



**Radiant Communications Corp.  
Condensed Interim Financial Statements**

**(Expressed in Canadian dollars)**

**(Unaudited)**

**March 31, 2011**

*These financial statements have not been reviewed by the Company's auditors*

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's external auditors, Pricewaterhousecoopers LLP, have not performed a review of these financial statements.

*signed "Don Calder"*

**Don Calder**

Chair of the Board

*signed "Chuck Leighton"*

**Chuck Leighton**

Chief Financial Officer

June 10, 2011

# RADIANT COMMUNICATIONS CORP.

## BALANCE SHEETS

(Expressed in Canadian dollars)  
(Unaudited)

	Note	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 4,241,638	\$ 3,748,225	\$ 3,412,781
Short-term investments		533,376	533,376	424,376
Restricted short-term investment		–	–	109,000
Trade and other receivables	8	3,172,244	3,057,969	2,538,666
Inventories	9	279,925	296,888	358,136
Prepaid expenses		345,998	272,330	269,218
		8,573,181	7,908,788	7,112,177
Other non-current assets				
Property and equipment	10	674,748	811,520	1,473,487
Right of access	11	2,169,713	2,276,688	1,568,829
Goodwill	12	2,031,607	2,097,065	-
		1,574,228	1,574,228	1,574,228
		\$ 15,023,477	\$ 14,668,289	\$ 11,728,721
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Trade and other payables	13	\$ 2,960,712	\$ 2,282,750	\$ 2,744,082
Advance billings and customer deposits	14	3,402,475	3,402,461	3,415,903
Provisions and other current liabilities	15	157,676	329,189	565,750
		6,520,863	6,014,400	6,725,735
Unearned revenue	14	865,273	967,081	1,386,016
Provisions and other non-current liabilities	15	26,548	33,788	119,232
		7,412,684	7,015,269	8,230,983
Shareholder's equity				
Issued capital	16	7,511,130	7,511,130	3,601,872
Contributed surplus		4,675,473	4,655,230	4,432,886
Deficit		(4,575,810)	(4,513,340)	(4,537,020)
		7,610,793	7,653,020	3,497,738
		\$ 15,023,477	\$ 14,668,289	\$ 11,728,721

See accompanying notes to interim financial statements.

Approved on behalf of the Board:

"Ian Power" (signed) \_\_\_\_\_ Director

"Don Calder" (signed) \_\_\_\_\_ Director

**RADIANT COMMUNICATIONS CORP.**  
**STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME**  
(Expressed in Canadian dollars)  
(Unaudited)

	Note	Three months ended March 31,	
		2011	2010
Revenue	6	\$ 7,933,470	\$ 7,810,769
Cost of sales		(4,750,476)	(4,639,989)
Gross profit		3,182,994	3,170,780
Expenses			
Sales and marketing		(591,286)	(493,517)
General and administrative		(2,739,183)	(2,519,332)
Other income/expenses		104,073	17,753
		(3,226,936)	(2,995,096)
Operating (loss) income		(43,942)	175,684
Interest income		155	51
Finance recovery (costs)		3,450	(6,765)
Foreign exchange loss		(22,133)	(9,296)
Net (loss) income and comprehensive (loss) income for the period		\$ (62,470)	\$ 159,674
Attributable to			
Equity shareholders of the Company		\$ (62,470)	\$ 159,674
Basic and diluted (loss) earnings per share		\$ (0.00)	\$ 0.01
Weighted average common shares, used in computing basic earnings per share		15,125,664	10,925,664
Weighted average common shares, used in computing diluted earnings (loss) per share		15,125,664	10,927,684

See accompanying notes to interim financial statements.

# RADIANT COMMUNICATIONS CORP.

## STATEMENTS OF CHANGE IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Share capital	Contributed surplus	Deficit	Total Equity
<b>Balance, January 1, 2010</b>	\$ 3,601,872	\$ 4,432,886	\$ (4,537,020)	\$ 3,497,738
Share-based payment	–	49,071	–	49,071
Net income and comprehensive income	–	–	159,674	159,674
<b>Balance, March 31, 2010</b>	\$ 3,601,872	\$ 4,481,957	\$ (4,377,346)	\$ 3,706,483
Issuance of commons shares	3,909,258	93,000	–	4,002,258
Share-based payment	–	80,273	–	80,273
Net loss and comprehensive loss	–	–	(135,994)	(135,994)
<b>Balance, January 1, 2011</b>	\$ 7,511,130	\$ 4,655,230	\$ (4,513,340)	\$ 7,653,020
Share-based payment	–	20,243	–	20,243
Net loss and comprehensive loss	–	–	(62,470)	(62,470)
<b>Balance, March 31, 2011</b>	\$ 7,511,130	\$ 4,675,473	\$ (4,575,810)	\$ 7,610,793

See accompanying notes to interim financial statements.

