

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

The following discussion and analysis, prepared as of November 22, 2007, 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, 2007 and September 30, 2006 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.

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.

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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 2007, the Company intends to remain primarily focused on growing its revenues in 2008 through:

- Increasing document scanner sales and related product offerings from the Company's peripheral document scanners (EC6000i® & EC7000i®) and all-in-one payment terminal (RDM SYNERGY) and from the CaptureOne™ batch scanner. The CaptureOne was jointly developed with Epson Corporation. The CaptureOne scanner is manufactured by Epson and is powered by RDM's proprietary MICR and processing technologies;
- 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
- Identifying any suitable acquisition targets that increase shareholder value.

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 remote deposit capture (RDC). RDC refers to a deposit taking mechanism that uses technology to capture cheque images and data at corporate or merchant sites and the electronic transmission of these deposits to their financial institutions. The Check Clearing for the 21st Century Act ("Check 21"), which became effective in the United States October 28, 2004 was a catalyst for the adoption of RDC as well as other forms of image based cheque processing. 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.

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. By promoting the use of imaging technology such as RDM's ITMS, Check 21 enables 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.

Nearly a third of all US banks have adopted RDC or branch capture solutions but client-level adoption has barely begun. Industry estimates are that only 2% of US businesses are using RDC and most banks have yet to launch comprehensive sales and marketing campaigns designed to introduce this new service to their customer base. The focus of most banks RDC initiatives has been on a small sub-set of existing corporate clients who represent the most revenue to the bank's treasury management department. The larger market opportunities for RDC services for small and medium sized business is just starting to be addressed by some banks. The total adoption potential for RDC is estimated at over 5 million capture points. Even though RDC adoption is still in it's infancy and may seem slow to those who have been watching the industry, it is worth noting that to date RDC adoption rate has outpaced that of online banking systems in the 1990's.

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In almost all cases, large financial institutions implement their RDC 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. In March 2007, Bill C-137 received Royal Assent which amends the legislation governing Canadian financial institution opportunities in Canada. The change provides a framework for electronic cheque imaging in Canada and opens the door for RDC services to be offered to Canadian businesses.

Although the full impact of RDC on the Company remains to be seen, fiscal 2007 was clearly a strategic year for the Company's transaction processing business. The Company's fiscal 2007 performance improved significantly from 2006 and the Company's consolidated earnings were ahead of the fiscal 2007 operating plan prepared by Management and approved by the Company's Board of Directors. Consolidated revenues of \$33.9 million increased 39% from 2006 primarily due to strong Digital Imaging revenue growth. Gross profit increased \$3.5 million to \$13.5 million and as a percentage of revenues, 40% compared to 41% 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 before taxes for fiscal 2007 improved to \$6,926,000 compared to earnings before taxes of \$1,272,000 in fiscal 2006, due to the growth in digital imaging scanners, the sale of Xign and foreign exchange. The Company successfully completed the sales transaction for its 13% interest in Xign resulting in a gain of \$2,707,000. Cash proceeds of \$8.6 million were received in the third quarter. The one time impact of the transaction on EPS is \$0.13. There are no tax consequences on the sale of Xign given the tax basis of the investment. The US dollar weakened in the year. The Company utilizes foreign exchange contracts which are marked to market through earnings. The Company recorded exchange income of \$657,000. This was due to an unrealized gain on the US dollar forward contracts totaling \$1,230,000 partially offset by realized exchange losses. Net earnings for the year were \$5,757,000 compared to \$2,056,000 in fiscal 2006. The Company ended fiscal 2007 with \$17.4 million in cash and cash equivalents and \$27.3 million in net working capital.

SELECTED ANNUAL INFORMATION

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

	2007	2006	2005
Revenues	\$ 33,922	\$ 24,340	\$ 19,451
Earnings before taxes	6,926	1,272	757
Net earnings	5,757	2,056	757
Earnings per share – basic	0.27	0.10	0.04
– diluted	0.26	0.10	0.04
Total assets	\$ 34,546	\$ 25,877	\$ 21,684

DIVISIONAL PERFORMANCE

Digital Imaging

The primary objectives of the Company's Digital Imaging division in fiscal 2007 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 68% compared to 2006. The Company's objective in fiscal 2008 is to continue to increase product sales and sign new customers and new financial institutions.

