



RADIANT[®]
COMMUNICATIONS
Broadband Solutions for Business[™]

ANNUAL REPORT 2009

ABOUT RADIANT COMMUNICATIONS

Radiant (www.radiant.net) is Canada's largest independent provider of Broadband Solutions for Business. In operation since 1996, Radiant provides a wide range of communications and IT services to more than 20,000 business locations in Canada and the United States.

Radiant has a record of consistent year-over-year growth. Continued investments in our trans-Canada network, development of unique new products, and superior customer service accelerated that growth in 2009 and set the stage for continued growth into the future.

Historically Radiant has been the leader in providing broadband service to companies with hundreds of locations across Canada. This has enabled us to win many large clients such as Burger King, lululemon athletica, and Sun Life Financial, as well as thousands of smaller companies. Our new initiatives in 2008 enable us to provide more services to these existing customers, thereby enhancing both customer loyalty and revenue.

Radiant's dedication to superior customer service is equally important. Starting with direct salespeople operating from offices in Vancouver, Toronto, Montreal, Calgary, and Edmonton, to on-site installation and repair, proactive monitoring, and technical support on-duty 24 hours a day, 365 days a year, Radiant puts the customer first.

Truly trans-Canada reach, innovative products, and first-class customer service – together these enable Radiant to deliver not only superior service to our customers, but also to deliver superior results to our shareholders.

OUR SERVICES

- A complete range of Broadband data communications technologies – DSL, T1, E10, E100, cable and wireless – enable Radiant to craft the right solution for each customer
- Radiant's unique TriplePlay VPN™ combines the major private networking technologies - MPLS, SSL, and IPSec – into a single seamless Private Networking service
- Radiant's innovative AlwaysThere™ Business Continuity and Compliance Services include both Microsoft® Exchange, email archiving, and general-purpose computing resources available on-demand for disaster recovery
- Payment processing – VISA-certified (PCI DSS) secure high-speed debit/credit card transaction gateway

THE MARKET

Email, high-speed payment processing, access to CRM and ERP applications – in the last few years these have gone from merely useful to absolutely mission-critical, not just for large enterprises but also for small and medium businesses. However, because of the necessity to contain costs, the pressure on IT resources is unrelenting. The conflict between expanding mission-critical applications and cost control pressure means the market for outsourcing these functions is growing at a healthy pace. Radiant is ideally positioned to meet this growing demand from Canadian businesses ranging in size from 10 to several thousand employees.

THE COMPANY

Radiant has an existing customer base of over 4,000 businesses. These customers all purchase monthly recurring services from us under contracts ranging from 1 to 3 or even 5 years. Because our business model is based upon long-term contracted recurring revenue, Radiant's income stream is highly predictable and consistent, especially so for a company of our size.

As a result of our internally funded investments to create targeted customer solutions we anticipate that our recurring revenue model will continue to generate predictable and growing gross margins. In turn, this cash flow will enable ongoing investment in further growth of the company.

OUR VISION

Radiant's unique combination of networking and AlwaysThere services will enable us to grow the business substantially, first by dramatically increasing the revenue from existing customers, and second, by reaching out to new market segments.

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

April 6, 2010

FORWARD-LOOKING STATEMENTS

This discussion may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures, the growth rate of the Internet and telecommunications concerns, constantly changing technology and market acceptance of the Company's products and services. Investors are also directed to consider the other risks and uncertainties discussed in the Company's required financial statements and filings. All other companies and products listed herein may be trademarks or registered trademarks of their respective holders.

The following Management's Discussion and Analysis ("MDA") should be read in conjunction with the Company's interim unaudited financial statements for the year ended December 31, 2009 and notes thereto. The audited financial statements for the year ended December 31, 2009 have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise stated. Certain comparative amounts have been reclassified to conform to the current period's classification.

COMPANY OVERVIEW

Radiant Communications Corp. (the "Company" or "Radiant") is one of Canada's leading suppliers of Broadband Solutions for Business™ focused exclusively on the business market. The Company delivers an array of advanced solutions designed to help companies harness the power of broadband connectivity. These services include managed Digital Subscriber Line ("DSL") services, secure virtual private networks ("VPN"), secure Internet Protocol ("IP") connectivity to payment processor gateways for debit and credit card transactions and high availability virtually hosted applications such as Exchange email, and content management solutions to customers in Canada, the United States and internationally.

New applications, equipment, and management systems are driving a need for businesses to switch to high capacity, secure, reliable and cost-efficient IP-based networks. The Company has built its operations to meet the increased demand for nation-wide IP networks to connect remote locations, head offices and service providers for retailers, financial service providers and franchise operations. Radiant also offers its AlwaysThere™ Cloud Computing services that provide customers with a unique private on-demand computing facility for applications or fully-managed Microsoft Exchange. Radiant's customers include very large multi-location retailers such as Rogers Communications, Wal-Mart, HDS Retail, Dollarama, 7-Eleven, Burger King, Forzani, Blacks Photo and Lululemon Athletica; financial services organizations such as Sun Life and First Ontario Credit Corporation, and many smaller five to ten location service oriented organizations.

Radiant currently serves over 20,000 business connections with a team of 89 employees and agents in Toronto, Montreal, Calgary, Edmonton, and Vancouver. Additional information regarding the Company is available on SEDAR at www.sedar.com and at www.radiant.net.

FISCAL YEAR HIGHLIGHTS:

- Revenue of \$30.0 million for the year ended December 31, 2009 increased by 20.6% compared to revenue of \$24.9 million for the year ended December 31, 2008.
- Revenue in Q4 of 2009 was a record \$7.7 million and a 10.5% increase over \$7 million in Q4 of 2008.
- Gross margin was 41.8% for the year and 40.3% in the fourth quarter.
- EBITDA for the year was \$2.0 million and \$276,005 in the fourth quarter of 2009. (see EBITDA section for reconciliation to GAAP).
- Net Income in 2009 of \$73,584 amounted to \$0.01 per share.
- Radiant re-structured the sales organization in December of 2009 concurrent with the retirement of a senior sales vice-president. A charge of \$500,000 was recorded in the fourth quarter of 2009 related to severance costs associated with the re-structuring.
- The Company ended the current year with cash and short-term investments (unrestricted and restricted) of \$3.8 million and generated cash from operations of \$2.8 million during 2009.
- During 2009 Radiant provisioned over 2,500 locations for a large Canadian-based quick service food vendor as part of the 5 year agreement announced in 2008.
- Radiant continues to make excellent progress with the AlwaysThere product suite and in June of 2009 the company was certified as a Microsoft Gold Partner with a competency in hosting.
- During 2009 Radiant re-signed several significant customers to new multi-year agreements including Payless ShoeSource, and 7- Eleven and signed several new accounts including Nygard International and Town Shoes.
- Subsequent to the end of 2009 Radiant announced a National Broadband Network Investment Agreement with MTS Allstream Inc. that will allow both companies to provide reliable, next generation, high capacity broadband services to Canadian businesses.

NON-GAAP MEASURES

The Company reports Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) which is an approximate measure of operating results based on selected financial data from the Company's statement of operations. This non-GAAP measure may not be identical to similarly titled measures reported by other companies. Radiant believes that EBITDA is a useful measure of the cash generating potential of its recurring revenue business before taking into account the capital investment required to grow the infrastructure to support future customer additions.

EBITDA specifically does not include restructuring costs, stock-based compensation expense, or results from discontinued operations. EBITDA is not a measure that is governed or defined by generally accepted accounting principles. Readers are cautioned that EBITDA as calculated by the Company may not be comparable to similarly titled amounts reported by other companies. The disclosure of EBITDA is intended to add to and not replace the discussion of financial results or cash flows from operations. Please refer to the “EBITDA” section for a reconciliation of EBITDA.

