

RDM CORPORATION – Third Quarter Fiscal 2008 Report

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of RDM Corporation ("the Company") including the notes thereto for the nine months ended June 30, 2008 and should also be read in conjunction with the audited consolidated financial statements and Management's Discussion and Analysis for the fiscal year ended September 30, 2007 as set out in the Company's 2007 Annual Report. Neither this MD&A nor accompanying consolidated interim financial statements have been reviewed or audited by the Company's external auditors.

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 and Transaction Management System ("ITMS®") services to financial institutions and financial services providers. The Electronic Payments Solutions segment develops customer-specific electronic payment and e-commerce systems based on core RDM technologies to facilitate business-to-business and business-to-consumer electronic transactions. The Quality Assurance segment designs and manufactures test equipment that is used with the Company's proprietary software and algorithms to determine whether cheques and other financial documents have been designed or printed to applicable industry standards.

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.

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. 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. Credit issues facing the US banking industry have had an impact on the industry. Many financial institutions have had resource cuts or have had to refocus their priorities, and remote deposit rollouts and implementations have become a reduced area of focus. In March 2007, Bill C-137 received Royal assent and allows for the introduction of electronic cheque imaging in Canada.

ITMS transaction volume for the third quarter fiscal 2008 averaged 2,754,000 items per week, compared to 1,485,000 items in the third quarter of 2007, and 2,450,000 items in the second quarter of 2008. ITMS end user locations increased from 11,500 to 13,333 during the third quarter of 2008. We also added 4 more bank partners. Scanner volume for the third quarter of 2008 was 7,500 units compared to 10,480 units in the third quarter of 2007.

In June we announced that a major US bank, ranked in the top 50 based on total assets, has committed to ordering a significant volume of RDM's remote deposit capture products. The bank, which is an existing customer of RDM's Image & Transaction Management System (ITMS®) processing service, is planning a major launch of its own remote deposit capture offering specifically targeted to its small business customers. In order to meet expected demand, the bank has entered into a contract to license more than 5,000 ITMS end user locations and to purchase more than 5,000 scanners from RDM over the next 18 months.

In April 2008, Simply Deposit™, a web based RDC product that was designed specifically for the small business market was announced. Simply Deposit™, as the name implies, is simple and easy to install and use and is currently in Beta testing. The product will be sold through existing bank partners and through Independent Sales Organizations (ISO's). The product is being sold to ISO's given the issues facing the banking industry and to broaden the distribution

channel to accelerate the growth of ITMS revenue. The small business market represents a large potential opportunity for RDC services and our Simply Deposit product. Small businesses will not be required to change their bank depository relationship to use Simply Deposit.

The RDC services that RDM will provide through the ISO channel will use the same ITMS infrastructure and systems that support our ITMS services provided through banks, however, there is an added level of fee for service that RDM will provide for the ISO channel. RDM will be responsible for the clearing of the cheques through the payment system and consequently will be responsible for any associated merchant credit risk. RDM hired a Credit Manager and has established policies and detailed procedures in the quarter to reduce that risk. RDM will receive a higher transaction fee for items processed that originated from the ISO channel. To date we have signed 5 new ISO's to sell this product including Bluepay Processing and Electronic Check Services.

Our strong cash position allows RDM to be in a position to make strategic investments, if and when they are identified that add shareholder value.

Summary of Quarterly Results and Selected Financial Information

i) Revenues and Operating Results

For the three months ended June 30 2008, total revenue was \$5.2 million compared with \$6.8 million for the three months ended June 30, 2007, a decrease of \$1.6 million of which \$.7 million was caused by the difference in Canadian/US dollar exchange rates and the balance was due to lower scanner sales. Credit issues facing the US banking industry have had an impact on the industry. Many financial institutions have had resource cuts or have had to refocus their priorities, and remote deposit rollouts and implementations have become a reduced area of focus. Gross profit decreased from \$2.8 million to \$1.9 million and as a percentage of revenues, gross profit for the second quarter of 2008 was 37% of revenues, compared to 41% in the third quarter of 2007 due to the impact of exchange and a change in product mix.

For the three months ended June 30, 2008, the Company's net loss was \$298,000 compared to a net earnings of \$3,240,000 in the third quarter of 2007. The decrease was caused by a decrease in exchange income on the forward contracts totaling \$.6 million, a difference in the gain on the sale of Xign of \$2.1 million as well as the impact of the dramatic changes in exchange rates on revenues. The remaining proceeds totaling \$1,062,000 from the Xign disposal, which had been held in escrow for one year were received in May 2008 resulting in a gain of \$559,000.