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Both scanner sales and ITMS volume experienced significant growth compared to 2006. ITMS transaction volume increased significantly and by year end average weekly volume was 2,081,000 items, compared to 850,000 items in 2006. Ten new bank distributors were signed during the year, bringing the total to 25 banks, including one leading global financial services firm. Shipments of proprietary scanners for 2007 were 54,696 units compared to 33,925 units in 2006. Increasing adoption of remote deposit capture services is fueling demand for both ITMS and scanner sales compared to 2006.

The Digital Imaging segment recorded an improvement of \$5.0 million in earnings to operating earnings of \$3.9 million. The main reasons for the improvement were a 69% increase in the revenue as driven by strong scanner sales and higher ITMS transactions. Scanner sales are often placed in large orders and the timing of those orders can be important. Increasing adoption of remote deposit capture services is fueling demand for both ITMS and scanner sales compared to 2006. The Company expects Digital Imaging scanner revenue to continue to be the most significant driver of overall growth in 2008.

The Company believes that the enactment of Check 21 will contribute to a number of customers increasing their commitment to Electronic Cheque Conversion. To date, ITMS volume growth has been slow but the changeover to electronic cheque processing enabled by Check 21 is gaining momentum. 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 2007 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 2007 was a strong year compared to internal plans for the division. Although revenues decreased from \$5.5 million in fiscal 2006 to \$3.2 million in fiscal 2007, and the division's operating contribution decreased from \$2.5 million to \$1.4 million, results were nevertheless ahead of budget. The majority of Electronic Payments Solutions revenues were still generated from government organizations in fiscal 2007. In fiscal 2007 18% of the division's revenues were generated from large private sector U.S. financial institutions.

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 2007 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 and revenues for Quality Assurance.

OPERATING EXPENSES AND CONSOLIDATED OPERATING RESULTS

Sales & marketing expenses increased \$1,280,000 or 43% to \$4.2 million due to sales activities related to the 69% increase in revenue in the Digital Imaging Segment and to focus on signing new ITMS banks and additional for trade shows to prepare for the introduction of a batch scanner. Research & development expenses were unchanged for the year ended September 30, 2007, as the Company continued to invest in Digital Imaging new product development, primarily EC7000 and RDM Synergy and a Web-based release of the Company's Image & Transaction Management System. Research and development expense is net of an additional \$427,000 of federal and provincial investment tax credits. General and administration expenses increased \$516,000 to \$2.0 million as a result of higher regulatory compliance requirements, staff recruiting, SAS 70 controls audit fees and insurance due to the growth in the Company. Interest Income and Other increased \$246,000 and foreign exchange gains increased \$825,000 due to an unrealized gain on US dollar forward contracts of \$1,230,000 offset by realized exchange losses of \$405,000.

The Company's earnings before taxes for the year ended September 30, 2007 were \$6,926,000 compared to \$1,272,000 in the year ended September 30, 2006, an increase of 444%. The Company's net earnings for the year ended September 30, 2007 were \$5,757,000 compared to \$2,056,000 in the year ended September 30, 2006. In 2006 a future tax asset of \$850,000 was recognized.

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 Data Treasury 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 when the end user has not signed a license with DTC. 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 expense in 2007 totaled \$831,000.

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, 2007, cash provided by operations was \$2,382,000 compared with \$913,000 in the year ended September 30, 2006.