OUTSTANDING SHARE DATA

Set out below is the outstanding share data for Radiant as at December 31, 2009. For additional detail, see Note 5 to the interim unaudited financial statements for the year ended December 31, 2009.

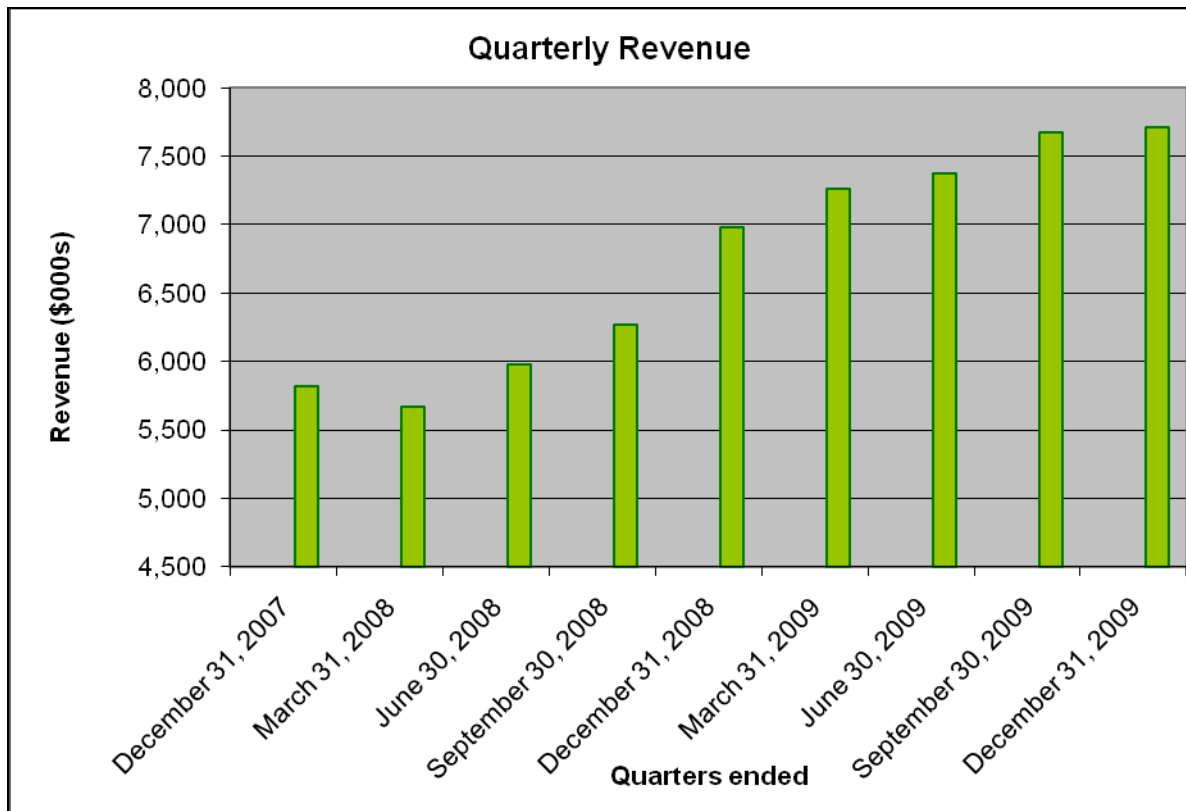
At December 31, 2009	Number Outstanding
Common Shares	10,925,664
Options to Purchase Common Shares	1,398,252

SUMMARY OF QUARTERLY RESULTS

The following table sets out certain operating results for the past eight quarters.

Quarters Ended (\$000s) except per share amounts	Dec 31, 2009 (Unaudited)	Sep 30, 2009 (Unaudited)	Jun 30, 2009 (Unaudited)	Mar 31, 2009 (Unaudited)	Dec 31, 2008 (Unaudited)	Sep 30, 2008 (Unaudited)	Jun 30, 2008 (Unaudited)	Mar 31, 2008 (Unaudited)
Revenue	\$ 7,715	\$ 7,676	\$ 7,374	\$ 7,266	\$ 6,981	\$ 6,268	\$ 5,981	\$ 5,670
EBITDA ¹	276	498	671	561	163	163	142	124
Net income (loss) and comprehensive income (loss)	(520)	115	224	254	(103)	(124)	(147)	(157)
Earnings (loss) per share ^{2,3}	\$ (0.05)	\$ 0.01	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

1. EBITDA is not a GAAP term. See "Non-GAAP Measures" on page 2 and a reconciliation with GAAP net income (loss) and operating income (loss) on page 14.
2. For all periods, the basic and diluted weighted average number of shares outstanding are the same, as the exercise of the outstanding options and warrants are anti-dilutive.
3. Quarterly results are prepared by management without review by our independent auditors.



STRATEGY

Radiant has traditionally grown by providing a business class flexible connectivity service to national and regional business accounts across Canada. The Company has a well established national service footprint and is able to use a wide range of supplier infrastructure to provide safe and secure connectivity to any location in Canada. Success in this market has been evidenced by revenue growth primarily attributable to large national accounts. Radiant now competes head to head with the large established Canadian Telco's and Cableco's and is able to win new accounts through a rapid, flexible and customer centric service delivery proposition.

Having captured a significant share of the national small and medium sized business market, Radiant recently expanded its suite of services and solutions in order to increase the per location revenue obtained from both new and existing customers. Utilizing new developments in cloud computing, Radiant is able to offer outsourced application hosting on virtual server grids with reliable and cost effective off-site storage, archiving and processing. Coupled with its private continent-wide network Radiant offers hosted Microsoft Exchange email, data archiving, disaster recovery and business continuity services as a recurring revenue business model.

Our services provide a more reliable, safe and secure operating environment for business applications and communications at a lower cost and more environmentally friendly footprint.

The announcement with MTS Allstream Inc., made subsequent to the end of 2009, will allow Radiant to offer high band width, high reliability, business connections in selected geographic areas that compete with T-1 and fiber services in quality and capacity but at a significantly lower price point. The Company intends to aggressively market these new services as both a stand-alone connectivity offering but also as a lower cost method of providing next generation applications including tele-presence, voice and other cloud based applications.

LEADERSHIP AND CAPACITY

Radiant is managed by a senior team with extensive experience and relationships in the technology industry across Canada and the US. With a team of 89 employees the Company provides 7 x 24 customer support and network operations. Our senior managers have experience with large multi-national telecoms and high technology equipment manufacturers and system integrators. Details of the senior management team's work history, experience and technical qualifications are available at the Radiant web site www.radiant.net.

Radiant operates a redundant national network with network operations centers in Vancouver and Toronto. The Company utilizes points of presence across Canada to connect with over 150 national and regional service providers. Radiant manages over 20,000 service connections and has invested in a best in class MPLS (Multi Protocol Label Switching) solution. The Company added over 2,500 net new service connections in 2009 and ended the year with a strong backlog of existing service orders as well as a large sales funnel of new opportunities. The Company believes it has sufficient staff, bandwidth, supplier relationships and network capacity to continue and exceed its current growth rate.

RESULTS OF OPERATIONS

Year ended December 31, 2009 compared to the year ended December 31, 2008

Revenue

Revenues for the year ended December 31, 2009 increased 20.6% to \$30.0 million compared to \$24.9 million in the comparable period of 2008. The increase is a result of ongoing sales of new services directed at retailers and larger national businesses as well as the significant addition of new locations and services to existing customers. The Company's revenues are primarily recurring in nature and due to extended customer contracts, revenue growth is relatively predictable and consistent over time.

