

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

The following discussion and analysis, prepared as of February 8, 2012, 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 unaudited condensed interim financial statements of RDM Corporation for the three month period ended December 31, 2011, which have been prepared in accordance with IFRS, and the accompanying notes and with our Annual Consolidated Financial Statements for the year ended September 30, 2011, which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Neither this MD&A or accompanying financial statements have been reviewed by the Company's auditors. Annual information related to RDM, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com and which is supplemental to the unaudited condensed consolidated interim financial statements and notes for the three month period ended December 31, 2011.

As of October 1, 2011, RDM adopted International Financial Reporting Standards ("IFRS"). RDM's effective transition date is October 1, 2010, to accommodate 2011 IFRS comparative information. A comprehensive summary of all the significant changes including reconciliations of Canadian GAAP financial statements to those prepared under IFRS are included in the Company's unaudited condensed interim consolidated financial statements for the three months ended December 31, 2011. Certain comparative amounts, have been reclassified and adjusted within the financial statements to reflect the conversion to IFRS.

All dollar amounts used in this discussion and analysis are expressed in United States 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. Such factors include, the speed of adoption of remote deposit capture in the United States, the continued reliance in the United States on checks as a payment mechanism, the ability of the Company to successfully introduce new products and new service delivery options, fluctuations in the U.S. \$/Canadian \$ exchange rate and competition from larger industry participants. 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 ("AIF"). The AIF and other documents are available on SEDAR at www.sedar.com and on the Company's website at www.rdmcorp.com.

NON-IFRS MEASURES

EBITDA (earnings before interest, taxes, depreciation and amortization) is provided to assist management and investors in determining the Company's approximate operating cash flows before interest, income taxes, and depreciation and amortization. EBITDA does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other

companies. Management believes that RDM shareholders and potential investors in RDM use non-IFRS financial measures such as EBITDA in making investment decisions about the Company and measuring the operational results.

CORPORATE OVERVIEW

RDM is a Canadian publicly traded company (TSX:RC) that develops and provides 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, small businesses, banks, financial institutions, payment processors and government agencies, as well as print quality control and image quality systems for a variety of global customers.

Remote Deposit Capture ("RDC") refers to a deposit taking mechanism that uses technology to capture check images and data at corporate or merchant sites and the electronic transmission of these deposits to such entities' 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 check processing. While Check 21 does not require the conversion of paper checks into electronic transactions or digital images, it does encourage an industry shift away from traditional methods of handling paper checks by granting Image Replacement Documents ("IRDs") the same legal status as the original paper check. RDC allows productivity and transportation savings by eliminating the paper check.

Check 21 authorizes the creation of a substitute check from images of the front and back of an original paper check. Check 21 also enables U.S. banks to unilaterally choose to truncate all paper checks and provide substitute checks, or IRDs, to those banks and customers who have not agreed to accept the electronic records or images of the original paper checks. By promoting the use of imaging technology such as RDM's Image and Transaction Management System ("ITMS®"), Check 21 enables the elimination of many costly check processing steps and facilitates the development of improvements to bank back-office operations, improved treasury operations, while at the same time opening the door for new and improved service offerings to bank customers.

OBJECTIVES AND DISTRIBUTION STRATEGY

The Company's objective is to build a growth business based on recurring revenues from Payment Processing Services through its ITMS and Digital Imaging hardware product sales.

The Company will continue to invest internally to enhance its existing products, as well as, to develop new product offerings to diversity its product portfolio. In addition, the Company will focus on acquisition opportunities that integrate with the Company's product portfolio or expand the product portfolio with new product offerings.

The primary distribution channel for transaction processing is through financial institutions. These financial institutions provide the services to their customers. Digital Imaging products are sold through the same financial institutions and other resellers. Our distribution channels also include Independent Sales Organizations ("ISOs") and direct sales to merchants. These distribution channels were developed to capture a larger share of the potential RDC market. The ISO channel provides access to small and medium sized businesses that are not customers of our existing bank distributors. The small business market represents a potential opportunity for RDC services and our Simply Deposit® product. Small businesses are not required to change their bank depository relationship to benefit from RDC.