At September 30, 2007 the Company held cash and cash equivalents of \$17.4 million, an increase of \$11.2 million from the \$6.2 million on hand at September 30, 2006. The majority of the increase in cash and cash equivalents was a result of the sale of the Company's long term investment in Xign Corporation ("Xign") for its 13% ownership stake in Xign. In May 2007, the Company received cash proceeds of approximately \$8.6 million (\$7.95 million U.S.). In addition, \$0.5 million was recorded and is included on the balance sheet as an "other receivable" of a total amount of \$1.1 million being held in escrow. The amount that may be received by the Company from escrow is impacted by a number of items including the final purchase price adjustment, and is expected in the third quarter of 2008. The strong cash position allows RDM to be in a position to make strategic investments, if and when they are identified,

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that will add shareholder value. Cash is invested in short term low risk investments in Canadian banks. The Company does not hold any asset backed commercial paper. At September 30, 2007 the Company had net working capital of \$27.3 million as compared to working capital of \$12.7 million at September 30, 2006.

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). The share purchase warrants, which had an exercise price of \$1.35 each, were 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 share purchase warrants were exercised in December 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 \$1.0 million revolving credit facility with its bank. The primary intended use of the facility is to fund short-term working capital requirements and at September 30, 2007 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 September 30, 2007 the Company has 21,235,326 common shares outstanding. In addition, as of September 30, 2007, the Company has 1,487,500 stock options outstanding, each of which is 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:

(In Thousands of Canadian Dollars)

2008	\$ 867
2009	790
2010	367
2011	118
2012	116
Thereafter	-
	<u>\$ 2,258</u>

The Company utilizes US dollar forward contracts to manage a portion of its foreign exchange exposure, typically for up to twelve months out. 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, 2007, the Company has outstanding U.S. dollar forward contracts totaling U.S. \$9.7 million (2006 – U.S. \$7.2 million), maturing on or before July 15, 2008 at rates ranging from CDN \$1.16 – CDN \$1.06 to U.S. \$1.00 (2006 CDN \$1.17 – CDN \$1.09 to U.S. \$1.00). The fair value of the U.S. dollar forward contracts outstanding was an asset included in "other" totaling \$1,230,000. These economic hedge contracts are marked to market through earnings and are included in foreign exchange gain/loss in our Consolidated Statement of Operations and Retained Earnings (Deficit).

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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 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, 2007 the Company estimates it is a weighted average 66% complete on custom development contracts in progress based on development labour incurred to date, which accounts for approximately \$1.5 million in fiscal 2007 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.

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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 8 in the consolidated financial statements of the Company, the Company recognized the benefit of \$666,000 in previously unclaimed federal investment tax credits.

CHANGES IN ACCOUNTING POLICIES AND IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2006, the Company adopted CICA Section 3855, "Financial Instruments - Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3865, "Hedges". The adoption of the new standards had no impact on the Company's retained earnings as at October 1, 2006.

In December 2006, the CICA issued two new accounting standards: Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". These new standards will require increased disclosure of financial instruments with particular emphasis on the risks associated with recognized and unrecognized financial instruments and how those risks are managed. The standards are effective for fiscal years beginning on or after October 1, 2007 and the Company is currently considering the additional disclosures, if any, required in future financial statements.

In December 2006, the CICA issued a new accounting standard: Handbook Section 1535, "Capital Disclosures" requiring disclosure of information about an entity's capital and the objectives, policies, and processes for managing capital. The standard is effective for fiscal years beginning on or after October 1, 2007 and the Company is currently considering the additional disclosures, if any, required in future financial statements.

In May 2007, the Accounting Standards Board issued Handbook Section 3031 "Inventories". The standard introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. The standard is effective for fiscal years beginning on or after January 1, 2008. The Company has not yet determined the impact the adoption of this standard will have on its financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

Company management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately. 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. Nevertheless, management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

The Company has designed and maintains a set of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP. There have been no changes in the Company's internal controls over financial reporting during the year ended September, 2007, that have materially affected, or are reasonably likely to materially affect its 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:

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 strategy envisions purchasing U.S. dollar forward contracts for a portion of projected fiscal 2008 revenues and there can be no assurance that future exchange rate fluctuations will be favorable 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 \$340,000 and \$200,000, 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. The Company has hedged a portion of expected fiscal 2008 U.S. dollar exposure should the value of the Canadian dollar remain above U.S. \$1.00 for a prolonged period of time, the Company's operations could be negatively impacted. Management's strategy i) Source raw material costs in U.S. dollars, when possible, ii) Purchase U.S. dollar forward contracts, iii) Reduce the cost of scanners, and iv) Endeavor to source additional custom development opportunities at higher margins to mitigate gross margin pressure that accompanies a rising Canadian dollar.