Electronic Payments Solutions segment revenues decreased \$191,000 to \$554,000 in the third quarter of 2008 compared to the third quarter of 2007. The Company continues to work closely with senior U.S. Government agencies and U.S. financial institutions to apply innovative RDM solutions to improve the infrastructure of the U.S. payments system.

Quality Assurance segment revenue decreased \$248,000 in the third quarter of 2008 to \$331,000 as compared to the third quarter of 2007.

Digital Imaging segment revenues decreased \$1,115,000 or 21% to \$4.3 million in the third quarter of 2008 compared to the third quarter of 2007. Overall, the Digital Imaging segment experienced a loss of \$1,011,000 in the third quarter of 2008 compared to a loss of \$68,000 in the third quarter of 2007. The decrease was caused by the dramatic change in exchange rates, increased investment in sales and marketing as well as a reduction in scanner volume in 2008. This was partially offset by the continued growth in ITMS revenue. Inventories have increased \$3.6 million since September 30, 2007 and is due to an increase in resale batch scanners inventory totaling \$1.4 million and \$1.2 million in manufactured finished goods. The increase in resale batch scanners is related to a delay in orders and deployment due in part to slower than anticipated driver certification with other application providers. The increase in finished goods pertains to the timing of orders.

The Company has chosen to include custom development revenue from financial institution customers that sign on for ITMS in Electronic Payments Solutions segment results, while Digital Imaging bears the majority of the Company's research and development expenditures.

ii) Operating Expenses

For the three months ended June 30, 2008, sales and marketing expenses increased \$87,000 or 7% to \$1,269,000. Sales and marketing efforts were focused on signing new ITMS banks and ISO resellers, preparing for the introduction of a batch scanner and the launch of Simply Deposit™.

Research and development expenses increased \$6,000 as the Company continued to invest in new product development.

General and administration expenses increased \$193,000 to \$584,000. The increase is due to lower expenses in 2007 due to timing as well as higher expenses in the third quarter of 2008 related to the launch of Simply Deposit including legal and credit management.

Stock-based compensation increased \$6,000 to \$126,000. For further information, refer to note 6 of the Company's June 30, 2008 interim consolidated financial statements which is filed on SEDAR.

Foreign exchange income of \$131,000 was lower than the prior year income of \$684,000 due to the impact of change in exchange rates in the quarter on the forward contracts.

Interest income increased \$58,000 due to the significant increase in cash compared to the prior year.

Liquidity

The Company has historically financed its operations primarily through the sale of capital stock and operating cash flow. For the quarter ended June 30, 2008, cash used in operations was \$1.5 million compared with \$1.8 million used in operations in the third quarter of its previous fiscal year. For the nine months cash provided by operations was \$0 million compared to \$1.4 million in 2007.

At June 30, 2008 the Company held cash and cash equivalents of \$17.1 million, a decrease of \$.7 million from the \$17.8 million on hand at March 31, 2008. The strong cash position allows RDM to be in a position to make strategic investments, if and when they are identified that will add shareholder value. Cash is invested in Guaranteed Investment Certificates with Canadian Banks. The Company does not hold any asset backed commercial paper. At June 30, 2008 the Company had net working capital of \$26.1 million as compared to working capital of \$26.4 million at June 30, 2007.

Capital Resources

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 June 30, 2008, 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.

Pursuant to the Normal Course Issued Bid, RDM may purchase up to 1,074,391 common share, representing approximately 5 per cent of the issued and outstanding common shares. The purchases commenced on June 9, 2008 and will terminate on May 12, 2009, or on such earlier date that RDM completes its permitted purchases pursuant to the notice or provides notice of termination of the Bid. During June 2008 we purchased 12,700 shares under the Bid.

At June 30, 2008, the Company has 21.5 million common shares outstanding. In addition, the Company has outstanding 1,547,500 stock options each of which is exercisable into one common share.

Foreign Exchange Contracts

Substantially all the company's revenues are in US dollars, 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 may have a material adverse effect on the Company's results from operations. In order to reduce exposure to exchange rate fluctuations, the company enters into Canadian dollar forward contracts. These economic hedge contracts are marked to market through earnings. The contracts are typically for a maximum of twelve months out. The use of these contracts is subject to Management and Board controls and approvals. At June 30, 2008 the Company has outstanding U.S. dollar forward contracts totaling U.S. \$12.25 million (2007 – U.S. \$11.9 million), maturing on or before June 30, 2009 at rates ranging from CDN \$1.06 – CDN \$.99 to U.S. \$1.00 (2007 CDN \$1.16 – CDN \$1.06 to U.S. \$1.00). The fair value of the U.S. dollar forward contracts outstanding was a liability and is included in accounts payable and accrued liabilities totaling \$78,000. 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).