In almost all cases, large financial institutions implement their RDC solutions 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. Various market surveys suggest that the addressable market for RDC is less than 25% penetrated.

With many financial institutions having successfully emerged from the financial crisis, we believe financial institutions are now deploying more resources behind the rollout of RDC to their customer base.

The RDC services that RDM provides through the ISO and vertical channels use the same ITMS infrastructure and systems that support our ITMS services provided through banks; however, RDM is responsible for the clearing of the checks through the payment system and consequently is responsible for any associated merchant credit risk. The Company mitigates the risk by conducting detailed credit assessments of each merchant. The Company has not experienced any significant losses.

Simply Deposit Mobile™ is now fully integrated with our ITMS product allowing the mobile user to realize all the benefits and functionality of our ITMS platform. Simply Deposit Mobile allows us to target businesses with a mobile workforce collecting payments in the field. Simply Deposit Mobile makes use of today's smartphone technology to enable check deposits from anywhere a wireless signal or broadband access is available. Simply Deposit Mobile extends RDC to the actual point of initial check receipt. Now mobile businesses can take advantage of the convenience and cost savings associated with RDC including reduced trips to the bank, later deposit cut-off times, quicker access to funds, faster deposit preparation, integrated accounts receivable management and enhanced security. RDM is working with a number of companies that provide online and mobile banking solutions to financial institutions that could utilize our mobile products. Some of our financial institution customers have already launched mobile applications which integrate with our solution.

RDM Connect™ was launched in fiscal 2011. RDM Connect offers, in a competitively priced compact check scanner, many of the features and sophistication of expensive large batch check scanners. Its feature-rich design enhances workflow by offering functionality that supports the processing of single documents or multiple documents. RDM Connect is ideally suited to support remote deposit capture, branch capture, walk-in bill payment and check cashing solutions. RDM Connect is currently working its way through the certification process with various payment processors. We experienced some delays in the certification process and therefore RDM Connect sales were delayed. Significant sales have not yet materialized for RDM Connect, however, we believe volumes will increase in subsequent quarters.

One of the Company's key focuses for fiscal 2012 continues to be improved profitability. We believe there is opportunity to increase our profitability through a combination of increased margins and growth in our recurring revenue base.

Our strong cash position allows RDM to be in a position to make strategic investments, if and when they are identified, to add shareholder value. Going forward we intend to broaden our product offering through a combination of internal development and acquisition.

The Company continues to invest in building a business with growth and profit potential based on recurring revenues from Payment Processing Services through its ITMS service and Digital Imaging hardware product sales.

SUMMARY OF RESULTS FOR THREE MONTHS ENDED DECEMBER 31, 2011 AND SELECTED FINANCIAL INFORMATION

RESULTS OF OPERATIONS

EBITDA (Earnings before interest, taxes, depreciation and amortization) should not be construed as a substitute for net earnings (loss) determined in accordance with IFRS.

EBITDA is calculated as outlined in the following table.

In thousands

Three months ended December 31	2011	2010
Net income	\$ 144	\$ 594
Income tax expense	64	-
Interest income	(28)	(32)
Amortization of intangibles	88	76
Amortization of furniture and equipment	186	219
EBITDA	\$ 454	\$ 857

Highlights for the three months ended December 31, 2011 include:

- Total revenue was \$4.5 million compared to \$6.2 million in the same quarter of fiscal 2011.
- Gross profit was \$2.2 million, an increase of \$76,000 over the same quarter of the prior year.
- Gross profit was 49% in the first quarter compared to 35% in the same quarter of fiscal 2011.
- Payment processing revenue increased from \$2.4 million to \$2.7 million, an increase of 13.5% compared to the same quarter in 2011.
- The Company added 956 new ITMS end user seats.
- The Company generated \$277,000 in cash during the quarter.
- The Company ended the quarter with \$15.1 million in cash and cash equivalents.