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: There can be no certainty that the Company will be successful in gaining and maintaining a leadership position in transaction processing as Check 21 gains prominence or that the Company's ITMS will garner sufficient transaction volume to become a profitable business. U.S. financial institutions could also decide to bring transaction processing in house. 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 and ITMS, which in turn are 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

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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.

Executive Officers and Key Employees: RDM's future success is dependant on the abilities of its executive officers and key employees. 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 operating results could be affected.

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 such as exchange rates. Quarterly results in the future may be influenced by these or other factors, including possible delays in the development and shipment of new products.

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 2007, the Company generated the majority of its earnings and operating cash flow from the Quality Assurance, Electronic Payments Solutions and the scanner products in the Digital Imaging segment and the results of those segments allowed the Company to fund its investment in growing the Digital Imaging ITMS business. In fiscal 2006 and 2007, all Electronic Payments Solutions segment revenues were derived from a small number of U.S.-based customers. There can be no assurance that these segments will continue to generate results in the future at fiscal 2007 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.

OUTLOOK

During fiscal 2007 we continued to expand our marquee customer list of top tier U.S. financial institutions as ITMS customers. Fiscal 2008 will be a year of assisting these customers in rolling out ITMS to their own deposit customers.

During the year, RDM announced it jointly developed CaptureOne with Epson Corporation. CaptureOne is a batch scanner and is designed for the emerging eCheck market which includes Remote Deposit Capture (ARC, BOC, Check 21, and Image Exchange) and Branch Automation. CaptureOne will be available for sale in the first quarter of 2008. This enables the Company to more fully service this

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

segment where significant growth is expected. CaptureOne is powered by RDM's Proprietary MICR and processing technologies.

RDM's revenues are primarily from the sale of scanners that are used for RDC and from the provision of RDC services through our proprietary ITMS transaction processing system.

We expect our revenue growth rate next year and for the longer term to continue or exceed double digit growth rate that we have achieved over the past two years. Remote Deposit Capture adoption is growing steadily and is now entering the mainstream. Our revenue growth rate will be governed by the overall growth rate in the industry and more particularly by the adoption rate that our financial institutions achieve with their customer base. RDM revenues and earnings will also be affected favorably or unfavorably by any significant changes in the exchange rate between the Canadian and U.S. dollar. While annual revenue growth rates are more predictable, on a quarter by quarter basis, there could be a higher degree of variability due to the timing of orders and deployment schedules of banks and their customers.

Gross profit margins for fiscal 2008 are expected to be similar to those achieved in the fourth quarter of fiscal 2007. Actual gross profit margins could be negatively affected by 2-4 percent from expected margins due to a number of factors including: competitive pressures, product mix, margins on new products and a shortfall in delivering on cost reduction plans. The appreciation of the Canadian dollar against the U.S. dollar has had a negative impact on margins. Any further significant fluctuation could further impact margins on a quarterly basis and possibly on an annual basis. As well, overall gross margins are expected to increase as transaction revenues increase and represent a greater percentage of overall revenue. The majority of costs related to ITMS revenues are fixed costs such as salaries and infrastructure.

Our corporate strategy is to continue to be product leaders and provide operational excellence to our customers. To achieve this, we plan to continue to invest in ITMS infrastructure, functionality and performance. Our development and capital expenditures will be similar to those of 2007.

