurance

The primary objectives of the Company's Quality Assurance division in fiscal 2006 were i) Generating revenues in excess of \$2 million while maintaining strong gross profits and ii) Investing in new product development to broaden the scope of the division's product offerings. The Company was again successful in maintaining gross profits but Quality Assurance revenues were disappointing at \$1.8 million compared to \$2.6 million in 2005. Quality Assurance revenues have historically averaged approximately \$500,000 to \$600,000 per quarter, but results tend to fluctuate from one period to another.

Operating Expenses and Consolidated Operating Results

Each of the major operating expenses grew at a slower rate than revenues. Sales & marketing expenses increased \$297,000 or 11% to \$2.9 million primarily due to sales activities related to the 70% increase in revenue in the Digital Imaging Segment. The Company's investment plan also included funding the Company's sales penetration in the Remote Deposit Capture and bill-pay markets and product branding initiatives. Research & development expenses increased \$97,000 or 3% to \$3.1 million for the year ended September 30, 2006, as the Company continued to invest in Digital Imaging new product development, primarily EC7000 and RDM Synergy and a Web-based version of the Company's Image & Transaction Management System. Research and development expense is net of an additional \$153,000 of federal and provincial investment tax credits. General and administration expenses increased \$276,000 to \$1.5 million as a result of higher regulatory compliance requirements, recruiting and audit fees. A SAS 70 type I audit was completed in February 2006 and a type II audit is currently in progress. SAS 70 audits are required by financial institutions utilizing RDM's ITMS service. Interest Income and Other decreased \$20,000, due to higher foreign exchange losses of \$111,000 primarily mitigated by increased interest income.

The Company's earnings from operations for the year ended September 30, 2006 were \$1,272,000 compared to \$757,000 in the year ended September 30, 2005, an increase of 68%. The earnings growth rate exceeded the 25% revenue increase as well as the 14.9% growth in gross profit due to the Company's success in managing the growth of its operating expenses. The Company's net earnings from operations for the year ended September 30, 2006 were \$2,056,000 compared to \$757,000 in the year ended September 30, 2006. The Company recognized a future tax asset of \$850,000 for unclaimed scientific research and experimental development expenditures.

Royalty Arrangements

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. Although the Company questions the validity of the patents, to avoid the significant legal fees associated with the U.S. patent litigation process, the Company agreed to pay DTC a 3.25% royalty on digital imaging scanner sales and a 50% royalty on digital imaging archiving revenues. Both royalties are subject to certain stipulated maximums that significantly reduce these royalty rates. In exchange for these royalties, on June 3, 2003, DTC filed a Stipulation of Dismissal dismissing its patent infringement claims against the Company. The agreement with DTC is cancelable at the option of the Company upon the earlier of i) DTC's patents judged invalid or unenforceable in similar lawsuits by DTC against other financial service industry defendants; or ii) upon 90 days written notice by the Company. Royalty payments in 2006 totaled \$552,000.

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, 2006, cash provided by operations was \$913,000 compared with \$921,000 in the year ended September 30, 2005.

At September 30, 2006 the Company held cash and cash equivalents of \$6.2 million, an increase of \$0.7 million from the \$5.5 million on hand at September 30, 2005. The majority of the increase in cash and cash equivalents was a result of the Company's strong cash flow from operations. At September 30, 2006 the Company had working capital of \$13.1 million as compared to working capital of \$10.5 million at September 30, 2005. The Company was successful in maintaining inventory levels but accounts receivable increased due to the strong revenue growth. The Company expects that it will have similar working capital and capital expenditure requirements in fiscal 2007.

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.

The Company intends to continue to review its level of operating costs, 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, 2006 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 lease financing may be required.