For the year ended December 31, 2009, the Company's gross profit increased to \$12.5 million compared to \$11.1 million in the year ended December 31, 2008. Gross profit as a percent of revenue was 41.8% for the year ended December 31, 2009 compared to 44.4% for the same period in 2008. Approximately 90% of all the Company's access and bandwidth costs are directly variable with revenue, and accordingly, margin percentages are relatively predictable. Overall margin percentage can vary with revenue mix, as hardware and installation revenues carry lower margins than the Company's higher value connectivity and managed services. During the year ended December 31, 2009, Radiant has provisioned over 3000 new managed network locations including over 2,500 locations for the major customer announced in September of 2008. The installation and provisioning cost associated with managed network connections is higher than a standard DSL connection. This higher up-front cost is offset by higher margin monthly recurring revenue.

Expenses

Operating expenses, including sales and marketing, general and administrative, and amortization increased by 1.2% to \$11.8 million in the year ended December 31, 2009 compared to \$11.7 million in 2008.

Sales and marketing expenses include compensation expenses, agent and channel distribution costs, and marketing costs. For the year ended December 31, 2009, sales and marketing expense decreased 17.0% to \$2.0 million compared to \$2.4 million in the same period of 2008. The Company has modified its sales channel strategy as well as the variable incentive portion of the direct sales force to create an increased focus on more profitable virtual SaaS products. During the transition the variable component of

selling expense has decreased from the prior year. The Company expects selling costs to increase in the future based on additional resource allocation to sales channels as well as new marketing initiatives for the AlwaysThere product line and the recently announced broadband investment agreement.

General and administrative expenses, which include customer care, technical, network, executive and administrative staff, systems development, hardware, software, premises, office and general expenses, grew 6.1% to \$8.9 million for the year ended December 31, 2009 compared to \$8.4 million in the year ended December 31, 2008. This increase in expense is primarily attributable to additional resources to manage the increase in managed services connections as well as development costs related to improvements and enhancements to the provisioning and billing systems to accommodate the current growth rate in new business.

For the year ended December 31, 2009, amortization expenses of \$1.0 million were 3.1% higher than amortization expenses in the same period of 2008 of \$980,623. The increase is attributable to the capital expenditures made in 2008 on a redundant Always There virtual grid and the roll-out of a national MPLS network.

EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization, is calculated as follows:

(\$000s)	Year ended Dec 31, 2009	Year ended Dec 31, 2008
Operating Income (loss)	\$ 708	\$ (639)
Amortization	1,010	981
Stock-based compensation expense	287	250
EBITDA	\$ 2,005	\$ 592

In the year ended December 31, 2009 Radiant achieved positive EBITDA of \$2.0 million compared to positive EBITDA of \$591,597 in the comparable period of 2008.

Other

Interest on the Company's outstanding equipment financing decreased to \$40,518 for the year ended December 31, 2009 from \$92,412 for the same period of 2008. The decrease is the result of the decrease in balance of outstanding capital lease obligations. Other expense of \$593,985 includes foreign exchange losses of \$138,978 related to the strengthening of the US dollar against the Canadian dollar during 2009 and a one-time termination charge of \$500,000 related to severance accrued as part of the sales and distribution changes announced at the end of 2009.

Net Income

The Company had a net income of \$73,584 or \$0.01 per share for the year ended December 31, 2009 compared to a net loss of \$531,433 or \$(0.05) per share in the same period of 2008. The weighted average number of shares outstanding for the year ended December 31, 2009 and the year ended December 31, 2008 was 10.9 million.

RESULTS OF OPERATIONS

Quarter ended December 31, 2009 compared to the quarter ended December 31, 2008

Revenue

Revenues for the quarter ended December 31, 2009 increased 10.5% to \$7.7 million compared to \$7.0 million in the fourth quarter of 2008. The increase is a result of ongoing installation and activation of new services directed at retailers and larger national businesses as well as the addition of new locations and services to existing customers. Radiant's revenues are primarily recurring in nature and due to extended two and three year customer contracts quarterly revenue growth is relatively predictable and consistent over time. One time hardware revenues can fluctuate from quarter to quarter depending on the requirements of customer rollouts that occur each quarter.

Revenue in the fourth quarter of 2009 increased by 0.5% compared the preceding third quarter of 2009. The lower sequential growth is attributable to both the slow economy for retailers as well as efforts by the Company to consolidate and improve processes after a sustained period of very high growth. The AlwaysThere Hosted Exchange™ product continued to achieve market success and in the fourth quarter exceed over \$1 million of annualized revenue. Sales of new connectivity services and virtual grid services were somewhat slower in the quarter as customers continue to make investment decisions cautiously. Radiant continues to have a strong funnel of opportunities and a backlog of orders.

For the quarter ended December 31, 2009, the Company's gross profit increased to \$3.1 million compared to \$2.9 million in the fourth quarter of 2008. Gross profit as a percent of revenue was 40.3% for the quarter ended December 31, 2009 compared to 41.0% for the same period in 2008 and 39.0% in the immediately preceding quarter. Approximately 90% of all the Company's access and bandwidth costs are directly variable with revenue, and accordingly, margin percentages are relatively predictable. During periods of very high growth margins may also be negatively impacted due to the various upfront costs and activities required to activate and install complex and time sensitive networks. Although many of these costs are amortized over the contract life, the current high growth rate of Radiant's business has required additional effort in certain implementation activities.

Radiant bills approximately 12% of its revenue in US\$ currency. The rapid increase in the value of the Canadian dollar relative to the US dollar during the fourth quarter of 2009 negatively impacted gross margin by over \$90,000 or more than one percentage point.

Expenses

Operating expenses, including sales and marketing, general and administrative, and amortization costs of \$3.1 million in the fourth quarter of 2009 increased by 3.7% compared to \$3.0 million in the fourth quarter of 2008 and were up 11.2% compared to \$2.8 million in the immediately preceding third quarter of 2009. Radiant has held headcount flat and is committed to managing expenses in a conservative manner while the economic environment begins to stabilize. At the same time the Company is investing in new operating and billing systems to accommodate the high growth rate and thus far has been able to make these investments without increasing overall operating expense.

Sales and marketing expenses include compensation expenses, agent and channel distribution, and marketing costs. For the quarter ended December 31, 2009, sales and marketing expense decreased 2.6% to \$567,861 compared to \$583,057 in the fourth quarter of 2008. Radiant has focused its existing sales resources on growing the higher value virtual products customer base and we have altered the compensation structure and sales channel effort to promote these products to produce a more cost effective sell through process. Sales and marketing expenses in the fourth quarter of 2009 increased by

58.1% compared to sales and marketing costs in the third quarter of 2009. Sales and marketing expenses in the third quarter of 2009 were unusually low due to reduced variable compensation in the period.

During the fourth quarter, as part of the rationalization of the sales channel structure, several agent agreements were terminated and certain prospective changes to the variable compensation structure were made. In addition to the restructuring costs in other expense Radiant expended \$54,000 of sales and marketing expense to terminate an agent agreement and increased the quarterly marketing spend by \$48,000.

General and administrative expenses, which include customer care, technical, network, executive and administrative staff, systems development, hardware, software, premises, office and general expenses, were 7.3% higher at \$2.3 million for the quarter ended December 31, 2009 compared to \$2.2 million in the fourth quarter of 2008. The increase is primarily due to the ongoing product development activities mentioned previously as well as investments in our provisioning and billing systems to accommodate our recent high growth rate. In the fourth quarter Radiant continued to enhance and improve the CRM application as well as the trouble ticket and customer care application. Additional features will be rolled out during 2010. Also in the fourth quarter, the company expended significant time and effort developing its high bandwidth/high reliability product strategy in concert with MTS Allstream as announced in January, 2010. General and administrative expenses in the fourth quarter of 2009 were 6.0% higher compared to the third quarter of 2009.