SUMMARY OF QUARTERLY RESULTS

(In thousands of Canadian dollars, except per share amounts)

Year ended September 30	2007 (unaudited)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 11,746	\$ 7,882	\$ 6,791	\$ 7,503
Net earnings	\$ 1,294	\$ 587	\$ 3,240	\$ 636
Earnings per share:				
Basic and fully diluted	\$ 0.06	\$ 0.03	\$ 0.15	\$ 0.03
Total assets	\$ 30,521	\$ 29,699	\$ 31,770	\$ 34,546

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 fully diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.08
Total assets	\$ 22,122	\$ 22,548	\$ 23,348	\$ 25,877

RESULTS FOR THE QUARTER ENDED SEPTEMBER 30, 2007

The Company's fourth quarter results included revenues of \$7.5 million, gross margins of 39%, operating expenses of \$2.0 million, income taxes of \$345,000 and net earnings of \$636,000. Fourth quarter earnings were primarily generated by the Company's Electronic Payments Solutions business, and the scanner products in the Digital Imaging business. The U.S. dollar continued to weaken in the quarter impacting reported revenues. An exchange gain of \$215,000 was recorded in the quarter comprising \$465,000 in unrealized exchange contracts partially offset by realized exchange losses on US dollar denominated assets.

The Company recognized \$666,000 of federal investment tax credits as a reduction to research and development expense. There were no other significant year-end or other adjustments that affected the Company's financial condition, cash flows, or results of operations. The Digital Imaging segment including ITMS, generated earnings of \$0.4 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 26, 2007

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

At September 30	2007	2006
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 17,418	\$ 6,174
Accounts receivable	6,365	5,743
Other receivable (note 4)	503	-
Inventories (note 3)	4,720	3,919
Investment tax credit receivable	1,451	623
Future income tax asset (note 9)	-	400
Other (note 12 (b))	1,843	266
Total current assets	32,300	17,125
Long-term investment (note 4)	-	6,379
Furniture and equipment (note 5)	2,011	1,727
Intangible assets	235	196
Future income tax asset (note 9)	-	450
Total assets	\$ 34,546	\$ 25,877
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,587	\$ 3,607
Future income tax liability (note 9)	210	-
Deferred revenue	427	433
Total current liabilities	5,224	4,040
Future income tax liability (note 9)	32	-
Commitments (note 13)		
Shareholders' equity:		
Share capital (note 6)	27,978	26,461
Contributed surplus (note 7)	927	781
Retained earnings (Deficit)	401	(5,356)
Share purchase loans (note 11)	(16)	(49)
Total shareholders' equity	29,290	21,837
Total liabilities and shareholders' equity	\$ 34,546	\$ 25,877

See accompanying notes.

On behalf of the Board of Directors:



Bob Nally
Director



Douglas Newman
President & CEO

RDM CORPORATION

Consolidated Statements of Operations and Retained Earnings (Deficit)

(Amounts in Canadian Dollars, In Thousands, Except Per Share Amounts)

Years ended September 30	2007	2006
Revenue	\$ 33,922	\$ 24,340
Cost of revenue	20,374	14,339
Gross profit	13,548	10,001
Operating expenses:		
Sales and marketing	4,210	2,930
Research and development (note 8)	3,048	3,100
General and administration	2,058	1,542
Depreciation and amortization	690	911
Stock-based compensation (note 7)	421	273
Foreign exchange loss (gain)	(657)	168
Gain on sale of long term investment (note 4)	(2,707)	-
Interest	(441)	(195)
	6,622	8,729
Earnings before taxes	6,926	1,272
Income taxes expense (recovery) (note 9):		
Current	77	66
Future	1,092	(850)
	1,169	(784)
Net earnings and comprehensive earnings	5,757	2,056
Deficit, beginning of year	(5,356)	(7,412)
Retained earnings (Deficit), end of year	\$ 401	\$ (5,356)
Earnings per share – basic	\$ 0.27	\$ 0.10
– diluted (note 10)	\$ 0.26	\$ 0.10

See accompanying notes.