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.

Commitments

The Company has \$4.8 million in outstanding purchase order commitments and operating leases for the purchase of inventories and capital assets in the normal course of operations. The Company makes purchase order commitments to manage lead-times associated with sourcing its EC6000, EC7000 and RDM Synergy raw material components and resale products including batch scanners with staggered deliveries on these commitments wherever possible. There is \$1.1 million related to purchase commitments and \$3.3 million related to operating leases. Outstanding purchase commitments have been reduced by \$1.9 million from the second quarter to reduce inventory to more acceptable levels.

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. 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.

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.

Multilateral Instrument 52-109 Disclosure

There have been no changes in the companies' internal control over financial reporting during the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

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' 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.

For further information, refer to note 4 to the Company's June 30, 2008 interim consolidated 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.

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.

Outlook

We expect to see sequential growth with fourth quarter revenues. This would be a return to levels achieved in the first and second quarters of 2008.

Remote Deposit Capture is growing steadily and is now entering the mainstream. A substantial portion of our growth will be governed by the overall growth rate in the industry and more particularly by the adoption rate that our partner financial institutions achieve with their customer base.

Growth will be further enabled by Simply Deposit™ that was designed for small businesses which represents a large potential opportunity. The product will be sold through existing bank partners and also ISO's.

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

| | June 30, 2008 Unaudited | September 30, 2007 Audited |
|---|----------------------------|-------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,107 | \$ 17,418 |
| Accounts receivable | 3,713 | 6,365 |
| Other receivable | - | 503 |
| Inventories | 8,343 | 4,720 |
| Investment tax credit receivable | 1,586 | 1,451 |
| Other | 341 | 1,843 |
| Total current assets | 31,090 | 32,300 |
| Furniture and equipment | 3,031 | 2,011 |
| Intangible assets | 279 | 235 |
| Total assets | \$ 34,400 | \$ 34,546 |
| Liabilities and shareholders' equity: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 4,349 | \$ 4,587 |
| Future income tax liability | 210 | 210 |
| Deferred revenue | 390 | 427 |
| Total current liabilities | 4,949 | 5,224 |
| Future income tax liability | 27 | 32 |
| Shareholders' equity: | | |
| Share capital (note 5) | 28,279 | 27,978 |
| Contributed surplus (note 6) | 1,310 | 927 |
| Retained earnings (deficit) | (165) | 401 |
| Share purchase loans | - | (16) |
| Total shareholders' equity | 29,424 | 29,290 |
| Total liabilities and shareholders' equity | \$ 34,400 | \$ 34,546 |

See accompanying notes.

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

| | Three months ended June | | Nine months ended June | |
|---|----------------------------|-------------|---------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| 2007 | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | \$ 5,237 | \$ 6,791 | \$ 19,131 | \$ 26,419 |
| Cost of revenue | 3,293 | 4,021 | 11,746 | 15,817 |
| Gross Profit | 1,944 | 2,770 | 7,385 | 10,602 |
| Operating expenses: | | | | |
| Sales and marketing | 1,269 | 1,182 | 3,564 | 3,085 |
| Research and development | 888 | 882 | 2,846 | 2,792 |
| General and administration | 584 | 391 | 1,471 | 1,399 |
| Depreciation and amortization | 246 | 154 | 610 | 493 |
| Stock-based compensation (note 6) | 126 | 120 | 383 | 290 |
| Interest | (181) | (123) | (512) | (252) |
| Foreign exchange loss (gain) | (131) | (684) | 153 | (442) |
| Gain on sale of long term investment | (559) | (2,707) | (559) | (2,707) |
| | 2,242 | (785) | 7,956 | 4,658 |
| Earnings (loss) before taxes | (298) | 3,555 | (571) | 5,944 |
| Future income Tax expense (recovery) | - | 315 | (5) | 823 |
| Net earnings (loss) and comprehensive earnings (loss) | \$ (298) | \$ 3,240 | \$ (566) | \$ 5,121 |
| Retained earnings (deficit), beginning of period | \$ 133 | \$ (3,475) | \$ 401 | \$ (5,356) |
| Retained earnings (deficit), end of period | \$ (165) | \$ (235) | \$ (165) | \$ (235) |
| Earnings per share – basic (note 7) | \$ (.01) | \$ 0.15 | \$ (.03) | \$ 0.24 |
| Earnings per share – basic and diluted (note) | \$ (.01) | \$ 0.15 | \$ (.03) | \$ 0.23 |

See accompanying notes.