Share Data

At October 31, 2006 the Company has 20,297,826 common shares outstanding. In addition, as of October 31, 2006, the Company has outstanding (i) 1,450,000 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 furniture and equipment and operating leases for certain ITMS and office equipment, and facility leases. Future minimum lease commitments by year and in aggregate are as follows:

2007	\$	362
2008		366
2009		307
2010		163
2011		103
Thereafter		<u>105</u>
	\$	<u>1,406</u>

The Company, in the normal course of business, has outstanding commitments at September 30, 2006 to purchase inventory and furniture and equipment of \$2,875. The amount is higher due to a scanner backlog.

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, 2006 the Company has outstanding U.S. dollar forward contracts totaling U.S. \$7,200 (2005 – U.S. \$7,200), maturing on or before September 30, 2007 at rates ranging from CDN \$1.17 – CDN \$1.09 to U.S. \$1.00 (2005 CDN \$1.24 – CDN \$1.16 to U.S. \$1.00). Based on foreign exchange rates as at September 30, 2006 for contracts with similar remaining terms to maturity, unrecognized net gains relating to the Company's foreign exchange contracts approximate \$18 (2005 - \$300).

Subsequent to the year end the Company entered into additional U.S. dollar forward contracts totaling U.S. \$5,225 maturing on or before September 30, 2007 at rates ranging from CDN \$1.14 – CDN \$1.13 to U.S. \$1.00.

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, 2006 the Company estimates it is a weighted average 85% complete on custom development contracts in progress based on development labour incurred to date, which accounts for approximately \$1.2 million in fiscal 2006 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 Furniture and equipment: Whenever events or changes in circumstances indicate that the carrying value of inventories or furniture and equipment 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 furniture and equipment 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 11 in the consolidated financial statements of the Company, the Company recognized the benefit of \$850,000 in previously unclaimed scientific research and experimental development expenditures carried forward.

In accessing the realizability of future assets, Management considers whether it is more likely than not that some portion or all of the future tax assets 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.

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, 2005. 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

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. 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 and Internal Controls

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. There have not been any changes in the Company's internal control over financial reporting (as that term is defined in Multilateral Instrument 52-109) that occurred in the fiscal quarter ended September 30, 2006, that has materially affected or is reasonably likely to materially affect the issuer's internal control over financial reporting.

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 2005 and 2006, 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 ITMS business. In fiscal 2005 and 2006, 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 2006 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 and broadened 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 garner 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 other 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 2007 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 \$275,000 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 2007 U.S. dollar exposure, should the Canadian dollar rise above U.S. \$0.90 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, 2006. As the Company shifts its focus towards building a successful 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	2006 (unaudited)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 5,010	\$ 5,897	\$ 6,187	\$ 7,246
Net earnings (loss)	\$ (10)	\$ 208	\$ 236	\$ 1,622
Earnings per share:				
Basic and diluted	\$ -	\$.01	\$.01	\$.08
Total assets	\$ 22,122	\$ 22,548	\$ 23,348	\$ 25,877

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

Results for the Quarter Ended September 30, 2006

The Company's fourth quarter results included revenues of \$7.2 million, gross margins of 41%, operating expenses of \$2.1 million and net earnings of \$1,622,000. Fourth quarter earnings were primarily generated by the Company's Quality Assurance and Electronic Payments Solutions business, and the scanner products in the Digital Imaging business. Revenues and gross profits from the Digital Imaging division improved by 72% and 200% respectively from the fourth quarter of fiscal 2005, and by 39% and 85% respectively from the third quarter of fiscal 2006 as the Company experienced record fourth quarter scanner sales. The Company recognized \$264,000 of investment tax credits as a reduction to research and development expense. The Company also recognized a future tax asset of \$850,000 for unclaimed scientific research and experimental development expenditures. There were no other significant year-end or other adjustments that affected the Company's financial condition, cash flows, or results of operations. The contribution from scanner products increased from prior quarters and represented a significant portion of overall profitability. The Digital Imaging segment including ITMS, generated earnings of \$0.6 million in the quarter.