For the quarter ended December 31, 2009 amortization expenses of \$231,584 were 12.7% lower than amortization expenses in the fourth quarter of 2008 of \$265,315 and 9.7% lower compared to amortization expense in the third quarter of 2009. The decrease over the prior year reflects the low levels of capital expenditures made in 2008 and 2009. Radiant anticipates that amortization expense will increase over the next two years given the investments anticipated as part of the recently announced new product strategy.

EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization is calculated as follows:

(\$000s)	Q4 2009	Q4 2008
Operating Loss	\$ (30)	\$ (171)
Amortization	231	266
Stock-based compensation expense	75	68
EBITDA	\$ 276	\$ 163

In the fourth quarter of 2009, Radiant achieved EBITDA of \$276,005 compared to EBITDA of \$162,884 in the fourth quarter of 2008.

Other

Interest on the Company's outstanding equipment loans decreased to \$8,514 for the quarter ended December 31, 2009 from \$13,558 for the fourth quarter of 2008. The decrease is the result of a decrease in the balance of capital lease obligations. Other Expense in the fourth quarter of 2009 was an expense of \$480,760 compared to income of \$80,789 in the fourth quarter of 2008. In the fourth quarter a restructuring charge of \$500,000 related to employee severance is included in other expense.

Net Income

The Company had a net loss of \$519,844 or \$0.05 per share for the quarter ended December 31, 2009 compared to a net loss of \$103,327 or \$0.01 per share in the fourth quarter of 2008. The weighted average number of shares outstanding for the fourth quarter of 2009 was 10.9 million and for the fourth quarter of 2008 was also 10.9 million.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2009 Radiant had cash and short term investments (restricted and unrestricted) of \$3.9 million compared to \$2.3 million at December 31, 2008. Of this amount \$109,000 was restricted as it had been pledged as collateral for letters of credit which guarantee the Company's capital lease financing and the primary operating facility operating lease. This restriction was lifted in January of 2010 as the letters of credit were cancelled. Radiant has established a consistent record of positive cash flows from operating activities that are sufficient to fund all expected capital acquisitions and non-cash working capital requirements in 2010. The Company believes it has sufficient funds to ensure ongoing operations and will not require additional funding from capital markets or other sources in 2010.

Year ended December 31, 2009 compared to the year ended December 31, 2008

Operating Activities

For the year ended December 31, 2009, Radiant's net cash flows from operations were an inflow of \$2.8 million compared to an inflow of \$517,102 for the year ended December 31, 2008. Operating activities produced \$1.5 million in the period, (\$596,385 in 2008), combined with \$1.3 million generated through working capital changes (\$79,283 used in the year ended of 2008). \$500,000 of the working capital changes related to the severance accrued as part of the sales re-structuring with the remainder related to increases in accrued liabilities related to fourth quarter capital acquisitions accompanied by a reduction in inventories and an increase in deferred revenue attributed to the growth of new customer locations.

Investing Activities

For the year ended December 31, 2009 the Company used cash of \$930,937 to acquire property and equipment. In the year ended of 2008 the Company used cash to acquire \$1.1 million of property and equipment. With the MTS Allstream Inc. National Broadband Network Investment Agreement announced in January of 2010 Radiant anticipates a significant increase in capital expenditures for the coming year. The Company intends to fund ongoing capital outlays from operating cash flows and does not anticipate a requirement to raise additional funds. Should additional funds become available it is possible that the new product offering with MTS Allstream Inc. might be rolled out at a faster rate.

Financing Activities

For the year ended December 31, 2009, Radiant's financing activities required \$169,681 in cash to repay capital lease obligations compared to capital lease payments of \$249,804 in the year ended of 2008.

Quarter ended December 31, 2009 compared to the quarter ended December 31, 2008

Operating Activities

For the fourth quarter ended December 31, 2009, Radiant's net cash flows from operations were an inflow of \$1,086,616 compared to an inflow of \$257,163 for the fourth quarter ended December 31, 2008.

Operating activities used cash of \$202,038, in the quarter (\$176,917 generated in Q4 2008), combined with \$1.3 million generated by working capital changes, (\$80,246 generated in Q4 2008), primarily related to an decrease in accounts receivable and an increase in accrued liabilities offset by an increase in deferred costs and prepaid expenses. The increase in accounts payable and accrued liabilities relates primarily to accrued re-structuring costs of \$500,000 and capital equipment acquisitions received in December.

Investing Activities

For the quarter ended December 31, 2009 the Company used cash of \$427,593 to acquire property and equipment. In the fourth quarter of 2008 the Company used cash to acquire \$142,586 of property and equipment. Radiant slowed the capital expenditure process early in 2009 to ensure that outflows correlated with business growth. The company increased the rate of capital acquisitions in the fourth quarter to scale the network and data infrastructure to the growth in customer locations and requirements.

Financing Activities

For the quarter ended December 31, 2009, Radiant's financing activities required \$21,901 in cash to repay capital lease obligations compared to capital lease payments of \$42,372 in the fourth quarter of 2008.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management makes certain estimates and relies on certain assumptions relating to reporting the Company's assets and liabilities as well as operating results in order to prepare the financial statements in conformity with Canadian GAAP. Such estimates and assumptions include the valuation of accounts receivable, the valuation of inventory, recoverability of deferred costs, recoverability of long-lived assets, stock-based compensation expense, the estimation of the useful lives of various classes of fixed assets. In the determination of the valuation of accounts receivable, including the allowance for doubtful accounts, management relies on current customer information, payment history and trends as well as future business and economic conditions. The recoverability of long-lived assets is determined based on the future undiscounted cash flow expected to be generated from such assets. The estimated life of the service related to activation and installation fees is based on a number of variables including, but not limited to: the term of the customer relationship, the expected life of the underlying asset or service, the mean time between service related customer premise visits, Radiant's relationship and contracted services with the underlying supplier of our services, the current rate of customer turnover or churn, changes in the regulatory environment or requirements and an specific issues relative to the customer relationship that could impact the estimated life, The fair value of stock options and warrants is based on certain estimates applied to the Black-Scholes option pricing model as discussed below. The estimation of useful lives of the various classes of fixed assets is based upon history and experience for similar assets within each class. Actual results may differ from our estimates and assumptions.

The following are significant accounting policies of the Company:

Revenue Recognition

The Company sells products and services including hardware, data communication and hosting services, data administration services. Revenues are recognized in accordance with EIC Abstract 141, "Revenue Recognition". Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the products and services have been delivered to the customer, and collectability is

reasonably assured. Amounts billed but not yet earned are recorded as deferred revenue.

The Company's principal sources of revenue and recognition of these revenues are as follows:

- (i) Monthly connectivity or hosting fees are recorded as revenues on a pro rata basis as the service is provided.
- (ii) Revenue from the sale of connectivity equipment is recorded when the equipment is delivered and accepted by customers.
- (iii) Activation fees and installation fees charged do not meet the criteria as a separate unit of accounting. As a result, these fees are deferred and recognized over the estimated life of the service, determined based on historical average to be twenty-four months. Costs associated with activations and installations are deferred and amortized over the twenty-four month estimated life of the service.

The company is required to estimate the estimated life of the service offerings which can impact on the amount of amortization included in income and expenses of its upfront fees and connecting expenses. The Company also estimates the fair value of its bundled products and services in order to recognize revenue in the appropriate period. Changes in assumptions on estimated service life and relative fair values could result in changes to recorded income. Changes in assumptions that might impact the estimated service life could result from; changes in technology, changes in supplier technology or services, changes in ongoing rates of churn and cancellations, changes in customer requirements, changes in ongoing security and performance requirements or changes in regulatory requirements.

Inventories

The Company's inventory consists primarily of modems, routers and other communication equipment held for resale. Inventories are valued at the lower of cost and net realizable value, with cost being determined on a weighted average cost basis.

Long-Lived Assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the undiscounted estimate of future cash flows from the asset. Estimates of future undiscounted cash flows are based on management's best estimates which are subject to change and may impact on recoverability assessment.

Goodwill

The Company accounts for goodwill in accordance with CICA Handbook Section 3064, "Goodwill and Intangible Assets". The Company assesses the fair value of goodwill on an annual basis, and an impairment loss is recognized when the reporting unit's fair value is less than the carrying value. Goodwill represents the excess of acquisition cost over fair value of net identifiable assets of acquired businesses. Goodwill is not amortized, but it is tested annually for impairment or more frequently if impairment indicators arise. Impairment is recognized when the carrying value of the associated reporting unit exceeds the fair value of the goodwill. The Company uses a discounted cash flow model combined with a market-capitalization approach in determining the fair value of its reporting unit. The discounted cash flow methodology uses management's best estimate of the cash flows and a discount rate established by calculating a weighted average cost of capital for the associated reporting unit. The market-capitalization approach uses historical market capitalization rates of companies in similar business. The most

significant assumptions underlying the fair value of goodwill include: future cash flow and growth projections; future weighted average cost of capital; and projected annual earnings and annual revenue multiples. Significant factors impacting these assumptions include estimates of key operating metrics such as churn, level of competition, technological developments and interest rates. Estimates of future cash flows and choice of discounted rates and other factors can materially impact on the recoverability assessment of goodwill.

Financial Instruments

All financial assets and liabilities are recognized on the balance sheet when we become a party to the contractual provisions of the instrument and are initially recognized at fair value. Subsequent measurement of the financial instruments is based on their classification. We have classified each financial instrument into one of the following categories: financial assets and financial liabilities held for trading; loans or receivables and other financial liabilities. See Note 11 of the financial statements for the year ended December 31, 2009. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed.

Stock-Based Compensation:

The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870, "Stock-based compensation and Other Stock-based Payments". Stock or stock options are measured at their fair value at their date of grant, as measured by the Black-Scholes option pricing model, and the related compensation expense is recognized on a straight-line basis over the vesting period. Share option awards vest over a three-year period.

The risk free interest rate used in determining the fair value of the share awards is based on Government of Canada zero coupon bonds with a remaining term equal to the expected life of the options. The expected lives of the share option awards are based on historical share option award exercise data of the Company. Where there is little historical data, the expected life of the share option awards is the average of the vesting term of three years and the full contractual term of five years. The expected volatility is based on historical volatility of the Company's share prices over the past 156 weeks.

ACCOUNTING POLICY DEVELOPMENTS

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". This revision aligns Canadian GAAP with International Financial Reporting Standards ("IFRS") and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of Section 3064 did not have material impact on the Company's financial statements.

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.

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.

In February 2008, the CICA's Accounting Standards Board confirmed its strategy of replacing Canadian generally accepted accounting principles with IFRS for Canadian publicly accountable enterprises. IFRS has now been incorporated into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to report using the IFRS effective for interim and annual financial statements commencing January 1, 2011.

The Company commenced its IFRS conversion project in 2008. The project consists of three primary phases: scoping and diagnostic; evaluation and design; and implementation and review. The Company has completed the scoping and diagnostic phase where a high-level of impact assessment had been performed to key areas. The Company is now in the processing of finalizing the evaluation and design phase. This phase identifies the significant changes required by IFRS and includes an analysis of policy alternatives allowed, developing financial statement content and determining changes required to existing accounting policies, information systems and business processes.

The final phase is the implementation and review phase which will culminate in the collection of financial information necessary to prepare IFRS compliant financial statements and subsequent Audit Committee and Board of Director approval of IFRS financial statements. In its 2010 fiscal year, the Company will start to prepare a parallel set of IFRS financial records on a quarterly basis. The conversion process involves IFRS adjustments and reconciliations from Canadian GAAP financial records to IFRS financial statements.

The Company continues to monitor standards and guidance issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Standards Board as well as regulatory pronouncements from the Canadian Securities Administrators all of which may affect the timing, nature or disclosure of the Company's adoption of IFRS. Although the Company has completed the evaluation and design phase it has not yet determined its final accounting policy choices and exemptions and the specific effects these choices may have on reported results. The Company is unable at this time to quantify the impact of IFRS on its financial statements but will continue to provide the best estimate of these changes as they are determined in future periods leading up to the reporting of 2010 annual results.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company did not have any transactions with related parties during the year ended Dec. 31, 2009.

ENVIRONMENTAL AND CLIMATE CHANGE ISSUES

The Company operates two network operation centers as well as several Canadian point of presence. The Company has ensured that environmentally acceptable fire suppression systems and power back up systems are in place and functioning according to proper specifications. The Company recycles all waste and unused product where possible and encourages staff to reduce power consumption and our

operating environmental footprint. New cloud computing solutions represent an opportunity for Radiant's customers to reduce total power consumption and hardware acquisition and disposal.

SHARE CAPITAL

As at April 6, 2010 there were 10,925,664 common shares outstanding.

RISKS AND UNCERTAINTIES

Limited History of Profitability and Access to Capital: The Company has incurred significant losses since inception and has only recently achieved positive cash flow. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. The Company has traditionally financed its cash requirements through the issuance of common shares, debt instruments or capital leases. The Company is of the opinion that sufficient working capital will be obtained from operations to meet the Company's liabilities and commitments as they become due. If the Company is unable to generate cash from operations its ability to operate and grow the business could be impeded.

Operating Results are Expected to Fluctuate: As Radiant competes for larger multi-location customers with higher value bundled IP services the Company may experience fluctuations in its operating results on a quarterly and annual basis. Fluctuations in operating results may impact the volatility of the market price of the common shares of the Company.

Economic volatility: The current economic downturn in Canada is serious and has the potential to negatively impact many of Radiant's customers engaged in the retail or service sectors. Radiant provides an essential communication service to its customer base and bills in advance for services to ensure prompt payment. Customers are screened for credit worthiness prior to activation and overdue accounts are diligently escalated and resolved, There can be no assurance that in spite of these actions and controls customers may fall victim to the economic slow down and reduced consumer spending. This could impact the ability of Radiant to grow during this economic downturn.

Competition: The provision of secure, high speed connectivity and managed VPN services is a rapidly evolving and growing market. There is a wide variety of technology providers who may become competitors in this market as it grows and evolves. Many of the current and potential competitor companies have significantly greater financial, technical and marketing resources and greater name recognition than Radiant. There can be no assurance that the Company will be able to compete successfully against current or potential competitors. If the Company fails to successfully compete on a sustained basis, its business would be materially and adversely impacted.

Supplier Relationships: The Company obtains its high speed connectivity services through master purchase agreements with the large regulated Canadian telecom providers. If the Company was for any reason unable to secure access to these services its ability to provide services to new and existing customers would be materially and adversely impacted.

Foreign Currency: The Company obtains approximately 12.4% of its annual revenue from customers located outside of Canada. Most of these customers are web hosting customers located in the United States and a portion of these customer contracts are denominated in US dollars. Significant variations in exchange rates may have an adverse impact on the operating results of the Company although we believe this risk will diminish as the proportion of non-Canadian dollar business diminishes over time.

RECONCILIATION OF NON-GAAP MEASURES

The following is a reconciliation of the Company's EBITDA with net income (loss) and operating income (loss) for the past eight quarters:

Quarters Ended (\$000s)	Dec 31, 2009 (Unaudited)	Sep 30, 2009 (Unaudited)	Jun 30, 2009 (Unaudited)	Mar 31, 2009 (Unaudited)	Dec 31, 2008 (Unaudited)	Sep 30, 2008 (Unaudited)	Jun 30, 2008 (Unaudited)	Mar 31, 2008 (Unaudited)
Net income (loss)	(520)	115	224	254	(103)	(124)	(147)	(157)
Interest expense	9	1	14	17	13	20	20	39
Other (income) expense	481	51	100	(38)	(81)	(54)	(24)	(42)
Operating income (loss)	(30)	167	338	233	(171)	(158)	(151)	(160)
Amortization	231	256	261	262	266	245	230	241
Stock-based compensation expense	75	75	72	66	68	76	63	43
EBITDA	276	498	671	561	163	163	142	124

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible to the Board of Directors for the preparation and integrity of the financial statements and the information pertaining to the Company that appears in this annual report. These financial statements and have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on estimates and judgments that management has determined on a reasonable basis. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

The Company maintains a system of internal controls in order to provide management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, segregation of duties and guidelines that require employees to maintain high ethical standards.

The Company's external auditors, KPMG LLP, have been appointed by the shareholders to audit the Company's financial statements in accordance with Canadian generally accepted auditing standards and their report follows.

The Board of Directors, who are responsible for ensuring management fulfils its responsibilities for financial reporting, have reviewed and approved these financial statements. An Audit Committee of three independent, outside directors has been appointed by the Board of Directors in order to assist in meeting this responsibility. The Audit Committee meets periodically with management and the external auditors to review internal controls, audit results and accounting and financial reporting matters to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the financial statements to the Board. The Company's auditors have unrestricted access to the Audit Committee.



David Buffett
President and Chief Executive Officer



Chuck Leighton
Chief Financial Officer



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Radiant Communications Corp. as at December 31, 2009 and 2008 and the statements of operations, comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

March 12, 2010

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

BALANCE SHEET

(Expressed in Canadian dollars)

As at December 31	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 3,412,781	\$ 1,810,478
Short-term investments (Note 4)	424,376	424,000
Restricted short-term investment (Note 5)	109,000	109,000
Trade accounts receivable	2,512,832	2,534,797
Inventories (Note 6)	358,136	674,717
Prepaid expenses and deposits	295,052	275,913
Deferred costs	1,473,487	1,254,309
	8,585,664	7,083,214
Property and equipment (Note 7)	1,568,829	1,648,465
Goodwill (Note 8)	1,574,228	1,574,228
	\$ 11,728,721	\$ 10,305,907
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,244,082	\$ 2,333,222
Customer deposits	122,115	162,086
Deferred revenue	4,679,804	4,329,351
Current portion of deferred lease inducements	16,050	16,050
Current portion of obligations under capital leases	49,700	176,218
	8,111,751	7,016,927
Deferred lease inducements	75,192	64,509
Obligations under capital leases (Note 9)	44,040	87,203
	8,230,983	7,168,639
Shareholders' equity		
Share capital (Note 10)	3,601,872	3,601,872
Contributed surplus	4,433,931	4,147,045
Deficit	(4,538,065)	(4,611,649)
	3,497,738	3,137,268
	\$ 11,728,721	\$ 10,305,907

Commitments and contingencies (Note 13)

Subsequent events (Note 15)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"Ian Power" (signed) Director

"Don Calder" (signed) Director

RADIANT COMMUNICATIONS CORP.
STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) & DEFICIT
(Expressed in Canadian dollars)

Years ended December 31	2009		2008	
Revenue	\$	30,031,215	\$	24,900,158
Cost of sales		17,492,839		13,847,038
Gross profit		12,538,376		11,053,120
Expenses				
Sales and marketing		1,958,762		2,358,755
General and administrative		8,860,954		8,353,194
Amortization		1,010,573		980,623
		11,830,289		11,692,572
Income (loss) before undernoted		708,087		(639,452)
Interest expense		40,518		92,412
Other (income) expense		593,985		(200,431)
Net earnings (loss) and comprehensive income (loss) for the year		73,584		(531,433)
Deficit, beginning of year		(4,611,649)		(4,080,216)
Deficit, end of year	\$	(4,538,065)	\$	(4,611,649)
Basic and diluted earnings (loss) per share	\$	0.01	\$	(0.05)
Weighted average common shares, used in computing basic and diluted earnings (loss) per share		10,925,664		10,898,535

See accompanying notes to financial statements.

RADIANT COMMUNICATIONS CORP.
STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

Years ended December 31	2009	2008
Cash flows from operating activities:		
Income (loss) for the year	\$ 73,584	\$ (531,433)
Items not involving cash:		
Amortization	1,010,573	980,623
Stock-based compensation (Note 10 (c))	286,886	250,427
Amortization of deferred lease inducement	10,683	(3,425)
Foreign exchange (gain) loss	124,700	(99,807)
	1,506,426	596,385
Change in non-cash operating activities:		
Trade accounts receivable	21,965	(192,332)
Inventories	316,581	(261,745)
Prepaid expenses and deposits	(19,139)	(13,172)
Deferred costs	(219,178)	(719,007)
Accounts payable and accrued liabilities	910,860	143,474
Customer deposits	(39,971)	(2,810)
Deferred revenue	350,453	910,614
Tenant improvement allowance reimbursement	-	55,695
	2,827,997	517,102
Cash flows from investing activities:		
Purchase of property and equipment	(930,937)	(1,090,898)
Short-term investments	(376)	391,000
Restricted short-term investment	-	(391,000)
	(931,313)	(1,090,898)
Cash flows from financing activities:		
Payments under capital leases	(169,681)	(249,804)
Foreign exchange gain (loss) on cash held in foreign currency	(124,700)	99,807
Increase (decrease) in cash and cash equivalents	1,602,303	(723,793)
Cash and cash equivalents, beginning of year	1,810,478	2,534,271
Cash and cash equivalents, end of year	\$ 3,412,781	\$ 1,810,478

Supplementary cash flow information (Note 17)

See accompanying notes to financial statements

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

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 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, hosted exchanged, web hosting and business class digital voice.

2. Significant accounting policies

(a) Basis of presentation

The financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Significant estimates are used in determining, but are not limited to, the valuation of accounts receivable, the valuation of inventory, the recoverability of deferred costs, the estimated useful lives of property and equipment, the estimated life of the service related to activation and installation fees, the recoverability of long-lived assets and goodwill, the measurement of income tax valuation allowances and stock-based compensation expense. Actual results could differ from those estimates.

(c) Revenue recognition

The Company sells products and services including hardware, data communication and hosting services, and data administration services. Revenues are recognized in accordance with EIC Abstract 141, "Revenue Recognition". Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the products and services have been delivered to the customer, and collectability is reasonably assured. Amounts billed but not yet earned are recorded as deferred revenue.

The Company's principal sources of revenue and recognition of these revenues are as follows:

- (iv) Monthly connectivity or hosting fees are recorded as revenues on a pro rata basis as the service is provided.
- (v) Revenue from the sale of connectivity equipment is recorded when the equipment is delivered and accepted by customers.
- (vi) Activation fees and installation fees charged do not meet the criteria as a separate unit of accounting. As a result, these fees are deferred and recognized over the average expected term of the customer relationship, determined to be twenty-four months. Costs associated with activations and installations are deferred and amortized over the same period (note 2(h)).

The Company sells products and services containing multiple elements, which may include a combination of the above. These revenues are recognized in accordance with EIC Abstract 142, "Revenue Arrangements with Multiple Elements". Revenues earned from these bundled sales are recognized upon delivery, based on the relative fair values of the bundled products and services.