In the three months ended December 31, 2011, income before taxes was \$208,000 compared to \$594,000 in the same period in fiscal 2011. The Company ended the quarter with \$15.1 million in cash and cash equivalents (an increase of \$300,000 from September 30, 2011) and \$20.0 million in net working capital.

FOREIGN CURRENCY

The Company's financial results are impacted by volatility in the Canadian/U.S. dollar exchange rate. The average U.S. dollar exchange rate for the first quarter of 2012 was \$1 Cdn equals \$0.9771 U.S. This compares to an average rate of \$0.9870 in the same period of 2011 and \$1.0224 in the three months ended September 30, 2011.

ACCOUNTING FOR THE FOREIGN CURRENCY

The most significant change resulting from the conversion to IFRS is the change in the Company's functional or measurement currency from the Canadian dollar to the U.S. dollar. Based on a U.S. dollar functional currency, the following are the key areas impacted by foreign currency volatility:

- The Company sells products primarily in U.S. dollars, therefore, revenues are not highly impacted by foreign currency volatility.
- A portion of the Company's expenses are incurred in Canadian dollars and therefore increase or decrease in U.S. dollars as the U.S. dollar varies. A weaker U.S. dollar results in an increase in translated expenses, and a stronger U.S. dollar results in a decrease. The Company maintains Canadian dollar monetary assets and designates a portion of its Canadian dollar cash balance as a hedge against its Canadian dollar payroll expenses.

Changes in foreign currency rates also impact the translated value of the Company's working capital that is held in Canadian dollars. Foreign exchange rates fluctuations result in foreign exchange gains or losses based upon movement in the translated value of Canadian working capital into U.S. dollars. Assuming a positive working capital amount, a weaker U.S. dollar results in foreign exchange gains and a stronger U.S. dollar results in exchange losses.

Revenue and Gross Profit

Payment Processing Services

Primary objectives for the Company's Payment Processing Services product line in fiscal 2012 are to i) increase ITMS transaction processing revenues, ii) launch various ITMS product enhancements, iii) continue to sign new banks and other financial institutions ("FI's") and support existing banks with rollouts to their customers and iv) grow the number of ITMS seats.

- The Company added 956 new ITMS end user seats in the first quarter of 2012 compared to 333 new seats added in the same quarter of 2011.
- Revenue for Payment Processing Services was \$2.7 million in the quarter compared to \$2.4 million in the same quarter of 2011, an increase of 13.5%.

Gross profit for the Payment Processing Services product line in the first quarter of 2012 increased by \$604,000 to \$1.6 million compared to \$971,000 in 2011, and the gross profit margin increased from 40% to 58%. The gross margin in the fourth quarter of 2011 was 51%. The Company is achieving cost savings related to economies of scale in processing increasing numbers of transactions as a higher percentage of revenue growth flows through to gross profit.

The Company believes that the changeover to electronic check processing enabled by Check 21 continues to gain momentum although not as quickly as had been anticipated several years ago by most industry participants and observers. The Company has been successful in gaining a foothold in the market by signing up a significant number of financial institution customers and ISO and vertical resellers as distribution partners. We will continue our focus of acquiring new financial institution customers and to increase ITMS volumes as existing financial institution customers rollout their service offerings to their corporate clients and through direct enrollment of end-user merchants.

One of the Company's priorities is to work more closely with bank customers in facilitating rollouts to end user merchants.

Digital Imaging Products

Digital Imaging revenue was \$1.8 million for the three months ended December 31, 2011, a decrease of \$2.0 million compared to the first quarter of 2011. Shipments of proprietary scanners totaled 4,266 units versus 10,475 units in the same quarter last year. We believe that our distributors made strong efforts during the first quarter of 2012 to reduce their investment in inventory. In addition, as a result of delays in certification, significant sales of RDM Connect have not materialized as previously anticipated.

Gross profit for the Digital Imaging product line was \$503,000 or 32.6% compared to \$1.0 million or 29% in the first three months of 2011.

Operating Expenses and Consolidated Operating Results

Operating expenses overall are down by \$141,000 from the same period last year at \$2.4 million.