Management's Report to the Shareholders

The accompanying consolidated financial statements of RDM Corporation and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. In preparing these consolidated financial statements, Management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

RDM Corporation's policy is to maintain systems of internal accounting and administrative controls of high quality at a reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and the Company's assets are appropriately accounted for and adequately safeguarded.

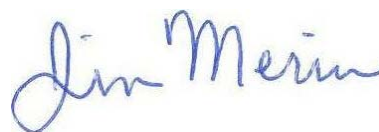
The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of independent Directors. The Committee meets with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration by the Board when it approves the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.



Douglas Newman, CA
President and Chief Executive Officer



James Merwin, CA
Chief Financial Officer

November 17, 2006



KPMG LLP
Chartered Accountants
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Waterloo ON N2J 5A3

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Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of RDM Corporation as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Waterloo, Canada
November 14, 2006

RDM CORPORATION
Consolidated Balance Sheets
(Amounts In Canadian Dollars, In Thousands)

At September 30	2006	2005
Assets:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 6,174	\$ 5,466
Accounts receivable	5,743	3,146
Inventories (note 4)	3,919	3,971
Investment tax credit receivable	623	250
Future income tax asset (note 11)	400	-
Other	266	168
Total current assets	17,125	13,001
Long-term investment (note 5)	6,379	6,379
Furniture and equipment (note 6)	1,923	2,304
Future income tax asset (note 11)	450	-
Total assets	\$ 25,877	\$ 21,684
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,607	\$ 1,972
Deferred revenue	433	529
Total current liabilities	4,040	2,501
Commitments (note 15)		
Shareholders' equity:		
Share capital (note 7)	26,461	26,135
Contributed surplus (note 8)	781	575
Deficit	(5,356)	(7,412)
Share purchase loans (note 13)	(49)	(115)
Total shareholders' equity	21,837	19,183
Total liabilities and shareholders' equity	\$ 25,877	\$ 21,684

See accompanying notes.

On behalf of the Board of Directors:



Thomas Di Giacomo
Chairman



Douglas Newman
President & CEO

RDM CORPORATION
Consolidated Statements of Operations and Deficit
(Amounts in Canadian Dollars, In Thousands, Except Per Share Amounts)

Years ended September 30	2006	2005
Revenue	\$ 24,340	\$ 19,451
Cost of revenue	14,339	10,748
Gross profit	10,001	8,703
Operating expenses:		
Sales and marketing	2,930	2,633
Research and development (note 9)	3,100	3,003
General and administration	1,542	1,266
Depreciation and amortization	911	891
Stock-based compensation (note 8)	273	200
Interest and other (note 10)	(27)	(47)
	8,729	7,946
Earnings from operations	1,272	757
Current income taxes	66	–
Future income taxes (note 11)	(850)	–
	(784)	–
Net earnings	\$ 2,056	\$ 757
Deficit, beginning of year	\$ (7,412)	\$ (8,169)
Deficit, end of year	\$ (5,356)	\$ (7,412)
Earnings per share – basic and diluted (note 12)	\$ 0.10	\$ 0.04

See accompanying notes.

RDM CORPORATION
Consolidated Statements of Cash Flows
(Amounts in Canadian Dollars, In Thousands)

Years ended September 30	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,056	\$ 757
Items not involving cash:		
Amortization	911	891
Stock-based compensation	273	200
Future income taxes	(850)	-
Change in non-cash operating working capital	(1,477)	(927)
Cash provided by operations	913	921
Financing:		
Issuance of share capital, net of issue costs	259	1,411
Repayment of share purchase loans	66	89
Cash provided by financing activities	325	1,500
Investing:		
Purchase of furniture and equipment	(530)	(964)
Cash used in investing activities	(530)	(964)
Increase in cash	708	1,457
Cash and cash equivalents, beginning of year	5,466	4,009
Cash and cash equivalents, end of year	\$ 6,174	\$ 5,466

See accompanying notes.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

Description of Business

RDM Corporation (the "Company") was incorporated on January 23, 1987 under the Canadian Business Corporations Act.