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

Years ended September 30	2007	2006
Cash provided by (used in):		
Operations:		
Net Earnings	\$ 5,757	\$ 2,056
Items not involving cash:		
Amortization of furniture and equipment	657	886
Amortization of intangible assets	33	25
Stock based compensation	421	273
Future income taxes	1,092	(850)
Gain of sale of long term investment	(2,707)	-
Change in non-cash operating working capital	(2,871)	(1,477)
Cash provided by operations	2,382	913
Financing:		
Issuance of share capital	1,242	259
Repayment of share purchase loans	33	66
Cash provided by financing activities	1,275	325
Investing:		
Proceeds from sale of long term investment	8,600	-
Purchase of furniture and equipment	(941)	(420)
Additions to intangible assets	(72)	(110)
Cash provided by (used in) investing activities	7,587	(530)
Increase in cash and cash equivalents	11,244	708
Cash and cash equivalents, beginning of year	6,174	5,466
Cash and cash equivalents, end of year	\$ 17,418	\$ 6,174

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 Canada 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 inter-company 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.

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

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%

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) Intangible assets:

Patents are stated at cost less accumulated amortization. Amortization is based on the estimated useful life of the assets and is calculated at an annual rate of 10% using the straight-line method.

g) 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 processing 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 labour 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.

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

h) 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.

i) Government assistance:

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

j) 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.

k) Financial instruments:

Effective October 1, 2006, the Company adopted CICA Section 3855, "Financial Instruments - Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3865, "Hedges". The adoption of the new standards had no impact on the Company's retained earnings as at October 1, 2006.

The Company has limited financial instruments consisting of cash, accounts receivable, accounts payable and forward foreign exchange contracts, all of which the classification and measurement are largely fixed as outlined below:

Cash – measured at fair value.

Accounts receivable and other receivables – measured at amortized cost using the effective interest rate.

Long-term investment – measured at cost, as represents an investment in equity instruments that do not have a quoted market price in an active market.

Accounts payable – measured at amortized cost using the effective interest rate.

Forward foreign exchange contracts – held for trading – measured at fair value.

Foreign exchange contracts are used by the Company to reduce financial risks related to certain future net cash flows in foreign currencies. These hedge contracts are recorded at fair value with changes in fair value recognized through earnings, and are included in "foreign exchange gain/loss" in the Consolidated Statements of Operations and Retained Earnings and Deficit.

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

l) 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 and Retained Earnings (Deficit) over their vesting periods.

m) 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.

n) 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.

o) 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 of patents, valuation allowances for receivables, valuation of inventories, future income taxes and valuation of derivative financial instruments. Additional items include estimates for warranty costs and progress of projects accounted for using the percentage of completion method. Actual results could differ from those estimates.

2. 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 0.50%. No amounts were drawn on the facility as at September 30, 2007. The terms of the credit agreement require the Company to comply with certain financial and other covenants. As at September 30, 2007 the Company was in compliance with all of the terms of the credit agreement.

3. Inventories:

	2007	2006
Raw materials	\$ 4,403	\$ 3,793
Finished goods	317	126
	<u>\$ 4,720</u>	<u>\$ 3,919</u>

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

4. Long-term investment:

During the year, the Company sold its 13% interest in Xign for cash proceeds of U.S. \$7,950 (CDN\$8,600). In addition, an amount of U.S. \$506 (CDN \$503) was recorded and is included on the balance sheet as "other receivable", representing a portion of an amount of U.S. \$1,050 being held in escrow. The amount that may be received by the Company from escrow is impacted by a number of items including the final purchase price adjustment and is expected in the third quarter of 2008. The sale resulted in a gain on disposition of \$2,707.