Sales & marketing expenses increased \$23,000 or 2.6% to \$898,000 in the first quarter of 2012. Research & development expenses increased by \$22,000 or 2.3% to \$964,000 as compared to the first quarter of 2011. The Company continues to invest in new product development, as well as new functionality in ITMS. General and administration expenses decreased from \$712,000 in 2011 to \$526,000 in 2012. Interest income in the first quarter of 2012 was \$28,000 compared to \$32,000 in the same period last year.

Foreign exchange was a gain of \$355,000 in 2012 compared to \$954,000 in 2011. The gain was as a result of an overall strengthening in the Canadian dollar during both periods. Gains were recorded on the Company's Canadian denominated monetary assets. In addition, in 2012 a marked to market gain of \$80,000 was recorded as a result of a change in the fair value of forward contracts. In the same quarter of 2011 the gain was \$430,000.

The Company's net income before income taxes for the three months ended December 31, 2011 was \$208,000 compared to income of \$594,000 in the three months ended December 31, 2010. The Company recorded a tax provision of \$64,000 in the first quarter; however, the Company is utilizing investment tax credits to eliminate any cash income taxes payable.

Summary of Quarterly Results

(In thousands of U.S. dollars, except per share amounts)

Year ended September 30	2012 (unaudited) IFRS			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 4,506	\$	\$	\$
EBITDA	\$ 454	\$	\$	\$
Net income (loss)	\$ 144	\$	\$	\$
Earnings per share:				
Basic and diluted	\$ 0.01	\$	\$	\$
Cash and cash equivalents	\$ 15,092	\$	\$	\$
Total assets	\$ 26,757	\$	\$	\$

Year ended September 30	2011 (unaudited) IFRS			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 6,202	\$ 5,520	\$ 4,794	\$ 4,916
EBITDA	\$ 857	\$ 824	\$ 421	\$ (854)
Net income (loss)	\$ 594	\$ 561	\$ 151	\$ (1,536)
Earnings per share:				
Basic and diluted	\$ 0.01	\$ 0.03	\$ 0.01	\$ (0.07)
Cash and cash equivalents	\$ 14,698	\$ 16,173	\$ 15,246	\$ 14,815
Total assets	\$ 29,177	\$ 28,877	\$ 28,524	\$ 26,447

Year ended September 30	2010 (unaudited) Canadian GAAP			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 5,703	\$ 5,247	\$ 4,751	\$ 5,129
EBITDA	\$ (151)	\$ (590)	\$ (670)	\$ (194)
Net income (loss)	\$ (490)	\$ (908)	\$ (1,049)	\$ (556)
Earnings per share:				
Basic and diluted	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.03)
Cash and cash equivalents	\$ 16,151	\$ 16,047	\$ 15,196	\$ 14,198
Total assets	\$ 29,943	\$ 30,721	\$ 28,369	\$ 28,817

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations primarily through the sale of share capital and operating cash flow. Total cash generated was \$277,000 in 2012 compared to \$900,000 in the first quarter of 2011.

Pursuant to its current Normal Course Issuer Bid ("the Bid"), RDM may purchase up to 1,059,736 of its common shares, representing approximately 5 per cent of the issued and outstanding common shares. The Bid commenced on August 16, 2011 and will terminate on August 15, 2012, or on such earlier date that RDM completes its permitted purchases pursuant to the Bid notice or provides notice of termination of the Bid. The Company did not purchase any shares in the first quarter of 2012. Under the Company's previous Normal Course Issuer Bid, which expired on August 8, 2011, the Company purchased 79,800 common shares in the first quarter of fiscal 2011.

At December 31, 2011, the Company held cash and cash equivalents of \$15.1 million, an increase of \$277,000 from September 30, 2011. The strong cash position allows RDM to be in a position to make strategic investments, if and when they are identified, that may add shareholder value. Cash is currently invested in short-term low risk investments in banks. At December 31, 2011, the Company had net working capital of \$20.0 million as compared to net working capital of \$19.5 million at September 30, 2011.