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

| | Three months ended June | | Nine months ended June | |
|---|----------------------------|---------------------|---------------------------|---------------------|
| | 2008 (Unaudited) | 2007 (Unaudited) | 2008 (Unaudited) | 2007 (Unaudited) |
| Cash provided by (used in): | | | | |
| Operations: | | | | |
| Net earnings (loss) | \$ (298) | \$ 3,240 | \$ (566) | \$ 5,121 |
| Items not involving cash: | | | | |
| <i>Amortization of furniture and equipment</i> | 235 | 144 | 580 | 469 |
| <i>Amortization of intangible assets</i> | 11 | 10 | 30 | 24 |
| <i>Stock-based compensation</i> | 126 | 120 | 383 | 290 |
| <i>Future income taxes</i> | - | 315 | (5) | 823 |
| <i>Gain on sale of long-term investment</i> | (559) | (2,707) | (559) | (2,707) |
| Change in non-cash operating working capital | (1,052) | (2,931) | 121 | (2,618) |
| Cash provided by (used in) operations | (1,537) | (1,809) | (16) | 1,402 |
| Financing: | | | | |
| Issuance of share capital; net of issue costs | - | 112 | 321 | 1,242 |
| Repayment of share purchase loans | - | 8 | 16 | 24 |
| Cash provided by financing activities | - | 120 | 337 | 1,266 |
| Investing: | | | | |
| Repurchase of share capital | (20) | - | (20) | - |
| Cash proceeds on sale of long-term investment | 1,062 | 8,600 | 1,062 | 8,600 |
| Purchase of furniture and equipment | (232) | (162) | (1,600) | (591) |
| Additions to intangible assets | (16) | (27) | (74) | (67) |
| Cash provided by (used in) investing activities | 794 | 8,411 | (632) | 7,942 |
| Increase (decrease) in cash | (743) | 6,722 | (311) | 10,610 |
| Cash and cash equivalents, beginning of period | 17,850 | 10,062 | 17,418 | 6,174 |
| Cash and cash equivalents, end of period | \$ 17,107 | \$ 16,784 | \$ 17,107 | \$ 16,784 |

See accompanying notes.

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

1. Basis of Preparation

These interim consolidated financial statements have been prepared by the Management of RDM Corporation and have not been audited or reviewed by the Company's external auditors.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. The accounting policies used in the preparation of these interim consolidated financial statements conforms to those used in the Company's annual consolidated financial statements. These financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements and have not been audited or reviewed by the Company's external auditors. These interim consolidated financial statements and notes thereto should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2007.

3. 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. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on the Company's results from operations. In order to reduce our exposure to exchange rate fluctuations, the company enters into Canadian dollar forward contracts. These forward contracts are marked to market through earnings. The contracts are typically for a maximum of twelve months out. The use of these contracts is subject to Management and Board controls and approvals. At June 30, 2008 the Company has outstanding U.S. dollar forward contracts totaling U.S. \$12.25 million (2007 – U.S. \$11.9 million), maturing on or before June 30, 2009 at rates ranging from CDN \$1.06 – CDN \$.99 to U.S. \$1.00 (2007 CDN \$1.16 – CDN \$1.06 to U.S. \$1.00). The fair value of the U.S. dollar forward contracts outstanding was a liability and is included in accounts payable and accrued liabilities totaling \$78. 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).

The impact on the U.S. dollar forward contracts at June 30, 2008, of a one-cent change in the value of the Canadian dollar relative to the U.S. dollar, impacts the company's profitability by \$120.

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.

4. Financial instruments disclosure

Accounts receivable is recorded net of an allowance for doubtful accounts totaling \$150.

Credit risk in accounts receivable is concentrated on the financial services sector and includes banks, financial institutions payment processors in the financial services sector.

The impact of changes in exchange rates on net \$US denominated assets at June 30, 2008 is explained below. The impact of a one cent change in the value of the Canadian dollar, relative to the U.S. dollar, impacts the Company's profitability by \$25.