# RADIANT COMMUNICATIONS CORP.

## STATEMENTS OF CASH FLOW

(Expressed in Canadian dollars)  
(Unaudited)

	Note	Three months ended March 31,	
		2011	2010
<b>Cash flows from operating activities:</b>			
(Loss) income for the period	\$	(62,470)	\$ 159,674
Items not involving cash			
Depreciation of property and equipment		291,142	258,128
Amortization of right of access		58,070	3,234
Share-based compensation		20,243	49,071
		306,985	470,107
<b>Change in non-cash working capital</b>			
Trade and other receivables		(114,275)	(646,680)
Inventories		16,963	48,358
Prepaid expenses		(73,668)	(126,776)
Change in other non-current assets		136,772	212,718
Trade and other payables		677,962	397,458
Advance billings, customer deposits and unearned revenue		(101,794)	(155,959)
Provisions and other financial liabilities		(166,690)	(60,376)
		682,255	138,850
<b>Cash flows used in investing activities:</b>			
Purchase of property and equipment		(184,167)	(592,684)
Reimbursement (payments) for right of access		7,388	(172,000)
		(176,779)	(764,684)
<b>Cash flows used in financing activities:</b>			
Payment of finance leases		(12,063)	(12,115)
<b>Increase (decrease) in cash and cash equivalents</b>			
		493,413	(637,949)
<b>Cash and cash equivalents, beginning of period</b>			
		3,748,225	3,412,781
<b>Cash and cash equivalents, end of period</b>			
	\$	4,241,638	\$ 2,774,832
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS</b>			
Interest paid	\$	3,450	\$ 10,246
Interest received		155	51

See accompanying notes to interim financial statements.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

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### 1. Nature of operations

Radiant Communications Corp. (the "Company") was formed in 2002 under the federal laws of Canada through an amalgamation of Castle Bay Enterprises Ltd., a capital pool company listed on the TSX Venture Exchange, and the consolidated group of Radiant Communications, Inc. The Company's common shares are listed on the TSX Venture Exchange. The Company provides a national network of Internet protocol ("IP") based solutions to business including high-speed Internet access, IP based payment processing gateways, managed IP based virtual private networks, cloud computing and hosted exchange. The Company serves business connections mainly in Canada and the United States.

The Company's registered office is located at 1600 – 1050 West Pender Street, Vancouver, British Columbia, V6E 4T3.

### 2. Statement of compliance

The unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of March 31, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in a restatement of these condensed interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These are the Company's first quarterly condensed interim financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Company has elected January 1, 2010 as the date of transition to IFRS (the "Transition Date"). IFRS 1, First-time Adoption of IFRS ("IFRS 1"), has been applied. An explanation of how the transition to IFRS has affected the financial statements is included in Note 22. The notes presented in these condensed interim financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company's annual audited financial statements; thus, these interim financial statements are referred to as condensed and should be read in conjunction with the Company audited financial statements for the year ended December 31, 2010 which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The Company's financial statements that were previously prepared in accordance with Canadian GAAP differ in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's condensed interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in the interim financial statements along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, deficit and comprehensive income.

### 3. Summary of significant accounting policies

#### (a) Basis of presentation

The condensed interim financial statements have been prepared in Canadian dollars and under the historical cost convention. Presentation of the interim balance sheets differentiates between current and non-current assets and liabilities. The condensed interim statements of income (loss) are presented using the function classification for expenses.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

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The policies set out below have been consistently applied to all the periods presented in these financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of March 31, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS.

Comparative figures for 2010 have been reclassified to conform to the current period's presentation.

### (b) Revenue recognition

The Company sells products and services including hardware, data communication and hosting services and data administration services. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales taxes.

Revenue from the rendering of services and sales of equipment is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

In addition to the above general principles, the Company applies the following specific revenue recognition policies:

#### *Equipment*

Revenue from the sale of equipment is recognized when the equipment is delivered and accepted by the customer.

#### *Activation*

An element of costs incurred in the initial set up of the contract is deferred and recorded within non-current assets. These costs are then recognized in the income statement on a straight line basis over the average expected term of the customer relationship, determined to be twenty-four months, unless the pattern of service delivery indicates a different profile is appropriate.

#### *Subscription-based service*

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access, hosting and voices services, are recognized as revenue over the associated subscription period. Where applicable, usage fees above a base period fee are recognized as services are delivered. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue.

#### *Multiple component arrangements*

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The total contract consideration for these units is measured and allocated amongst the accounting units based upon the best estimated selling price and the

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Company's relevant revenue recognition policies. The Company recognizes revenue to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

(c) Foreign currencies

The financial statements are presented in Canadian dollars, the functional and presentation currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement in the line which most appropriately reflects the nature of the item or transaction.

(d) Goodwill

Goodwill is tested at least annually for impairment or more frequently if events or circumstances indicate there may be an impairment, and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP.

(e) Right of access

Right of access ("ROA") represents payments the Company made to a telecom carrier for an exclusive, unrestricted, indefeasible ROA to certain elements established for the use of the Company at selected central offices. ROA is carried at cost less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate cost of ROA payments over the remaining life of the related contract term of up to 10 years. The amortization expense of ROA for the current period has been reflected in statements of cash flow.

(f) Property and equipment

*Owned assets*

Property and equipment is included in the balance sheet at historic cost, less accumulated depreciation and any provisions for impairment.

Cost includes expenditures that are directly attributable to the acquisition or construction of the items. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

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### *Depreciation*

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Asset	Rate
Computer equipment	2 - 5 years
Office furniture and equipment	5 years
Assets under finance lease	Lesser of initial term of lease or useful life
Leasehold improvements	Over the terms of the lease

### (g) Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised any proceeds received are credited to share capital and contributed surplus.

### (h) Inventories

Inventories consist of equipment and major consumable items. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined on a weighted average basis. Inventories include only finished goods.