RDM is a provider of solutions for the electronic commerce and payment processing industries. RDM provides Remote Check Deposit 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.

1. Significant accounting policies:

The consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and reflect the following policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Research, Development and Manufacturing Corporation and 550100 Ontario Limited. All significant intercompany transactions and balances have been eliminated.

(b) Foreign currency translation:

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Foreign currency transactions included in the consolidated statement of operations are translated at an average exchange rate for the year. Translation gains or losses are included in the consolidated statement of operations as incurred.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and highly liquid money market instruments.

(d) Inventories:

Inventories are stated at the lower of cost, determined on a first in, first out basis and market with market defined as net realizable value for finished goods, and replacement cost for raw materials. Custom development contracts are accounted for using the percentage of completion method. Under the percentage of completion method, costs and estimated earnings on uncompleted contracts in excess of billings are included in custom development contract inventory.

(e) Furniture and equipment:

Furniture and equipment is stated at cost less accumulated amortization. Amortization is provided for using the following methods and annual rates:

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Engineering equipment	Declining balance	20%
Computer hardware	Declining balance	30%
Computer software	Straight-line	50%
Manufacturing equipment	Declining balance	20%
Tools and dies	Declining balance	30%
Leasehold improvements	Straight-line	33%
Patents	Straight-line	10%

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

1. Significant accounting policies (continued):

The Company regularly reviews the carrying values of its furniture and equipment based on expected future cash flows. If their carrying value exceeds the amount recoverable, a write down is charged to the consolidated statement of operations.

(f) Revenue recognition:

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 and extended warranty contracts

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 based on development labor costs incurred. Revisions in custom development and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

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.

Service and extended warranty 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.

(g) Research and development costs:

Research and development costs, net of government assistance, are expensed in the period incurred unless criteria for deferral under Canadian generally accepted accounting principles are met. To date, all research and development costs have been charged to operations as incurred.

(h) Government assistance:

Government assistance, including income tax credits and government grants, is accounted for as a reduction in the cost of the related asset or expense when there is reasonable assurance that such assistance will be realized.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

1. Significant accounting policies (continued):

(i) Future income tax assets and income taxes:

Income taxes are accounted for under the asset and liability method. Under the asset and liability 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 enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

(j) Financial instruments

Foreign exchange contracts are used by the Company to reduce financial risks related to certain future net cash flows in foreign currencies. Gains and losses on the contracts are recognized in the consolidated statement of operations during the same period as the corresponding foreign currency revenues and expenses.

(k) Stock-based compensation

The Company has adopted CICA Handbook Section 3870; *Stock-Based Compensation*. The fair value of all stock based awards granted is estimated using the Black-Scholes model and are recorded in the Statement of Operations over their vesting periods.

(l) Long-term investment

The Company's investment in Xign Corporation ("Xign") is accounted for using the cost method, whereby any earnings from the Company's investment are recognized only to the extent dividends are received. 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.

(m) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional incremental shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

1. Significant accounting policies (continued):

(n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses. Significant items subject to such estimates and assumptions include the carrying amount of furniture and equipment, valuation allowances for receivables, inventories, future income taxes and valuation of derivative financial instruments. Actual results could differ from those estimates.

(o) Recent accounting policies:

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 fiscal 2007. 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.

2. Supplemental cash flow information:

	2006	2005
Cash paid for:		
Interest	\$ 3	\$ 8

3. Banking facilities:

The Company has a \$1.0 million revolving credit facility, secured by all assets of the Company. The credit facility bears interest at bank prime plus .50%. No amounts were drawn on the facility as at September 30, 2006. The terms of the credit agreement require the Company to comply with certain financial and other covenants. As at September 30, 2006 the Company was in compliance with all of the terms of the credit agreement.