5. Furniture and equipment:

	2007		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and fixtures	\$ 554	\$ 360	\$ 194
Engineering equipment	154	136	18
Computer hardware	1,767	1,053	714
Computer software	1,420	1,102	318
Manufacturing equipment	341	210	131
Tools and dies	2,334	1,730	604
Leasehold improvements	243	211	32
	\$ 6,813	\$ 4,802	\$ 2,011

	2006		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and fixtures	\$ 476	\$ 321	\$ 155
Engineering equipment	154	132	22
Computer hardware	1,405	825	580
Computer software	1,062	1,034	28
Manufacturing equipment	294	183	111
Tools and dies	2,279	1,485	794
Leasehold improvements	202	165	37
	\$ 5,872	\$ 4,145	\$ 1,727

6. Share capital:

	2007	2006
Authorized:		
Unlimited number of voting common shares		
Unlimited number of non-voting preferred shares		
Issued and outstanding:		
0 common share purchase warrants (2006 – 700,000)		
21,235,326 common shares (2006 – 20,297,826)	\$ 27,978	\$ 26,461

a) Fiscal 2007 transactions:

During 2007, 237,500 options and 700,000 warrants were exercised for 937,500 common shares with total cash proceeds of \$1,242, and proceeds of \$275 transferred from contributed surplus.

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

b) Fiscal 2006 transactions:

During 2006, 302,750 options were exercised and 302,750 common shares were issued for total proceeds of \$259, and proceeds of \$67 transferred from contributed surplus.

7. 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, 2007, 1,487,500 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. 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, 2007 and 2006:

	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,450,000	\$ 1.13	1,819,000	\$ 1.01
Granted	275,000	4.92	815,000	0.99
Exercised	(237,500)	1.25	(302,750)	0.89
Forfeited/expired	-	-	(881,250)	0.84
Outstanding, end of year	1,487,500	\$ 1.81	1,450,000	\$ 1.13
Exercisable, end of year	843,750	\$ 1.40	763,000	\$ 1.21

(ii) Options outstanding and exercisable at September 30, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$0.92	590,000	3.1	\$ 0.92	295,000	\$ 0.92
1.05 – 1.25	262,500	6.0	1.15	246,875	1.16
1.30 – 1.56	360,000	1.9	1.39	255,000	1.41
3.12 – 4.00	100,000	4.6	3.74	-	-
5.60	175,000	4.3	5.60	46,875	5.60
\$0.92 – 5.60	1,487,500	3.6	\$ 1.81	843,750	\$ 1.40

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

b) Stock-based compensation:

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

	2007	2006
Weighted average fair value of each option	\$ 2.81	\$ 0.51
Assumptions:		
Expected volatility	59%	59%
Risk free interest rate	4.1%	3.8%
Expected life in years	4.9	4.7
Expected dividend yield	0%	0%

The fair value of options granted during the year was \$771 (2006 - \$418)

8. Research & development:

Research & development expense for the year ended September 30, 2007 is net of \$866 of federal and provincial investment tax credits (2006 - \$439).

9. 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 before income taxes as follows:

	2007	2006
Combined basic federal and provincial income tax rate	36%	36%
Income tax expense at statutory rate	\$ 2,493	\$ 458
Change in valuation allowance	(836)	(1,350)
Non taxable portion gain on sale of investment	(487)	-
Other	(1)	108
Income tax expense	\$ 1,169	\$ (784)

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

The tax effect of temporary differences that give rise to significant components of the Company's future tax assets and future tax liabilities is as follows:

	2007	2006
Future tax assets		
Research and development expenses deferred	\$ 320	\$ 1,200
Investment in affiliated company	-	800
Net capital losses	314	-
Total gross future tax assets	634	2,000
Less valuation allowance	(314)	(1,150)
Net future assets	\$ 320	\$ 850
Future tax liabilities		
Unrealized gains of foreign exchange forward contracts	\$ (432)	\$ -
Other	(130)	-
Total gross future tax liabilities	\$ (562)	\$ -
Net future tax asset (liability)	\$ (242)	\$ 850
Current portion of future tax asset (liability)	\$ (210)	\$ 400
Long term portion of future tax asset (liability)	\$ (32)	\$ 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.