### (i) Trade receivables

Trade receivables are initially recognized at fair value, which is usually the original invoiced amount and subsequently carried at amortized cost using the effective interest method less provisions made for doubtful receivables.

Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made based on an analysis of balances by age, previous losses experienced and general economic conditions.

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(j) Impairments

*Non-financial assets*

Intangible assets with finite useful lives and property and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is conducted, the recoverable amount is assessed by reference to the higher of the net present value of expected future cash flows (value in use) of the relevant cash generating unit ("CGU") and the fair value less cost to sell.

Goodwill is tested for impairment at least annually. If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

*Financial assets*

The Company assesses at each reporting date whether a financial asset or group of financial assets are impaired. Where there is objective evidence that an impairment loss has arisen on assets carried at amortized cost, the carrying amount is reduced with the loss being recognized in the income statement. The impairment loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is only reversed if it can be related objectively to an event after the impairment was recognized and is reversed to the extent the carrying value of the asset does not exceed its amortized cost at the date of reversal.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term deposits having original maturities of three months or less on the date of purchase.

(l) Short-term investments

Short-term investments consist of guaranteed investment certificates with original maturities of greater than three months when acquired. Investments are recorded at fair value.

(m) Leases

*Operating leases*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

*Finance leases*

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Determining whether an arrangement contains a lease*

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

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(n) Provision

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Restructuring provisions primarily comprise employee severance and lease termination payments. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

(o) Employee benefits

Employee entitlements to annual leave are recognized as they are earned by the employees. A provision, stated at current cost, is made for the estimated liability at period end.

(p) Finance income and finance costs

Finance income represents interest income on funds held and invested. Interest income is recognized as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(q) Financial instruments

(i) Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit or loss

*Classification*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include cash and cash equivalents and restricted and unrestricted short-term investments and are classified as current assets in the balance sheet.

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### *Recognition and measurement*

Cash and cash equivalents and short-term investments are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed.

### Loans and receivables

#### *Classification*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Assets in this category include trade and other receivables and are classified as current assets in the balance sheet.

#### *Recognition and measurement*

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

### (ii) Financial liabilities

Financial liabilities primarily consist of trade and other payables, and financial lease obligations. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities. Non-performance risk, including the Company's own credit risk for financial liabilities, is considered when determining the fair value of financial assets or liabilities.

### (r) Income tax

Tax expense comprises current and deferred tax. Tax is recognized in the income statement except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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Deferred tax liabilities are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

(s) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. The diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The Company uses the treasury stock method for calculating diluted earnings per share. The diluted earnings per share calculation considers the impact of employee stock options and share purchase warrants, as disclosed in Note 16.

#### 4. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates, assumptions and judgments are continually estimated and are based on available information, experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity are described below:

*Providing for doubtful debts*

The Company provides services to customers mainly on credit terms. Certain debts due to the Company will not be paid through the default of a small number of our customers. Estimates, based on historical experience are used in determining the level of debts that are believed to be uncollectable. These estimates include such factors as the current state of the general economy and particular industry issues.

*Other identifiable intangible assets and goodwill*

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates and judgments require considerable judgment which could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on identifiable intangible assets recognized in future periods.

The Company assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment.

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The Company performs its annual test for goodwill impairment in accordance with the policy described in Note 3. The Company has only one CGU. No impairment losses in respect of goodwill were recognized in 2010 or the first quarter of 2011. The recoverable amount of cash-generating unit has been determined using fair value less cost to sell based on the market capitalization of the Company. The recoverable amount was greater than its carrying value.

### *Income Taxes*

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

### (b) Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements:

### *Revenue recognition*

As described in Note 3, the Company assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18, Revenue. Judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

## 5. Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not effective for the year ended December 31, 2011, and therefore have not been applied in preparing these interim financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for IFRS 9, *Financial Instruments*, which becomes mandatory for the Company's 2013 financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined. Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below:

### (a) IFRS 9 - Financial instruments

In November 2009, the IASB issued IFRS 9, Financial instruments ("IFRS 9") as a first step in its project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces new requirements for how an entity should classify and measure financial assets that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option, if doing so would significantly reduce or eliminate an accounting mismatch. If a

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financial asset does not meet the business model and contractual terms criteria to be measured at amortized cost, then it is subsequently measured at fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The standard must be applied retrospectively and is effective for periods commencing on or after January 1, 2013. The Company is currently reviewing the standard to determine the potential impact, if any, on its financial statements.

(b) IFRS 10 - Consolidated Financial Statements

In May, 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10") to replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidated - Special Purpose Entities. IFRS 10 incorporates a single model for consolidating all entities that are controlled and revises the definition of control to be "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee". Along with control, the new standard also focuses on the concept of power, both of which will include a use of judgement and a continuous reassessment as facts and circumstances change. IFRS 10 is effective for annual periods commencing on or after January 1, 2013, with early adoption permitted. The Company is currently reviewing the standard to determine the potential impact, if any, on its financial statements.

(c) IFRS 11 – Joint Arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11") to replace IAS 31, Interest in Joint Ventures. The new standard will apply to the accounting for interest in joint arrangements where there is joint control. Joint arrangements will be separated into joint ventures and joint operations. The structure of the joint arrangement will no longer be the most significant factor on classifying a joint arrangement as either a joint operation or a joint venture. Proportionate consolidations will be removed and replaced with equity accounting. IFRS 11 is effective for annual periods commencing on or after January 1, 2013, with early adoption permitted. The Company is currently reviewing the standard to determine the potential impact, if any, on its financial statements.

(d) IFRS 12 – Disclosure of Interest in Other Entities

In May 2011, the IASB issued IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12"). The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. IFRS 12 is effective for annual periods commencing on or after January 1, 2013, with early adoption permitted. The Company is currently reviewing the standard to determine the potential impact, if any, on its financial statements.

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### (e) IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement (“IFRS 13”). The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods commencing on or after January 1, 2013, with early adoption permitted. The Company is currently reviewing the standard to determine the potential impact, if any, on its financial statements.

### 6. Revenue

	March 31, 2011	March 31, 2010
Connectivity	\$ 7,452,760	\$ 7,497,293
Hosted exchange	480,710	313,476
Total	\$ 7,933,470	\$ 7,810,769

At March 31, 2011, the Company has advance billings and unearned revenue of \$4,181,264 (2010: \$4,283,058) which comprises of \$3,315,991 (2010: \$3,315,977) advance billings and \$865,273 (2010: \$967,081) deferred activation and installation costs.

### 7. Personnel expenses

	March 31, 2011	March 31, 2010
Salaries and benefits	\$ 2,129,207	\$ 1,870,918
Share-based payments	20,243	49,071
Total	\$ 2,149,450	\$ 1,919,989

### 8. Trade and other receivables

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	\$ 3,166,494	\$ 3,051,469	\$ 2,512,832
Other loans and receivables	5,750	6,500	25,834
Total	\$ 3,172,244	\$ 3,057,969	\$ 2,538,666

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Trade receivables are stated after deducting \$125,558, \$135,491 and \$98,814 as at March 31, 2011, December 31, 2010 and January 1, 2010 respectively for doubtful debts. The amount charged to the income statement for doubtful debts for the three months period ended March 31, 2011 and 2010 was \$25,065 and \$25,457.

### 9. Inventories

Inventories include only finished goods. During the three month period ended March 31, 2011, inventory expensed within cost of sales was \$211,364 (2010 - \$362,197). There was no write-down for the same periods.

### 10. Other non-current assets

Other assets mainly represent costs relating to the initial set up of the long-term customers contracts and are recognized as cost of sales over the same basis as the related revenue is recognized.

### 11. Property and equipment

	Computer equipment	Furniture and equipment	Assets under finance lease	Leasehold improve- ments	Total
<b>Cost</b>					
As at January 1, 2010	\$ 7,874,942	\$ 316,667	\$ 147,683	\$ 487,475	\$ 8,826,767
Additions	1,635,915	174,827	–	–	1,810,742
Disposal	–	–	(4,754)	–	(4,754)
As at December 31, 2010	9,510,857	491,494	142,929	487,475	10,632,755
Additions	166,871	17,296	–	–	184,167
As at March 31, 2011	\$ 9,677,728	\$ 508,790	\$ 142,929	\$ 487,475	\$ 10,816,922
<b>Accumulated depreciation</b>					
As at January 1, 2010	\$ (6,635,896)	\$ (131,619)	\$ (57,432)	\$ (432,991)	\$ (7,257,938)
Changes for the year	(960,788)	(67,186)	(47,445)	(22,710)	(1,098,129)
As at December 31, 2010	(7,596,684)	(198,805)	(104,877)	(455,701)	(8,356,067)
Changes for the period	(252,518)	(21,530)	(11,416)	(5,678)	(291,142)
As at March 31, 2011	\$ (7,849,202)	\$ (220,335)	\$ (116,293)	\$ (461,379)	\$ (8,647,209)
<b>Net book value</b>					
As at January 1, 2010	\$ 1,239,046	\$ 185,048	\$ 90,251	\$ 54,485	\$ 1,568,829
As at December 31, 2010	1,914,173	292,689	38,052	31,774	2,276,688
As at March 31, 2011	1,828,526	288,455	26,636	26,096	2,169,713

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### 12. Right of access

<b>Cost</b>	
Balance at January 1, 2010	\$ —
Additional payments	2,203,399
Balance at December 31, 2010	2,203,399
Additional payments (reimbursements)	(7,388)
Balance at March 31, 2011	\$ 2,196,011
<b>Accumulated amortization</b>	
Balance at January 1, 2010	\$ —
Amortization	(106,334)
Balance at December 31, 2010	(106,334)
Amortization	(58,070)
Balance at March 31, 2011	\$ (164,404)
<b>Net book value</b>	
Balance at January 1, 2010	\$ —
Balance at December 31, 2010	\$ 2,097,065
Balance at March 31, 2011	\$ 2,031,607

### 13. Trade and other payables

	March 31, 2011	December 31, 2010	January 1, 2010
Trade payables	\$ 1,444,327	\$ 1,024,986	\$ 1,349,080
Salaries and benefits payable	678,674	477,048	528,218
Other payables	837,711	780,716	866,784
	\$ 2,960,712	\$ 2,282,750	\$ 2,744,082

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### 14. Advance billings and customer deposits

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Current:</b>			
Advance billings	\$ 3,315,991	\$ 3,315,977	\$ 3,293,788
Customer deposits	86,484	86,484	122,115
	\$ 3,402,475	\$ 3,402,461	\$ 3,415,903

### 15. Provisions and other liabilities

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Current:</b>			
Severance payable	\$ 98,890	\$ 257,113	\$ 500,000
Lease inducement	29,780	31,007	16,050
Finance leases	29,006	41,069	49,700
	\$ 157,676	\$ 329,189	\$ 565,750
<b>Non-current:</b>			
Lease inducement	\$ 26,548	\$ 33,788	\$ 75,192
Finance leases	–	–	44,040
	\$ 26,548	\$ 33,788	\$ 119,232

### 16. Share capital

- (a) Authorized: Unlimited number of common shares, without par value  
Unlimited number of preferred shares, without par value, issuable in series

- (b) Issued and outstanding

	Number of shares	Amount
Issued and outstanding – January 1 and March 31, 2010	10,925,664	\$ 3,601,872
Issued pursuant to private placements	4,200,000	4,200,000
Share issuance costs – cash	–	(197,742)
Share issuance costs – non-cash	–	(93,000)
Issued and outstanding – December 31, 2010 and March 31, 2011	15,125,664	\$ 7,511,130

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### (c) Stock option plan

In 2002, the Company's Board of Directors adopted a Stock Option Plan (the "Plan"). In June 2010, the Plan was amended to increase the total number of shares reserved for issuance to 2,268,000. The Plan provides for the granting of stock options to Participants (defined as employees, , senior officers, directors, consultants, and designated affiliates).

The board of directors grants such options with terms and conditions at its sole discretion. Options are generally granted with a term of five years and vest over three years with exercise prices equal to or greater than the closing market price on the day date the options were granted.

The fair value of services received in return for share options granted to employees and directors is based on the fair value of share options granted, measured using the Black-Scholes model. The fair value of share options granted to non-employees is based on the fair value of the services or goods received.

The following table summarizes activity under the Plan for the three months ended March 31, 2011 and year ended December 31, 2010

	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,605,000	\$ 1.08	1,398,252	\$ 1.11
Granted	–	–	260,000	1.01
Expired without exercise	–	–	(53,252)	1.96
Outstanding, end of period	1,605,000	\$ 1.08	1,605,000	\$ 1.08

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.80 to \$1.00	590,000	2.78 years	\$0.97	334,375	\$0.98
\$1.05 to \$1.30	1,015,000	1.62 years	1.15	966,000	1.15
\$0.80 to \$1.30	1,605,000	2.01 years	\$1.08	1,300,375	\$1.10

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During the three months ended March 31, 2011, the Company granted no options. During the year ended 2010, the Company granted 260,000 stock options to shareholders, officers, employees and directors at exercise prices ranging from \$0.80 to \$1.14 with expiry dates ranging from January 25 to Aug 24, 2015. The total fair value of stock options granted during 2010 was \$114,806. The weighted average grant date fair value of options granted during 2010 was \$0.45. For the three month ended March 31, 2011, the Company recorded a stock-based compensation expense of \$20,243 and for the year ended December 31, 2010, \$129,344.

The estimated fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended March 31, 2011	Year ended December 31, 2010
Weighted average risk-free interest rate	–	2.18%
Dividend yield	–	0%
Weighted average expected life of the options	–	2.95 years
Weighted average volatility	–	77.25%
Estimated forfeiture rate	–	0%

#### (d) Share purchase warrants

On April 16, 2010, at the time of closing of the private placements, the Company issued 200,000 common share purchase warrants to purchase an equal number of common shares at the price of \$1.20 per common share for a period of three years following the closing of the private placements. The fair value of the warrants was estimated as \$93,000 using the Black-Scholes option pricing model and was recognized as part of issuance costs of the private placements on April 16, 2010.

The fair value of each warrant issued was estimated on the date of issuance with the following assumptions:

Weighted average risk-free interest rate	2.77%
Dividend yield	0%
Weighted average expected life of the warrants	3 years
Weighted average volatility	76%

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### 17. Earnings per share

Basic earnings per share was based on the earnings or loss attributable to common shares and a weighted average number of common shares outstanding. Diluted earnings per share was based on earnings attributable to common shareholders and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares on exercise of employee stock options and share purchase warrants.

#### Earnings used in determining earnings per share

	March 31, 2011	March 31, 2010
Net (loss) earnings	\$ (62,470)	\$ 152,061

#### Weighted average number of common shares

	March 31, 2011	March 31, 2010
Basic	15,125,664	10,925,664
Effect of stock options	–	2,020
Diluted	15,125,664	10,927,684

At March 31, 2011, 1,300,375 options (2010: 1,014,209) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

### 18. Finance and operating leases

The Company's finance leases concern computer equipment. There is no subleasing. See Note 11 above for details of the carrying value of the leased assets as of the balance sheet dates. As of March 31, 2011, the Company had one finance lease which will be completed by October 2011. Due to the short-term nature of the obligation, the future minimum lease payments and the related present value of future minimum lease payments payable for not later than one year was \$33,887.

For the period ended March 31, 2011, depreciation relating to the finance leases totaled \$11,415 (2010: \$12,307).

Expected requirements to meet both operating lease payments and finance lease obligations owing as at March 31, 2011, for each of the next five fiscal years are as follows:

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Years ending December 31	Operating leases	Finance leases
2011 (balance of year)	\$ 247,496	\$ 33,887
2012	258,839	–
2013	48,986	–
2014	2,574	–
2015	2,359	–
	\$ 560,254	\$ 33,887

Finance lease issued at 7.2 % and maturing in October 2011.

### 19. Related party transactions

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Team. Key management personnel compensation is shown in the table below:

	March 31, 2011	March 31, 2010
Salaries and short-term benefits	\$ 404,862	\$ 330,447
Director fees	22,500	19,500
Stock-based payments	19,501	29,949
	\$ 446,863	\$ 379,896

### 20. Financial instruments and risk management

#### (a) Financial assets and liabilities

The carrying value of financial assets and liabilities as of March 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets carried at fair value</b>			
Cash and cash equivalents	\$ 4,241,638	\$ 3,748,225	\$ 3,412,781
Short-term investments	533,376	533,376	424,376
Restricted short-term investment	–	–	109,000
	\$ 4,775,014	\$ 4,281,601	\$ 3,946,157
<b>Assets carried at amortized cost</b>			
Trade and other receivables	\$ 3,172,244	\$ 3,057,969	\$ 2,538,666
<b>Liabilities carried at amortized cost</b>			
Trade and other payables	\$ 2,960,712	\$ 2,282,750	\$ 2,744,082
Finance leases	29,006	74,857	93,740
	\$ 2,989,718	\$ 2,357,607	\$ 2,837,822

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(b) Fair value

Cash and cash equivalents, restricted and unrestricted short-term investments, trade and other receivables, trade and other payables and customer deposits are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly. The fair value of short-term investments is based on quoted market prices. During the current year, no material realized gains or losses have been recognized on the Company's short-term investments.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Company's reputation. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs since the Company currently settles its financial obligations out of cash and cash equivalents.

The following table details the Company's expected remaining contractual maturities for its financial liabilities at March 31, 2011. The table is based on the undiscounted cash flows of financial liabilities on the earliest date on which the Company is required to satisfy the liabilities.

	Carrying amount	0 to 6 months	6 to 12 months
Trade and other payables	\$ 2,960,712	\$ 2,943,700	\$ 17,012
Finance lease liabilities	29,006	29,006	–
	<u>\$ 2,989,718</u>	<u>\$ 2,972,706</u>	<u>\$ 17,012</u>

The Company currently has a provision of \$125,558 for potential credit losses associated with trade accounts receivable. A reconciliation of the allowance for doubtful account is provided below.

Allowance for doubtful accounts:

Balance, December 31, 2010	\$	135,490
Write-offs of specific accounts		(35,020)
Provision		25,087
Balance, March 31, 2011	\$	<u>125,558</u>

(d) Currency risk

The Company undertakes certain transactions in US dollars and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments to hedge

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exposure to foreign exchange rate risk. For the period ended March 31, 2011, the Company had 11% of its revenue and 8% of its cost of sales denominated in US dollars. At March 31, 2011, if the Canadian dollar fluctuated 10 percent against the US dollar with all other variables held constant, the impact on net loss and comprehensive loss for the period would be approximately \$85,000 and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations.

The Company's exposure to foreign currency risk was as follows based on notional amounts:

### March 31, 2011

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	Amount (in US\$)
Cash and cash equivalents	\$ 541,337
Trade receivable, net	271,749
Trade payable and accrued liabilities	71,882

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#### (e) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade and other receivables. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

The Company's customers are concentrated in Canada and the United States. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

The Company is exposed to concentration of credit risk on the trade accounts receivable from its customers. As at March 31, 2011, approximately 36% of the trade accounts receivable balances are owed from 2 customers.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past.

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As at March 31, 2011, the Company had \$127,489 (December 31, 2010 - \$118,962; January 1, 2010 - \$103,777) in material past due trade receivables. The following table outlines the aging of these trade accounts receivables as at the dates of the balance sheets:

	March 31, 2011	December 31, 2010	January 1, 2010
Trade accounts receivable net of allowance for doubtful accounts			
Current	\$ 3,003,537	\$ 2,896,094	\$ 2,370,572
1 – 30 days past due	132,593	88,931	93,674
31 – 60 days past due	17,022	51,370	11,373
Greater than 60 days past due	13,342	15,074	37,213
	<u>\$ 3,166,494</u>	<u>\$ 3,051,469</u>	<u>\$ 2,512,832</u>
Trade accounts receivable, gross	\$ 3,292,052	\$ 3,186,960	\$ 2,611,646
Allowance for doubtful accounts	(125,558)	(135,491)	(98,814)
	<u>\$ 3,166,494</u>	<u>\$ 3,051,469</u>	<u>\$ 2,512,832</u>

(f) Interest rate risk

Unrestricted and restricted short-term investments with various interest rates are invested in separate guaranteed investment certificates with original maturities of greater than three months exposing the Company to interest rate risk on these financial instruments. The Company does not use financial instruments to mitigate this interest rate risk because the sensitivity of the Company's short-term investments to fluctuation of interest rate is minimal.

### 21. Segment information

(a) Operating segment

The Company operates in one segment, connectivity and web hosting. This segment includes high-speed internet connectivity and hosting services, sophisticated e-commerce applications, and the design and management of dedicated server offerings.

(b) Geographic information

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The Company earned revenue for the periods ended March 31, 2011 and 2010 by geographic area as follows:

For the three month periods ended March 31,	2011	2010
Canada	\$ 7,044,194	\$ 21,591,606
United States	859,779	3,212,668
Other	29,497	95,884
Total	\$ 7,933,470	\$ 24,900,158

The revenue by geographic area is based on the location of the Company's customers. The Company has one customer that accounts for 17% or more of total revenue. All of the Company's property and equipment, goodwill and intangible assets are located in Canada.

## 22. Transition to IFRS

As stated in Note 2, the Company's financial statements for the three month period ended March 31, 2011 are the first interim financial statements that comply with IFRS and these interim financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010, the ("Transition Date"). The Company is required to establish its IFRS accounting policies as at December 31, 2011, and, in general, apply these retrospectively to determine the IFRS-IASB opening statement of financial position at its date of transition, January 1, 2010. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

The Company has applied the following optional exemptions that are most significant to its opening balance sheet dated January 1, 2010:

### (a) Business Combination

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

### (b) Share-based payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

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(c) Fair value as deemed cost

IFRS 1 provides the options to measure and report items of property and equipment and intangible assets at their fair value at the Transaction Date and using the amounts as deemed cost or to report the items at carrying value. The Company has elected to report the items of property and equipment and intangible assets at the carrying value at the Transition Date.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guideline to its opening balance sheet dated January 1, 2010:

(a) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP financial statements have been reconciled to IFRS, with the resulting differences explained.

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### Reconciliation of Balance Sheet as of January 1, 2010

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
<b>Assets</b>					
Current assets					
Cash and cash equivalents		\$ 3,412,781	\$ –	\$ –	\$ 3,412,781
Short-term investments		424,376	–	–	424,376
Restricted short-term investment		109,000	–	–	109,000
Trade and other receivables		2,512,832	–	25,834	2,538,666
Inventories		358,136	–	–	358,136
Prepaid expenses		295,052	–	(25,834)	269,218
Deferred costs		1,473,487	–	(1,473,487)	–
		8,585,664	–	(1,473,487)	7,112,177
Other non-current assets					
Property and equipment		–	–	1,473,487	1,473,487
Goodwill		1,568,829	–	–	1,568,829
		1,574,228	–	–	1,574,228
		\$ 11,728,721	\$ –	\$ –	\$ 11,728,721
<b>Liabilities</b>					
Current liabilities					
Trade and other payables	(a)	\$ 3,244,082	\$ –	\$ (500,000)	\$ 2,744,082
Customer deposits		122,115	–	(122,115)	–
Advance billings and customer deposits	(a)	4,679,804	–	(1,263,901)	3,415,903
Current portion of deferred lease inducements		16,050	–	(16,050)	–
Current portion of obligations under capital leases		49,700	–	(49,700)	–
Provisions and other current liabilities	(a)	–	–	565,750	565,750
		8,111,751	–	(1,386,016)	6,725,735
Unearned revenue					
Deferred lease inducement	(a)	–	–	1,386,016	1,386,016
Obligations under capital leases	(a)	75,192	–	(75,192)	–
Provisions and other non-current liabilities	(a)	44,040	–	(44,040)	–
		–	–	119,232	119,232
		8,230,983	–	–	8,230,983
<b>Equities</b>					
Issued capital		3,601,872	–	–	3,601,872
Contributed surplus	(b)	4,433,931	(1,045)	–	4,432,886
Deficit	(b)	(4,538,065)	1,045	–	(4,537,020)
		3,497,738	–	–	3,497,738
		\$ 11,728,721	\$ –	\$ –	\$ 11,728,721

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

### Reconciliation of Balance Sheet as of March 31, 2010

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
<b>Assets</b>					
Current assets					
Cash and cash equivalents		\$ 2,774,832	\$ –	\$ –	\$ 2,774,832
Short-term investments		533,376	–	–	533,376
Trade and other receivables		3,163,368	–	21,978	3,185,346
Inventories		309,778	–	–	309,778
Prepaid expenses		417,972	–	(21,978)	395,994
Deferred costs		1,260,769	–	(1,260,769)	–
		8,460,095	–	(1,260,769)	7,199,326
Other non-current assets					
Property and equipment		–	–	1,260,769	1,260,769
Right of access		1,903,385	–	–	1,903,385
Goodwill		168,766	–	–	168,766
		1,574,228	–	–	1,574,228
		\$ 12,106,474	\$ –	\$ –	\$ 12,106,474
<b>Liabilities</b>					
Current liabilities					
Trade and other payables	(a)	\$ 3,582,206	\$ –	\$ (440,666)	\$ 3,141,540
Customer deposits		122,115	–	(122,115)	–
Advance billings and customer deposits	(a)	4,523,845	–	(1,126,120)	3,397,705
Current portion of deferred lease inducements		33,872	–	(33,872)	–
Current portion of obligations under capital leases		50,539	–	(50,539)	–
Provisions and other current liabilities	(a)	–	–	525,077	525,077
		8,312,577	–	(1,248,255)	7,064,322
Unearned revenue					
Deferred lease inducement	(a)	–	–	1,248,255	1,248,255
Obligations under capital leases	(a)	56,328	–	(56,328)	–
Provisions and other non-current liabilities	(a)	31,086	–	(31,086)	–
		–	–	87,414	87,414
		8,399,991	–	–	8,399,991
<b>Equities</b>					
Issued capital		3,601,872	–	–	3,601,872
Contributed surplus	(b)	4,520,258	(38,301)	–	4,481,957
Deficit	(b)	(4,415,647)	38,301	–	(4,377,346)
		3,706,483	–	–	3,706,483
		\$ 12,106,474	\$ –	\$ –	\$ 12,106,474

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

### Reconciliation of Balance Sheet as of December 31, 2010

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
<b>Assets</b>					
Current assets					
Cash and cash equivalents		\$ 3,748,225	\$ –	\$ –	\$ 3,748,225
Short-term investments		533,376	–	–	533,376
Trade and other receivables		3,051,469	–	6,500	3,057,969
Inventories		296,888	–	–	296,888
Prepaid expenses		278,830	–	(6,500)	272,330
Deferred costs		811,520	–	(811,520)	–
		8,720,308	–	(811,520)	7,908,788
Other non-current assets					
Property and equipment		–	–	811,520	811,520
Right of access		2,276,688	–	–	2,276,688
Goodwill		2,097,065	–	–	2,097,065
		1,574,228	–	–	1,574,228
		\$ 14,668,289	\$ –	\$ –	\$ 14,668,289
<b>Liabilities</b>					
Current liabilities					
Trade and other payables	(a)	\$ 2,539,863	\$ –	\$ (257,113)	\$ 2,282,750
Customer deposits		86,484	–	(86,484)	–
Advance billings and customer deposits	(a)	4,283,058	–	(880,597)	3,402,461
Current portion of deferred lease inducements	(a)	31,007	–	(31,007)	–
Current portion of obligations under capital leases	(a)	41,069	–	(41,069)	–
Provisions and other current liabilities	(a)	–	–	329,189	329,189
		6,981,481	–	(967,081)	6,014,400
Unearned revenue		–	–	967,081	967,081
Deferred lease inducement	(a)	33,788	–	(33,788)	–
Provisions and other non-current liabilities	(a)	–	–	33,788	33,788
		7,015,269	–	–	7,015,269
<b>Equities</b>					
Issued capital		7,511,130	–	–	7,511,130
Contributed surplus	(b)	4,764,350	(109,120)	–	4,655,230
Deficit	(b)	(4,622,460)	109,120	–	(4,513,340)
		7,653,020	–	–	7,650,020
		\$ 14,668,289	\$ –	\$ –	\$ 14,668,289

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

### Reconciliation of Comprehensive Income (Loss) for the three months ended March 31, 2010:

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
Revenue		\$ 7,810,769	\$ –	\$ –	\$ 7,810,769
Cost of sales		(4,639,989)	–	–	4,639,989
Gross profit		3,170,780	–	–	3,170,780
Expenses					
Sales and marketing		(493,140)	(377)	–	(493,517)
General and administrative		(2,295,603)	37,633	(261,362)	(2,519,332)
Amortization		(261,362)	–	261,362	–
Other income/expenses		–	–	17,753	17,753
		(3,050,105)	37,256	17,753	(2,995,096)
Operating income (loss)		120,675	37,256	17,753	175,684
Interest income	(c)	–	–	51	51
Finance costs	(c)	(6,765)	–	–	(6,765)
Foreign exchange loss	(c)	–	–	(9,296)	(9,296)
Other income/expenses	(c)	8,508	–	(8,508)	–
Net income and comprehensive income for the period		\$ 122,418	\$ 37,256	\$ –	\$ 159,674
Basic earnings per share		\$ 0.01	\$ 0.00	\$ –	\$ 0.01
Diluted earnings per share		\$ 0.01	\$ 0.00	\$ –	\$ 0.01

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

### Reconciliation of Comprehensive Income (Loss) for the year ended December 31, 2010:

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
Revenue		\$ 31,329,131	\$ –	\$ –	\$ 31,329,131
Cost of sales		(18,838,547)	–	–	(18,838,547)
Gross profit		12,490,584	–	–	12,490,584
Expenses					
Sales and marketing		(2,362,550)	1,317	–	(2,361,233)
General and administrative		(8,992,015)	106,759	(1,204,463)	(10,089,719)
Amortization		(1,204,463)	–	1,204,463	–
Other income/expenses		–	–	33,568	33,568
		(12,559,028)	108,076	33,568	(12,417,384)
Operating income (loss)		(68,444)	108,076	33,568	73,200
Interest income	(c)	–	–	1,632	1,632
Finance costs	(c)	(14,738)	–	–	(14,738)
Foreign exchange loss	(c)	–	–	(36,413)	(36,413)
Other income/expenses	(c)	(1,213)	–	1,213	–
Net income and comprehensive income for the period		\$ (84,395)	\$ 108,076	\$ –	\$ 23,681
Basic earnings per share		\$ 0.01	\$ 0.00	\$ –	\$ 0.00
Diluted earnings per share		\$ 0.01	\$ 0.00	\$ –	\$ 0.00

### Notes to the reconciliations

#### (a) Accounts payable, accrued liabilities and provisions

Canadian GAAP – previously accounts payable, accrued liabilities and provisions were disclosed on the statement of financial position as a single line item.

IFRS – a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and the movements in each class of provisions are disclosed.

#### (b) Share-based payments

Canadian GAAP – previously, the fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. Forfeitures of awards were recognized as they occurred.

IFRS – Each tranche in an award is considered a separate grant with a different vesting date and fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

# **RADIANT COMMUNICATIONS CORP.**

## **NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

March 31, 2011 and 2010

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Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

(c) Presentation of other income or expenses

Canadian GAAP – previously, Canadian GAAP did not provide the same level of specificity of other income or expense analysis. Interest income, finance costs and foreign exchange gain were presented as part of “Other income (expenses)” in the income statement.

IFRS – IFRS requires interest income, finance cost and foreign exchange gain (loss) to be presented separately in the income statement.