4. Inventories:

	2006	2005
Raw materials	\$ 3,793	\$ 3,948
Finished goods	126	23
	\$ 3,919	\$ 3,971

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

5. Long-term investment:

The Company's policy is to review the carrying value of Xign, in which it holds an 18% interest (13% on a fully diluted basis), annually at September 30 or when information is received that may indicate an impairment exists. Based on this review, the Company determined that no provision against the carrying value of Xign was required to be recognized in the Company's fiscal 2006 consolidated statement of operations.

6. Furniture and equipment:

	2006	2005
Furniture and fixtures	\$ 476	\$ 459
Engineering equipment	154	154
Computer hardware	1,405	1,182
Computer software	1,062	956
Manufacturing equipment	294	282
Tools and dies	2,279	2,232
Leasehold improvements	202	187
Patents	254	144
	6,126	5,596
Less accumulated depreciation and amortization	(4,203)	(3,292)
	\$ 1,923	\$ 2,304

7. Share capital:

	2006	2005
Authorized:		
Unlimited number of voting common shares		
Unlimited number of non-voting preferred shares		
Issued and outstanding:		
20,297,826 common shares (2005 - 19,995,076)		
700,000 common share purchase warrants (2005 - 700,000)	\$ 26,461	\$ 26,135

(a) Fiscal 2006 transactions:

During 2006, 302,750 options were exercised and 302,750 common shares were issued for total proceeds of \$259.

(b) Fiscal 2005 transactions:

- i) 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 (net proceeds of \$1.375 million, after issue costs). 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.
- ii) 46,000 options were exercised and 46,000 common shares were issued for total proceeds of \$36.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

8. Stock options:

a) Stock option plans:

The Company maintains stock option plans (the "Plans") to encourage ownership of the Company by Directors, Officers and Employees of the Company. The maximum number of common shares issuable under the Plans is 2,159,000, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. At September 30, 2006, 1,450,000 stock options are outstanding.

Stock options vest over a maximum of four years. The stock option exercise price is the price of the Company's common shares on the Toronto Stock Exchange at closing on the last trading day prior to the date of the grant. Options granted under the plan may be exercised during a period not exceeding ten years from the date of grant, subject to earlier termination upon the optionee ceasing to be a Director, Officer or Employee of the Company. Any option granted which is cancelled or terminated for any reason prior to exercise is returned to the pool and becomes available for future stock option grants.

(i) *Summary of the Plans as at September 30, 2006 and 2005:*

	2006		2005	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,819,000	\$ 1.01	2,068,000	\$ 1.13
Granted	815,000	.99	125,000	1.21
Exercised	(302,750)	.89	(46,000)	0.80
Forfeited/expired	(881,250)	.84	(328,000)	1.83
Outstanding end of year	1,450,000	\$ 1.13	1,819,000	\$ 1.01
Exercisable, end of year	763,000	\$ 1.21	1,231,000	\$ 0.99

(ii) *Options outstanding and exercisable at September 30, 2006:*

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
0.92	630,000	4.5	\$.92	185,500	\$.92
1.05 – 1.25	375,000	6.3	1.17	317,500	1.18
1.30 – 1.56	445,000	2.8	1.40	260,000	1.45
\$.92 – 1.56	1,450,000	4.5	\$ 1.13	763,000	\$ 1.21

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

8. Stock option plans (continued):

b) Stock-based compensation:

The following table illustrates significant assumptions underlying the Company's accounting policy for stock-based compensation:

	2006	2005
Weighted average fair value of each option	\$ 0.51	\$ 0.82
Assumptions:		
Expected volatility	59%	75%
Risk free interest rate	3.8%	3.9%
Expected life in years	4.7	6
Expected dividend yield	0%	0%

The fair value of options granted was \$418 (2005 \$102)

9. Research & development:

Research & development expense for the year ended September 30, 2006 is net of \$439 of federal and provincial investment tax credits (2005 – \$286).