As at September 30, 2007, 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:			
2011	-	-	120
2012	-	-	520
2013	-	-	430
2014	-	-	1,200
2015	-	-	1,130
2026	-	-	1,000
2027	-	-	1,100
Indefinite	\$ 1,400	\$ 175	-
	\$ 1,400	\$ 175	\$ 5,500

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, 2007 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews. The company also has non capital losses of 438,000 which

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

expire in 2009 and 2010 and capital losses of \$1,800 which do not expire, available to reduce future taxable earnings and taxable capital gains respectively.

10. Earnings per share information:

	2007	2006
Weighted average common shares outstanding during the year	\$ 20,983,586	\$ 20,158,913
Incremental shares issued from assumed exercise of stock options	892,039	179,106
Adjusted weighted average common shares outstanding during the year	21,875,625	20,338,109
Earnings per share – diluted	\$ 0.26	\$ 0.10

Options to purchase 245,000 common shares were outstanding but were not included in the computation of fiscal 2007 diluted earnings per share (2006 – 1,270,000) as the impact of these instruments was antidilutive.

11. 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, 2007, \$16 in loans are outstanding (2006 - \$49). The loans are non-interest bearing, repayable on demand, and secured by the common shares held by the employees.

12. 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:

	2007	2006
Cash and cash equivalents	\$ 3,430	\$ (15)
Accounts receivable	5,962	4,700
Other receivables	503	-
Accounts payable	2,153	1,260

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

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

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 U.S. dollar forward contracts. These economic hedge contracts are marked to market through earnings and are included in foreign exchange gain/loss in our Consolidated Statements of Operations. 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.

At September 30, 2007 the Company has outstanding U.S. dollar forward contracts totaling U.S. \$9,700 (2006 – U.S. \$7,200), maturing on or before July 15, 2008 at rates ranging from CDN \$1.16 – CDN \$1.06 to U.S. \$1.00 (2006 CDN \$1.17 – CDN \$1.09 to U.S. \$1.00). The fair value of the U.S. dollar forward contracts outstanding was an asset included in "other" totaling \$1,230,000.

13. 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:

2008	\$ 867
2009	790
2010	367
2011	118
2012	116
Thereafter	-
	<u>\$ 2,258</u>

The Company, in the normal course of business, has outstanding commitments at September 30, 2007 to purchase inventory and furniture and equipment of \$3,183.

14. 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 2007, 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 2007 or 2006.

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

(i) Operating results by operating segment:

	2007			
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Segment revenue	\$ 28,663	\$ 3,244	\$ 2,015	\$ 33,922
Segment operating earnings	3,870	1,378	634	5,882
Finance and corporate income (expenses)				1,044
Income taxes				(1,169)
Net earnings				\$ 5,757
Segment furniture and equipment expenditures	\$ 720	\$ 107	\$ 61	\$ 888
Segment furniture and equipment Amortization	\$ 523	\$ 43	\$ 24	\$ 590
	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 income (expenses)				(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

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

	2007	2006
United States	\$ 33,001	\$ 23,806
Canada	611	241
Other	310	293
	\$ 33,922	\$ 24,340

Notes to Consolidated Financial Statements

(Amounts in Canadian Dollars, In Thousands, Except Share and Per Share Amounts)

(iii) Segment operating assets:

	2007			
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Identifiable segment assets	\$ 6,464	\$ 1,028	\$ 560	\$ 8,052
Corporate assets				26,494
				\$ 34,546

	2006			
	Digital Imaging	Electronic Payments Solutions	Quality Assurance	Total
Identifiable segment assets	\$ 9,597	\$ 253	\$ 927	\$ 10,777
Corporate assets				15,100
				\$ 25,877

15. Major Customers:

The three major customers in each year account for 37% of revenue for the year (2006 – 42%) and 29% of the accounts receivable balance at September 30, 2007 (2006 – 21%). In the current year, the three customers were reported in the Digital Imaging Segment (2006 – two were reported in the Digital Imaging and one in Electronic Payment Solutions)

16. Reclassification:

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