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 December 31, 2011 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 December 31, 2011, the Company had 21,194,726 common shares outstanding. In addition, as of December 31, 2011, the Company had 1,795,000 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 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 U.S. Dollars)

2012	\$ 893
2013	642
2014	619
2015	29
2016	-
Thereafter	-
	<u>\$ 2,183</u>

The Company, in the normal course of business, has outstanding commitments at December 31, 2011 to purchase inventory and furniture and equipment of \$627,000.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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. Up until September 30, 2011 the Company's functional currency was the Canadian dollar and the Company reported in Canadian dollars. The Company generates the majority of its revenues in U.S. dollars, which exceeded the natural hedge provided by purchases of goods and services in U.S. dollars. In order to manage a portion of this net revenue foreign currency exposure, the Company had entered into U.S. dollar forward contracts. These economic hedge contracts were marked to market through earnings and are included in foreign exchange gain in the Company's Consolidated Statements of Operations.

The U.S. dollar forward contracts were typically for a period up to 15 months out and the use of these contracts were subject to Management and Board controls and approvals. The timing and amount of foreign exchange contracts were 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, 2011, the Company had outstanding U.S. dollar forward contracts totaling \$2.9 million (2010 – \$13.0 million), maturing on or before March 16, 2012 at rates ranging from CDN \$1.07 – CDN \$0.99 to U.S. \$1.00 (2010 CDN \$1.08 – CDN \$1.02 to U.S. \$1.00). The fair value of the U.S. dollar forward contracts outstanding was a liability totaling \$67,000 (2010 – an asset of \$278,000). Subsequent to September 30, 2011, the Company settled all of its formal contract obligations and recorded a final gain of \$14,000.

Effective October 1, 2011, the Company has adopted the U.S. dollar as its functional and reporting currency. The Company has payroll and other expenditures in Canadian dollars and fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may continue to have a material adverse effect on the Company's results from operations.

Commencing October 1, 2011 the Company designated a portion of its Canadian dollar cash as a hedge against its future payroll expenses incurred in Canadian dollars. The effective portion of foreign exchange gains and losses on the designated hedge are recognized in other comprehensive income and reclassified to profit or loss when the hedged payroll is incurred.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company; however, the Company minimizes this risk by limiting counterparties to these contracts to Canadian Chartered Banks.

CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with IFRS. 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.

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 considered 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 December 31, 2011, the Company estimates it is a weighted average 62% complete on custom development contracts in progress based on development labour incurred to date, which accounts for approximately \$41,000 in payment processing revenues in the first quarter of fiscal 2012. 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. Related costs incurred on contracts in progress are \$11,000 at December 31, 2011.

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 relates 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 accounts 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, Furniture and Equipment and Intangible Assets: Whenever events or changes in circumstances indicate that the carrying value of inventories, furniture and equipment or intangible assets may not be recoverable, the Company assesses the impairment of these assets. Factors the Company considers important, include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends. When the Company believes that the carrying value of inventories, furniture and equipment or intangible assets may not be recoverable based upon the existence of one or more of the above indicators of potential impairment, the Company determines what impairment, if any, exists and provides for such impairment in the period known.

Income Taxes and Investment Tax Credits: The Company believes that it has adequately provided for income taxes and related investment tax credits 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 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.

CHANGES IN ACCOUNTING POLICIES

In February 2008, the Canadian Accounting Standards Board announced the mandatory adoption of IFRS for publicly accountable entities in Canada for fiscal periods beginning on or after January 1, 2011. Accordingly, this is the first quarter in which we have provided unaudited consolidated quarterly financial information in accordance with IFRS, including comparative figures for 2011.

The Company has adopted IFRS effective October 1, 2010 (the "transition date") and has prepared its opening IFRS balance sheet as of that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending September 30, 2012 will be the first annual financial statements of the Company that comply with IFRS.

The Company has prepared its December 31, 2011 condensed consolidated interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*. Previously the Company prepared its financial statements in accordance with Canadian GAAP.

Accounting policies adopted under IFRS standards are provided in note 2 to the condensed consolidated interim financial statements. In addition, note 7 provides reconciliations between the Company's 2011 Canadian GAAP and the IFRS condensed balance sheets, condensed statements of comprehensive income, condensed statements of changes in shareholder's equity and condensed statements of cash flows.