10. Interest and other:

Interest income and other expense for the year ended September 30, 2006 includes \$168 with respect to foreign exchange losses (2005 – foreign exchange losses of \$57).

11. Future income tax assets and income taxes:

The Company's effective income tax expense differs from income tax expense that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to the Company's earnings (loss) before income taxes as follows:

	2006	2005
Combined basic federal and provincial income tax rate	36%	36%
Income tax expense at statutory rate	\$ 458	\$ 273
Research and development expenses	(1,354)	(389)
Stock-based compensation	98	72
Other	14	44
Income tax expense	\$ (784)	\$ -
Income tax expense:		
Current	\$ 66	\$ -
Future	(850)	-
	\$ (784)	\$ -

Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

11. Future income tax assets and income taxes (continued):

Significant components of the Company's net future tax assets are as follows:

	2006	2005
Research and development expenses deferred for income tax purposes	\$ 1,200	\$ 1,800
Investment in affiliated company	800	800
Other	-	(100)
	2,000	2,500
Less valuation allowance	(1,150)	(2,500)
	850	-
Less: current portion of future tax asset	400	-
Long term portion of future tax asset	\$ 450	\$ -

In accessing the realizability of future tax assets, Management considers whether it is more likely than not that some portion or all of the future tax assets 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 assets, 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. During the year ended September 30, 2006, the Company recognized the benefit of \$850 (2005 – nil) in previously unclaimed scientific research and experimental development expenditures carried forward.

As at September 30, 2006, the Company has the following amounts available to reduce future years' income taxes, which expire as follows:

	Scientific Research and Experimental Development ("SR&ED") Expenses		Non-Refundable Investment Tax Credits
	Federal	Ontario	
Expiring in:			
2008	-	-	\$ 400
2009	-	-	100
2010	-	-	100
2011	-	-	300
2012	-	-	500
2013	-	-	400
2014	-	-	1,200
2015	-	-	950
2026	-	-	1,000
Indefinite	\$ 3,700	\$ 2,900	-
	\$ 3,700	\$ 2,900	\$ 4,950

In the normal course of operations, the Company's SR&ED expense claims are subject to reviews by federal and provincial government authorities. Reviews of certain of the Company's SR&ED claims are incomplete at September 30, 2006 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

12. Earnings per share information:

	2006	2005
Weighted average common shares outstanding during the year	20,158,913	19,649,884
Incremental shares issued from assumed exercise of stock options	179,106	344,000
Adjusted weighted average common shares outstanding during the year	20,338,019	19,993,884
Earnings per share – diluted	\$ 0.10	\$ 0.04

Options to purchase 570,000 common shares and share purchase warrants to purchase 700,000 common shares were outstanding but were not included in the computation of fiscal 2006 diluted earnings per share (2005 – 1,435,000) as the impact of these instruments was antidilutive.

13. Related party transactions:

During fiscal 2002, the Company granted \$232 in share purchase loans to non-executive employees to purchase common shares of the Company. As at September 30, 2006, \$49 in loans are outstanding (2005 - \$115). The loans are non-interest bearing, repayable on demand, and secured by the common shares held by the employees.

14. Financial instruments:

(a) Fair value:

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

(b) Foreign exchange risk:

The following accounts include amounts denominated in U.S. dollars at their Canadian dollar equivalents:

	2006	2005
Cash (cheques issued in excess of cash)	\$ (15)	\$ 540
Accounts receivable	4,700	3,100
Accounts payable	1,260	480

Fluctuations in exchange rates may affect the amounts of collections and payments ultimately recorded.

(c) Foreign exchange management:

The Company generates the majority of its revenues in U.S. dollars, which exceeds the natural hedge provided by purchases of goods and services in U.S. dollars. In order to manage a portion of this net foreign currency exposure, the Company has entered into foreign exchange contracts. The timing and amount of foreign exchange contracts are estimated based on existing or anticipated sales, current conditions in the Company's markets, and the Company's past experience. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between hedging

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

14. Financial instruments (continued):

instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar denominated revenue are recognized as an adjustment of the revenues when the sale is recorded.