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

5. Share Capital

| <u>Outstanding Share Capital</u> | <u>June 30,</u> <u>2008</u> | <u>September 30,</u> <u>2007</u> |
|----------------------------------|--------------------------------|-------------------------------------|
| Common shares | 21,475,126 | 21,235,326 |
| Common share Options outstanding | 1,547,500 | 1,487,500 |

Share Buyback

- a) 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 convertible 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 warrants were exercised in December 2006.
- b) On December 5, 2006, the Company issued 30,000 options at an exercise price of \$3.12 to certain executives.
- c) In connection with their annual remuneration, on February 7, 2007 the directors of the Company were issued 125,000 options to purchase common shares of the Company at an exercise price of \$5.60 per share.
- d) On February 7, 2007 the Company issued 50,000 options at an exercise price of \$5.60 to certain executives.
- e) In connection with their annual remuneration, on February 11, 2008 the directors of the Company were issued 105,000 options to purchase common shares of the Company at an exercise price of \$1.85 per share.
- f) On February 11, 2008 the Company issued 240,000 options at an exercise price of \$1.85 to certain executives.

Share Buyback

In June 2008, 12,700 shares were repurchased for \$20 including commission as part of a Normal Course Issuer Bid.

6. Stock-based compensation

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

| | Nine Months ended June 30, 2008 |
|--|---------------------------------------|
| Weighted average fair value of each option | 1.05 |
| Assumptions: | |
| Volatility | 56% |
| Risk free interest rate | 3.8% |
| Expected life in years | 5.0% |
| Expected dividend yield | 0% |

No options were granted in the three months ended June 30, 2008. The fair value of options granted in the nine months ended June 30, 2008 was \$362.

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7. Earnings per share information

| | Three Months ended June 30 | | Nine Months ended June 30 | |
|---|----------------------------------|------------|---------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Weighted average common shares outstanding during the period | 21,481,476 | 21,170,000 | 21,357,343 | 20,972,000 |
| Incremental shares issued from assumed exercise of stock options | 263,639 | 884,027 | 263,639 | 884,027 |
| Adjusted weighted average common shares outstanding during the year | 21,745,115 | 22,054,017 | 21,620,982 | 21,856,027 |
| Earnings per share - diluted | \$ (0.01) | \$ 0.15 | \$ (0.03) | \$ 0.23 |

8. Segmented information

The Company evaluates its performance in three operating segments: Digital Imaging, Electronic Payments Solutions, and Quality Assurance. The accounting policies for the segments are the same as those described in Note 1 to the Company's September 30, 2007 consolidated financial statements.

Operating Results by Segment

| | Three Months Ended June 30, 2008 | | | | Three Months Ended June 30, 2007 | | | |
|--------------------------------------|----------------------------------|-------------------------------------|----------------------|----------|----------------------------------|-------------------------------------|----------------------|------------|
| | Digital Imaging | Electronic Payments Solutions | Quality Assurance | Total | Digital Imaging | Electronic Payments Solutions | Quality Assurance | Total |
| Segment revenue | \$ 4,352 | \$ 554 | \$ 331 | \$ 5,237 | \$ 5,467 | \$ 745 | \$ 579 | \$ 6,791 |
| Segment operating earnings (loss) | \$(1,011) | \$ 91 | \$ (62) | \$ (982) | \$ (68) | \$ 133 | \$ 128 | \$ 193 |
| Finance and corporate expenses | | | | \$ (125) | | | | \$ (655) |
| Gain on sale of long term investment | | | | \$ (559) | | | | \$ (2,707) |
| Income taxes | | | | - | | | | \$ 315 |
| Net earnings (loss) | | | | \$ 298 | | | | \$ 3,240 |

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Operating Results by Segment

| | Nine Months Ended June 30, 2008 | | | | Nine Months Ended June 30, 2007 | | | |
|--------------------------------------|---------------------------------|--------------------|-------------------|-----------|---------------------------------|--------------------|-------------------|------------|
| | Electronic | | | Total | Electronic | | | Total |
| | Digital Imaging | Payments Solutions | Quality Assurance | | Digital Imaging | Payments Solutions | Quality Assurance | |
| Segment revenue | \$15,749 | \$ 2,098 | \$ 1,284 | \$ 19,131 | \$22,574 | \$ 2,155 | \$ 1,690 | \$ 26,419 |
| Segment operating earnings (loss) | \$(1,763) | \$ 677 | \$ 115 | \$ (971) | \$ 2,118 | \$ 470 | \$ 332 | \$ 2,920 |
| Finance and other expenses (income) | | | | \$ 159 | | | | (317) |
| Gain on sale of long-term investment | | | | \$ (559) | | | | \$ (2,707) |
| Income Taxes | | | | \$ (5) | | | | \$ 823 |
| Net earnings (loss) | | | | \$ (566) | | | | \$ 5,121 |