(d) 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.

(e) Short-term investments

Short-term investments (restricted and unrestricted) consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase. Short-term investments are classified as held-for-trading and are reported at fair value.

(f) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

(g) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful economic lives of the assets, beginning in the period in which the asset is put into use, as follows:

Asset	Rate
Computer equipment & other	2 - 5 years
Office furniture and equipment	5 years
Assets under capital lease	Lesser of initial term of lease or useful life
Leasehold improvements	Lesser of initial term of lease or useful life

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to, significant decrease in the market price of the asset; significant adverse changes in the business climate or legal factors; significant adverse changes in expected future asset utilization and future undiscounted cash flows expected to result from the use of the related assets. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the fair value of the asset.

2. Significant accounting policies (continued)

(h) Deferred costs

Deferred costs relate to equipment costs, connection fees, and third party installation costs associated with activation and installation fees the Company charges to its customers (Note 2(c)). These costs are amortized over the twenty-four month of the average expected customer relationship on the same basis as the associated revenues.

(i) Goodwill

Goodwill represents the excess of acquisition cost over fair value of net identifiable assets of acquired businesses. Goodwill is not amortized, but it is tested annually for impairment or more frequently if impairment indicators arise.

(j) Financial Instruments

All financial assets and liabilities are recognized on the balance sheet when we become a party to the contractual provisions of the instrument and are initially recognized at fair value. Subsequent measurement of the financial instruments is based on their classification. We have classified each financial instrument into one of the following categories: financial assets and financial liabilities held for trading; loans or receivables and other financial liabilities (Note 11(a)). The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed.

(k) Lease inducements

Lease inducements are accounted for in accordance with EIC Abstract 21, "Accounting for Lease Inducements by the Lessee". Lease inducement benefits are amortized on a straight-line basis over the term of the lease as a reduction to rental expense. Leasehold improvements acquired as part of the lease inducement are amortized over the lesser of the initial term of the lease and their useful lives.

(l) Leases

Leases which transfer substantially all of the benefits and risks of ownership of the underlying assets are accounted for as capital leases. All other leases are accounted for as operating leases.

2. Significant accounting policies (continued)

(m) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (“temporary differences”) and loss carry forwards. When necessary, a valuation allowance is recorded to reduce income tax assets to an amount where realization is more likely than not. Future tax assets and liabilities are measured using enacted or substantively enacted tax laws and rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is generally recognized in income in the period that includes the date of enactment or substantive enactment.

(n) Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars at the rates prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date with any resulting gain or loss being reflected in the statement of operations.

(o) Stock-based compensation plans

The Company has a stock option plan, which is described in Note 10(c). The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”. When stock or stock options are issued to employees, compensation expense is recognized based on the fair value of the stock or stock options issued on the date of grant, over the vesting period of the stock or stock options. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

2. Significant accounting policies (continued)

(p) Basic and diluted earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, which assumes that the cash that would be received on the exercise of stock options or warrants is applied to purchase shares at the average price during the year. The difference between the shares issued on the exercise of the stock options or warrants and the number of shares purchased under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options are not considered in computing diluted earnings per share. Stock options and warrants are dilutive when the Company has income for the year and the average market price of the common shares during the year exceeds the exercise price of the options and warrants. For the year ended December 31, 2009 and 2008, all stock options were anti-dilutive.

(q) Comparative figures

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

3. Changes in accounting policies and future changes in accounting standards

(a) Changes in accounting policies

(i) Goodwill and intangible assets

Effective January 1, 2009, the Company adopted the recommendations of CICA Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaced Section 3062, "Goodwill and Other Intangible Assets", and section 3450, "Research and Development Costs", established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this new standard did not have a material impact on the Company's financial statements

(ii) Financial instruments disclosure

Handbook Section 3862, Financial Instruments – Disclosures establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

3. Changes in accounting policies and future changes in accounting standards (continued)

(ii) Financial instruments disclosure (continued)

- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

This additional disclosure has been provided in note 11(b).

(b) Future accounting standards

(i) International Financial Reporting Standards

In February 2008, the CICA's Accounting Standards Board ("AcSB") confirmed its strategy of replacing Canadian generally accepted accounting principles with IFRS for Canadian publicly accountable enterprises. IFRS has now been incorporated into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to report using the IFRS effective for interim and annual financial statements commencing January 1, 2011. The Company is currently reviewing the standards to determine the potential impact on its financial statements.

(ii) Business combinations:

CICA Handbook Section 1582, Business Combinations, will replace the current Handbook Section 1581, Business Combinations, while Handbook Sections 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling Interests, will replace the current Handbook Section 1600, Consolidated Financial Statements. These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Handbook Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. As such, transactions which are now typically accounted for as an asset acquisition costs are not part of the consideration and are to be expensed when incurred. The Company is currently assessing the impact of the future adoption of these standards.

4. 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.

5. Restricted short-term investment

The restricted short-term investment represents a guaranteed investment certificate with original maturities of greater than three months when acquired, which had been provided as security for certain of the Company's capital leases. The restricted investment could not be liquidated or used by the Company without consent of the lessor. All related capital lease obligations were settled by the end of 2009 (Note 15). The investment is recorded at fair value.

6. Inventories

During the year, inventory expensed within cost of sales was \$1,544,939 (2008 - \$1,391,098). The Company also incurred inventory write downs of \$25,931 (2008 - \$56,088).

7. Property and equipment

2009	Cost	Accumulated amortization	Net book value
Computer equipment & other	\$ 7,874,942	\$ 6,635,896	\$ 1,239,046
Office furniture and equipment	316,667	131,619	185,048
Assets under capital lease	147,682	57,432	90,250
Leasehold improvements	487,476	432,991	54,485
	\$ 8,826,767	\$ 7,257,938	\$ 1,568,829

2008	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 7,219,823	\$ 5,949,856	\$ 1,269,967
Office furniture and equipment	293,758	146,947	146,811
Assets under capital lease	604,034	444,754	159,280
Leasehold improvements	483,263	410,856	72,407
	\$ 8,600,878	\$ 6,952,413	\$ 1,648,465

During 2009, the Company recorded \$1,010,573 (2008 - \$980,623) in amortization of capital assets, \$79,725 of which relates to assets under capital lease (2008 - \$178,799).

8. Goodwill

The Company's goodwill was related to its shared hosting reporting unit before 2008. At the end of 2007, the Company reorganized its reporting structure and starting from 2008 the Company no longer reviews and reports the shared hosting unit as a separate reporting unit. Because the Company now reports under one operating segment and one reporting unit, goodwill is reviewed and assessed based on the fair value of the entire company. At December 31, 2009, the fair value of the Company exceeded its carrying value; accordingly, no impairment to this goodwill has been recognized.

9 Obligations under capital leases

In 2008, the Company entered into a lease agreement with another financial corporation to finance the purchase of equipment of \$136,987. This capital lease has been issued at an interest rate of 7.2%. There is a bargain purchase option to purchase the leased equipment under this lease at \$1 when the lease term expires.

The capital leases the Company entered into in 2004 had all matured and were settled in 2009. Future minimum lease payments for obligations under capital leases as at December 31, 2009 and 2008 are as follows:

	2009	2008
2009	\$ –	\$ 194,383
2010	54,497	50,931
2011	45,414	42,442
	99,911	287,756
Less: Interest portions at rates ranging from 7.2% to 26.5%	(6,171)	(24,335)
	93,740	263,421
Less: current portion	(49,700)	(176,218)
	\$ 44,040	\$ 87,203

For the year ended December 31, 2009, interest expense includes \$12,725 (2008 - \$50,536) related to obligations under capital leases.