At September 30, 2006 the Company has outstanding U.S. dollar forward contracts totaling U.S. \$7,200 (2005 – U.S. \$7,200), maturing on or before September 30, 2007 at rates ranging from CDN \$1.17 – CDN \$1.09 to U.S. \$1.00 (2005 CDN \$1.24 – CDN \$1.16 to U.S. \$1.00). Based on foreign exchange rates as at September 30, 2006 for contracts with similar remaining terms to maturity, unrecognized net gains relating to the Company's foreign exchange contracts approximate \$18 (2005 - \$300).

Subsequent to the year end the Company entered into additional U.S. dollar forward contracts totaling U.S. \$5,225 maturing on or before September 30, 2007 at rates ranging from CDN \$1.14 – CDN \$1.13 to U.S. \$1.00.

15. Commitments:

The Company rents its premises and certain office, computer equipment, and facilities under operating leases. Future minimum lease commitments by year and in aggregate are as follows:

2007	\$	362
2008		366
2009		307
2010		163
2011		103
Thereafter		105
	\$	1,406

The Company, in the normal course of business, has outstanding commitments at September 30, 2006 to purchase inventory and capital assets of \$2,875.

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

16. Segmented information:

The Company evaluates operational performance based on three operating segments: Digital Imaging, Electronic Payments Solutions, and Quality Assurance. The segments are managed separately as each requires unique marketing strategies and is exposed to different economic environments.

The Digital Imaging segment produces electronic document readers and provides related image management and transaction consolidation services. The Electronic Payments Solutions segment develops customer-specific electronic payment and e-commerce systems to facilitate business-to-business and business-to-consumer electronic transactions. In fiscal 2006, all of the Electronic Payments Solutions segment revenues were derived from U.S.-based customers. The Quality Assurance segment designs and manufactures test equipment that are 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies and elsewhere in these consolidated financial statements. There were no inter-segment sales or transfers during fiscal 2006 or 2005.

(i) *Operating results by operating segment:*

	2006			
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Segment revenue	\$17,007	\$ 5,495	\$ 1,838	\$ 24,340
Segment operating earnings (loss)	(1,152)	2,486	294	1,628
Finance and corporate				(356)
Income taxes				784
Net earnings				\$ 2,056
Segment furniture and equipment expenditures	311	53	31	\$ 395
Segment furniture and equipment amortization	700	71	43	\$ 814

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

16. Segmented information (continued):

	2005			
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Segment revenue	\$ 10,029	\$ 6,778	\$ 2,644	\$ 19,451
Segment operating earnings (loss)	(3,900)	4,208	714	1,022
Finance and corporate				(265)
Net earnings				\$ 757
Segment furniture and equipment expenditures	620	116	83	\$ 819
Segment furniture and equipment amortization	665	84	60	\$ 809

(ii) *Revenue by geographic area, based on location of the customer:*

	2006	2005
United States	\$ 23,806	\$ 18,953
Canada	241	365
Other	293	133
	\$ 24,340	\$ 19,451

RDM CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Canadian Dollar, In Thousands, Except Share and Per Share Amounts)

16. Segmented information (continued):

(iii) *Segment operating assets:*

2006				
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Identifiable segment assets	\$ 9,597	\$ 253	\$ 927	\$ 10,777
Corporate assets				15,100
				\$ 25,877
2005				
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Identifiable segment assets	\$ 8,429	\$ 436	\$ 972	\$ 9,837
Corporate assets				11,847
				\$ 21,684

17. Major Customers:

The Company has three major customers. These three customers account for 42% of revenue for the year (2005 - 46%) and 21% of the accounts receivable balance at September 30, 2006 (2005 - 31%).

18. Reclassification:

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