The most significant areas impacted by the IFRS conversion were the areas of foreign currency translation and stock-based compensation. The following provides a discussion of these significant IFRS accounting policy changes.

- **Foreign currency translation:**

Under IFRS, the functional currency of an entity is defined as the currency of the primary economic environment in which the entity operates. In order to assess the functional currency, IFRS standards look at the number of criteria set out in International Accounting Standards ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*. Under IFRS, as a result of assessment of the primary indicators related to the Company, Management determined that the functional currency of the Company was the United States dollar. Prior to the conversion to IFRS, the Company was determined to have a Canadian dollar functional currency under Canadian GAAP.

The following balances were significantly impacted by the transition to IFRS:

	September 30, 2011	October 1, 2010
Decreases:		
Cash	\$ (714)	\$ (400)
Total assets	(980)	(860)
Shareholders equity	(849)	(726)
	Three months ended December 31, 2010	Year ended September 30, 2011
Net income (loss)	\$ 650	\$ (116)

- **Stock-based compensation:**

Under IFRS 2, *Stock-based Payments*, each tranche of a stock option with different vesting periods is considered to be a separate grant for the calculation of fair value. The resulting fair value is amortized over the vesting period of the respective tranches. Forfeiture estimates are determined each period and are revised for actual forfeitures in subsequent periods. Under Canadian GAAP, the

fair value of stock option awards was determined on the grant date, and the resulting fair value was amortized on a straight-line basis over the vesting period.

In addition, under IFRS stock-based compensation expense is allocated to each functional line item on the income statement, whereas under Canadian GAAP, stock-based compensation could be reported as a separate line.

Under IFRS, stock-based compensation expense will be higher in the initial periods after stock options are granted, with gradually decreasing expense over the life of the options.

The adoption of IFRS resulted in the following impacts:

	Three months ended December 31, 2010	Year ended September 30, 2011
Decreases in stock-based compensation	\$ (29)	\$ (24)

	October 1, 2010	September 30, 2011	December 31, 2010
Decrease in retained earnings	\$ (181)	\$ (157)	\$ (152)
Increase in contributed surplus	181	157	152

For options that vested after October 1, 2010, the Company determined that stock-based compensation under IFRS for periods prior to October 1, 2010, was \$631 compared to \$451 previously recorded under Canadian GAAP. Accordingly, an adjustment of \$181 was made to reduce retained earnings and increase contributed surplus as at October 1, 2010.

For the three months ended December 31, 2010, stock-based compensation under IFRS was \$32 as compared to \$60 under Canadian GAAP. For the twelve months ended September 30, 2011 stock-based compensation was \$236 as compared to \$260 under Canadian GAAP.

- **Other:**

The impact of other changes resulting from the adoption of IFRS are detailed in Note 7 to the condensed consolidated financial statements as at and for the three months ended December 31, 2011.

RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 7, Financial Instrument: Disclosure

In October 2010, the IASB amended IFRS 7, Financial Instruments; Disclosures ("IFRS 7"). This amendment enhances the disclosure requirements for transfers of financial assets that result in derecognition. This amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2012. The Company is assessing the impact of this new standard in its consolidated financial statements.

IFRS 9, Financial Instruments:

In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10, which replaces the consolidation requirements of SIC-12 Consolidation-Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 13, Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 establishes new guidance on fair value measurement and disclosure requirements. The standard completes the IASB's project to converge fair value measurement in IFRS and United States Generally Accepted Accounting Principles. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements:

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements ("IAS 1"). This amendment retains the 'one or more statement' approach at the option of the entity and only revises the way other comprehensive income is presented. This new standard is effective for the Company's interim and annual consolidated financial statements commencing July 1, 2012. The Company is assessing the impact of this new standard on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

The Company's 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.

CSA Multilateral Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal control over financial reporting for the Company and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The CEO and CFO are also responsible for disclosing any changes to the Company's internal

controls that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

There have been no changes in the Company's internal controls over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting.