



**RADIANT COMMUNICATIONS CORP.**

**FINANCIAL STATEMENTS**

**(Expressed in Canadian dollars)**

**(Unaudited)**

**September 30, 2010**

## **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

November 8, 2010

# RADIANT COMMUNICATIONS CORP.

## BALANCE SHEET

(Expressed in Canadian dollars)  
(Unaudited)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,751,437	\$ 3,412,781
Short-term investments (Note 3)	533,376	424,376
Restricted short-term investment	–	109,000
Trade accounts receivable	2,913,255	2,512,832
Inventories	267,107	358,136
Prepaid expenses and deposits	443,940	295,052
Deferred costs	912,143	1,473,487
	<u>10,821,258</u>	<u>8,585,664</u>
Property and equipment	2,410,244	1,568,829
Right of Access (Note 4)	1,776,009	–
Goodwill	1,574,228	1,574,228
	<u>\$ 16,581,739</u>	<u>\$ 11,728,721</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,355,796	\$ 3,244,082
Customer deposits	122,115	122,115
Deferred revenue	4,335,081	4,679,804
Current portion of deferred lease inducements	32,235	16,050
Current portion of obligations under capital leases	48,698	49,700
	<u>8,893,925</u>	<u>8,111,751</u>
Deferred lease inducements	41,029	75,192
Obligations under capital leases	4,218	44,040
	<u>8,939,172</u>	<u>8,230,983</u>
Shareholders' equity		
Share capital (Note 5)	7,511,130	3,601,872
Contributed surplus	4,719,744	4,433,931
Deficit	(4,588,307)	(4,538,065)
	<u>7,642,567</u>	<u>3,497,738</u>
	<u>\$ 16,581,739</u>	<u>\$ 11,728,721</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

“Ilan Power” (signed) \_\_\_\_\_ Director      “Don Calder” (signed) \_\_\_\_\_ Director

# RADIANT COMMUNICATIONS CORP.

## STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

(Expressed in Canadian dollars)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenue	\$ 7,824,010	\$ 7,675,557	\$ 23,392,996	\$ 22,315,930
Cost of sales	4,673,248	4,681,888	14,051,270	12,888,926
Gross profit	3,150,762	2,993,669	9,341,726	9,427,004
Expenses				
Sales and marketing	618,708	359,213	1,760,639	1,390,900
General and administrative	2,156,253	2,210,652	6,758,606	6,518,459
Amortization	318,026	256,451	850,539	778,989
	3,092,988	2,826,316	9,369,784	8,688,348
Income (loss) before undernoted	57,774	167,353	(28,058)	738,656
Interest expense	1,752	566	13,569	32,004
Other (income) expenses	30,590	51,609	8,615	113,224
Net earnings (loss) and comprehensive income (loss) for the period	25,432	115,178	(50,242)	593,428
Deficit, beginning of period	(4,613,739)	(4,133,399)	(4,538,065)	(4,611,649)
Deficit, end of period	\$ (4,588,307)	\$ (4,018,221)	\$ (4,588,307)	\$ (4,018,221)
Basic and diluted earnings (loss) per share	\$ 0.00	\$ 0.01	\$ (0.00)	\$ 0.05
Weighted average common shares, used in computing basic and diluted earnings (loss) per share	15,125,664	10,925,664	13,510,279	10,925,664

See accompanying notes to financial statements.

# RADIANT COMMUNICATIONS CORP.

## STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Cash flows from operating activities:</b>				
Income (loss) for the period	\$ 25,432	\$ 115,178	\$ (50,242)	\$ 593,428
Items not involving cash:				
Amortization	287,277	256,451	800,593	778,989
Amortization of right of access	30,749	–	49,946	–
Stock-based compensation (Note 5(c))	46,352	74,591	192,813	211,895
Change in deferred lease inducements	(8,468)	2,670	(17,978)	8,012
Foreign exchange (gain) loss	14,160	37,998	14,533	116,140
	395,502	486,888	989,665	1,708,464
<b>Change in non-cash working capital:</b>				
Trade accounts receivable	(44,785)	(605,259)	(400,423)	(206,598)
Inventories	(26,497)	111,127	91,029	251,381
Prepaid expenses and deposits	(21,627)	96,662	(148,888)	(181,066)
Deferred costs	147,274	43,307	561,344	(202,507)
Accounts payable and accrued liabilities	901,995	(257,055)	1,111,714	11,204
Customer deposits	–	(620)	–	(1,971)
Deferred revenue	(66,298)	162,163	(344,723)	362,474
	1,285,564	37,213	1,859,718	1,741,381
<b>Cash flows from investing activities:</b>				
Increase in short-term investment	–	(376)	–	(376)
Purchase of property and equipment	(775,361)	(191,454)	(1,646,761)	(503,344)
Payments for right of access (Note 4)	(966,080)	–	(1,825,955)	–
	(1,741,441)	(191,830)	(3,472,716)	(503,720)
<b>Cash flows from financing activities:</b>				
Payments under capital leases	(11,636)	(45,246)	(36,071)	(147,780)
Proceeds from issuance of common shares (Note 5(b))	–	–	4,002,258	–
	(11,636)	(45,246)	3,966,187	(147,780)
<b>Foreign exchange gain (loss) on cash held in foreign currency</b>				
	(14,160)	(37,998)	(14,533)	(116,140)
<b>Increase (decrease) in cash and cash equivalents</b>				
	(481,673)	(237,861)	2,338,656	973,741
<b>Cash and cash equivalents, beginning of period</b>				
	6,233,110	3,022,080	3,412,781	1,810,478
<b>Cash and cash equivalents, end of period</b>				
	\$ 5,751,437	\$ 2,784,219	\$ 5,751,437	\$ 2,784,219

Supplementary cash flow information (Note 9)

See accompanying notes to financial statements.

# **RADIANT COMMUNICATIONS CORP.**

## **NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

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### **1. Basis of presentation**

The accompanying unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all information and note disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented, have been made. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period. These financial statements have been prepared using the same accounting policies used in the preparation of the Company's audited financial statements for the year ended December 31, 2009 and should be read in conjunction with those financial statements and notes thereto.

Certain comparative figures have been reclassified to conform with the current period's presentation.

### **2. Future changes in accounting standards**

#### **(a) Business Combinations**

In January 2009, the CICA issued Section 1582, "Business Combinations" replacing Section 1581, "Business Combinations". This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

#### **(b) Consolidated financial statements**

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements", which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

#### **(c) International Financial Reporting Standards**

In February 2008, the CICA's Accounting Standards Board confirmed its strategy of replacing Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. These new standards will be effective for the Company's interim and annual financial statements commencing January 1, 2011. The Company is currently developing an implementation plan and assessing the impact of the transition to IFRS on its financial statements.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

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### 3. Short-term investments

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

### 4. Right of Access

In January 2010, the Company entered into a broadband network investment agreement with a telecom carrier. The agreement allows the Company to have an exclusive, unrestricted, indefeasible right of access (ROA) to certain elements established for the use of Radiant at selected central offices. As of September 30, 2010, the balance represents the payments for the ROA's of \$1,825,955, net of accumulated amortization of \$49,946. These payments are amortized on a straight-line basis over the balance period of the term of the agreement, with a maximum term of 10 years from the initial date of the agreement.

### 5. 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

On April 16, 2010, the Company issued in aggregate a total of 4,200,000 common shares in two non-brokered private placements at a price of \$1.00 per share for gross proceeds of \$4,200,000, before the issuance costs of \$290,742, of which \$93,000 was the non-cash fair value of the 200,000 share purchase warrants issued at the closing of the private placements. These shares were issued to a new investor and to companies that are directly or indirectly controlled by directors of the Company.

	Number of shares	Amount
Issued and outstanding – December 31, 2009 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 – June and September 30, 2010	15,125,664	7,511,130

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

### 5. Share capital (continued)

#### (c) Stock option plan

In 2002, the Company's board of directors adopted a Stock Option Plan (the "Plan") and reserved 587,085 shares for issuance thereunder. The Plan was amended to increase the total number of shares reserved for issuance to 705,243 in 2004 and to 1,643,845 in 2007. 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, management company employees, senior officers, directors, consultants, and designated affiliates).

Terms and conditions of options granted under the Plan are determined solely by the Board of Directors. Options are generally granted with a term of five years, vest over three years, with exercise prices equal to the fair value of the shares on the date of grant.

The following table summarizes activity under the Plan for the three months and nine months ended September 30, 2010:

	Three months		Nine months	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,584,167	\$ 1.10	1,398,252	\$ 1.11
Granted	50,000	0.85	260,000	1.01
Forfeited	(12,500)	1.62	(26,585)	2.04
Outstanding, end of period	1,621,667	\$ 1.09	1,621,667	\$ 1.09

The following table summarizes information about stock options outstanding as at September 30, 2010:

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	3.3 years	\$0.97	306,375	\$0.99
\$1.05 to \$1.80	1,031,667	2.1 years	1.16	898,917	1.16
\$0.80 to \$1.80	1,621,667	2.5 years	\$1.09	1,205,292	\$1.11

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

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(Unaudited)

September 30, 2010 and 2009

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### 5. Share capital (continued)

#### (c) Stock option plan (continued)

The total fair value of stock options granted during the three months and nine months ended September 30, 2010 was \$22,290 (2009 - \$nil) and \$133,490 (2009 - \$92,400), respectively. The weighted average grant date fair value of options granted during the three months and nine months ended September 30, 2010 was \$0.45 (2009 - \$nil) and \$0.51 (2009 - \$0.58), respectively.

For the three months and nine months ended September 30, 2010, the Company recorded a stock-based compensation expense of \$46,352 (2009 - \$74,591) and \$192,813 (2009 - \$211,895), respectively.

#### (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:

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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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# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

### 6. Financial instruments

#### (a) Classification of financial instruments

The Company has classified its financial instruments as follows:

	September 30, 2010	December 31, 2009
Financial assets:		
Held for trading, measured at fair value:		
Cash and cash equivalents	\$ 5,751,437	\$ 3,412,781
Short-term investments	533,376	424,376
Restricted short-term investment	–	109,000
	<u>\$ 6,284,813</u>	<u>\$ 3,946,157</u>
Loans and receivables, measured at amortized cost:		
Accounts receivable	\$ 2,913,255	\$ 2,512,832
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	\$ 4,355,796	\$ 3,244,082
Customer deposits	122,115	122,115
Advanced billings	2,424,189	2,042,025
	<u>\$ 6,902,100</u>	<u>\$ 5,408,222</u>

#### (b) Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits and advance billings, 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. Capital lease obligations are subject to valuation differences due to fixed interest rate charges, however, the fair market value of capital leases is not considered to be materially different from their market values. During the current period, no material realized gains or losses have been recognized on the Company's short-term investments.

#### (c) Risk disclosures

##### (i) Foreign currency

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 exposure to foreign exchange rate risk. Management of the Company believes there is no significant exposure to foreign currency fluctuations.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

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### 6. Financial instruments (continued)

#### (c) Risk disclosures (continued)

##### (ii) Credit

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 accounts receivable. 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 accounts receivable from its customers. As at September 30, 2010, approximately 37% (2009 – 41%) of the trade accounts receivable balances were owed from 4 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.

##### (iii) Interest rate

Short-term investments with fixed 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.

##### (iv) Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. 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.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

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### 7. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, short-term investments, capital lease obligations and equity comprising of issued capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, share repurchases, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

### 8. Segmented disclosures

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.

The Company earned revenue for the three months and nine months ended September 30, 2010 and 2009 by geographic area as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Canada	\$ 6,888,209	\$ 6,764,212	\$ 20,732,860	\$ 19,463,714
United States	905,557	873,748	2,567,901	2,749,260
Other	30,244	37,597	92,235	102,956
Total	\$ 7,824,010	\$ 7,675,557	\$ 23,392,996	\$ 22,315,930

One customer accounted for approximately 18% (2009 – 19%) of the Company's total revenue for the three months and nine months ended September 30, 2010.

# RADIANT COMMUNICATIONS CORP.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

September 30, 2010 and 2009

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### 9. Supplementary cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash paid for interest	\$ 1,752	\$ 813	\$ 13,569	\$ 32,251
Cash received for interest	69	60	266	1,220
Non-cash investing and financing activities:				
Issuance of common share purchase warrants	\$ -	\$ -	\$ 93,000	-

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