10. 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 – December 31, 2008 and 2009	10,925,664	\$ 3,601,872

10. 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 in 2004, increasing the total number of shares reserved for issuance to 705,243. In May 2007, the Plan was amended to increase the total number of shares reserved for issuance to 1,643,845. 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 years ended December 31, 2009 and 2008:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,357,671	\$ 1.26	1,016,676	\$ 1.33
Granted	160,000	0.93	395,000	1.17
Forfeited	(119,419)	2.60	(54,005)	1.41
Outstanding, end of year	1,398,252	\$ 1.11	1,357,671	\$ 1.26

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2009:

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
\$0.90 to \$1.80	1,379,584	2.87 years	\$ 1.11	888,397	\$1.14
\$2.40	18,668	0.16 years	\$2.40	18,668	\$2.40
\$0.90 to \$2.40	1,398,252	2.84 years	\$1.11	907,065	\$1.16

10. Share capital (continued)

(c) Stock option plan (continued)

The total fair value of stock options granted during 2009 was \$92,400 (2008 - \$307,600). The weighted average grant date fair value of options granted during 2009 was \$0.58 (2008 - \$0.78). For the year ended December 31, 2009, the Company recorded a stock-based compensation expense of \$286,886 (2008 - \$250,427).

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:

	2009	2008
Weighted average risk-free interest rate	2.30%	2.86%
Dividend yield	0%	0%
Weighted average expected life of the options	4 years	4 years
Weighted average volatility	83%	91%

11. Financial instruments

(a) Classification of financial instruments

The Company has classified its financial instruments for the years ended December 31, 2009 and 2008 as follows:

	2009	2008
Financial assets:		
Held for trading, measured at fair value:		
Cash and cash equivalents	\$ 3,412,781	\$ 1,810,478
Short-term investments	424,376	424,000
Restricted short-term investments	109,000	109,000
	\$ 3,946,157	\$ 2,343,478
Loans and receivables, measured at amortized cost:		
Trade accounts receivable	\$ 2,512,832	\$ 2,534,797
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	\$ 3,244,082	\$ 2,333,222
Customer deposits	122,115	162,086
Advance billings	2,042,025	1,397,274
	\$ 5,408,222	\$ 3,892,582

11. Financial instruments (continued)

(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. For the year ended December 31, 2009, the Company had 12% of its revenue and 8% of its cost of sales denominated in US dollar. At December 31, 2009, if the Canadian dollar fluctuated 10 percent against the US dollar with all other variables held constant, the impact on net income and comprehensive net income for the year would be approximately \$10,000 and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations.

As at December 31, 2009, the denomination of the Company's financial instruments were as follows:

	Canadian	US	Total
Cash and cash equivalents	\$ 2,830,283	\$ 582,498	\$ 3,412,781
Short-term investments	424,376	–	424,376
Restricted short-term investments	109,000	–	109,000
Accounts receivable, net	2,281,496	231,336	2,512,832
Accounts payable and accrued liabilities	3,104,594	139,488	3,244,082
Customer deposits	122,115	–	122,115
Obligations under capital leases	93,740	–	93,740
Advance billings	1,882,467	159,558	2,042,025

11. 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, unrestricted and restricted short-term investments and trade accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and unrestricted and restricted 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 December 31, 2009, approximately 26% of the trade accounts receivable balances are owed from 4 customers. The Company was not exposed to concentration of credit risk on the accounts receivable as of December 31, 2008.

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.

As at December 31, 2009 the Company had \$103,665 (2008 - \$84,626) in material past due trade receivables. The Company currently has a provision of \$98,814 for potential credit losses associated with accounts receivable. A reconciliation of the allowance for doubtful account is provided below.

Allowance for doubtful accounts:

Balance, December 31, 2008	\$	92,351
Write offs of specific accounts		(63,538)
Recoveries		51,684
Provision		18,317
<hr/>		
Balance, December 31, 2009	\$	98,814

(ii) Interest rate

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. Recognized interest income for the Company's short-term investments for the year ended December 31, 2009 was \$1,753.

11. Financial instruments (continued)

(c) Risk disclosures (continued)

(iii) Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become 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.

12. 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, 2008.

13. Commitments and contingencies

(a) The Company's minimum payments required under operating leases for premises and equipment and business service agreements are as follows at December 31, 2009:

2010	\$	1,959,702
2011		1,121,183
2012		396,743
2013		46,413
	\$	3,524,041

13. Commitments and contingencies (continued)

(b) The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts where the Company provides indemnification against losses arising from matters such as potential intellectual property infringements and product liabilities. The impact on future financial results is not subject to reasonable estimate because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred material costs related to these types of indemnifications.

(c) Contingencies:

The Company is subject to various claims and legal proceedings with respect to actions arising out of the normal course of business; none of which is expected to have a material adverse effect on the financial statements.

14. Income taxes

Income taxes attributable to net income in these financial statements differ from amounts computed by applying the Canadian federal and provincial statutory rate of 29.30% (2008 – 30%) as follows:

	2009	2008
Expected tax recovery (expense)	\$ 21,560	\$ (167,401)
Tax effect of:		
Expiry of non-capital losses	369,845	–
Permanent differences and other	128,567	19,973
Change in enacted tax rates	336,864	55,461
True-up of prior year difference	(53,707)	–
Change in valuation allowance	(849,879)	91,967
Other	46,750	–
	\$ –	\$ –

14. Income taxes (continued)

The tax effect of the significant temporary differences which comprise future tax assets and liabilities are as follows:

	2009	2008
Future income tax assets		
Capital assets and goodwill	\$ 1,762,601	\$ 1,655,936
Share issuance costs	11,903	31,710
Deferred revenue and other reserve	975,231	971,139
Other assets	29,513	28,279
Capital and non-capital loss carryforwards	1,695,542	2,579,603
Total gross future income tax assets	4,474,790	5,266,667
Valuation allowance	(4,474,790)	(5,266,667)
Net future income tax asset	\$ -	\$ -

At December 31, 2009, the Company has non-capital losses carried forward of approximately \$6,630,287 which are available to offset taxable income earned in Canada. These non-capital loss carryforwards expire as follows:

2010	\$ 2,592,628
2014	2,127,784
2015	1,909,875
	\$ 6,630,287

The related income tax benefits with respect to these deductible temporary differences and non-capital losses have not been recorded in the accounts as their realization is no more likely than not.

15. Subsequent events

Subsequent to the year end, in January 2010, the restricted investment of \$109,000 was released as a security for certain of the Company's capital leases, with the consent of the lessor. All related capital lease obligations were settled as of December 31, 2009.

16. 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.

16. Segmented disclosures (continued)

The Company earned revenue for the years ended December 31, 2009 and 2008 by geographic area as follows:

	2009	2008
Canada	\$ 26,310,291	\$ 21,591,606
United States	3,588,997	3,212,668
Other	131,927	95,884
Total	\$ 30,031,215	\$ 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 10% or more of total revenue.

17. Supplementary cash flow information

	2009	2008
Cash paid for interest	\$ 40,155	\$ 92,411
Cash received for interest	1,932	53,626
Non-cash investing and financing activities:		
Acquisition of property and equipment under capital leases	\$ -	\$ 136,987

MANAGEMENT TEAM

David A. Buffett
President & CEO

Chuck Leighton
Chief Financial Officer

Adrian Byram
Executive Vice President and CTO

Dale Neilly
Vice President, Sales

Thorsten Gutsche
Vice President, Operations

BOARD OF DIRECTORS

Don Calder, Chairman

Rolf Dekleer

Kelly Edmison

Sam Ketcham

Ian Power

Johnny Ciampi

David Buffett

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STOCK EXCHANGE

TSX Venture

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