

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

**August 24, 2011**

**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 unaudited condensed interim financial statements for the six months ended June 30, 2011 and notes thereto. The unaudited condensed interim financial statements for six months ended June 30, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are in Canadian dollars unless otherwise stated. Certain comparative amounts have been reclassified to conform to the current period's classification. All referenced materials as well as additional disclosures are available at [www.sedar.com](http://www.sedar.com).

**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, Business Ethernet and other Broadband alternatives, secure virtual private networks ("VPN"), secure Internet Protocol ("IP") connectivity to payment processor gateways for debit and credit card transactions, high availability virtually hosted applications, grid based virtual servers, virtual data center capability and off-site redundant back-up and disaster recovery capabilities for medium and small businesses.

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, Payless Shoes, Laura Clothiers, Forzani, and Lululemon Athletica; financial services

organizations such as Sun Life and First Ontario Credit Corporation, and several other large quick service restaurants and a global security firm.

Radiant currently serves over 20,000 business connections with a team of 97 employees and agents in Toronto, Montreal and Vancouver. Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.radiant.net](http://www.radiant.net).

**SECOND QUARTER HIGHLIGHTS:**

- Revenue of \$8.1 million for the quarter ended June 30, 2011 increased by 4.9% compared to revenue of \$7.8 million for the quarter ended June 30, 2010.
- Gross margin was 38.2% in the quarter.
- EBITDA in the second quarter was \$143,171 compared to \$126,010 in the second quarter of 2010.
- Net loss in the second quarter of \$237,569 amounted to a loss of \$0.02 per share.
- The Company ended the quarter with cash and short-term investments of \$4.0 million.

**NON-GAAP, NON-IFRS 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 and non-IFRS 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 or IFRS. 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 June 30, 2011. For additional detail, see Note 16 to the interim unaudited financial statements for the period ended June 30, 2011.

<b>At June 30, 2011</b>	<b>Number Outstanding</b>
Common Shares	15,125,664
Options to Purchase Common Shares	1,725,000
Share Purchase Warrants	200,000

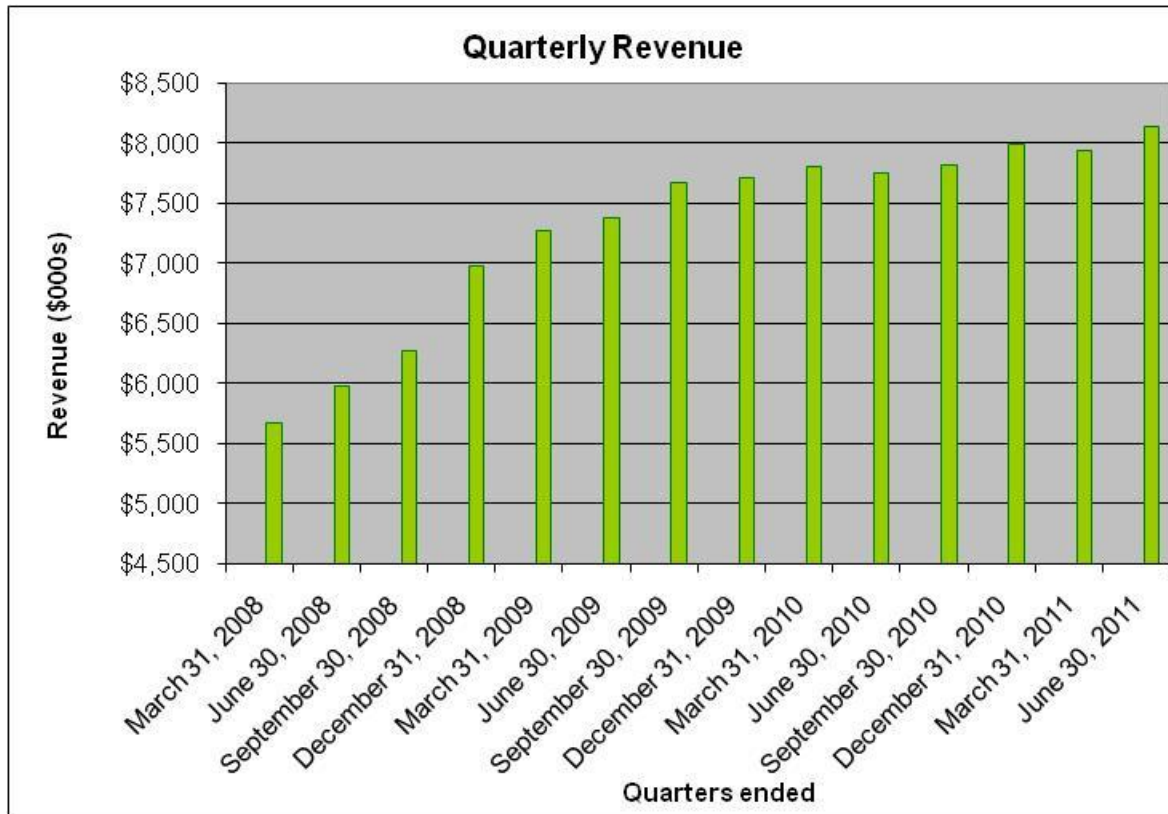
As at August 24, 2011 there were 15,125,664 common shares outstanding.

## SUMMARY OF QUARTERLY RESULTS

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

Quarters Ended (\$000s) except per share amounts	June 30, 2011 (Unaudited)	March 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)	September 30, 2010 (Unaudited)	June 30, 2010 (Unaudited)	March 31, 2010 (Unaudited)	December 31, 2009 (Unaudited)	September 30, 2009 (Unaudited)
Revenue	\$ 8,140	\$ 7,933	\$ 7,936	\$ 7,824	\$ 7,758	\$ 7,810	\$ 7,715	\$ 7,676
EBITDA <sup>1</sup>	143	325	386	409	126	486	276	498
Net income (loss) and comprehensive income (loss)	(238)	(62)	(15)	45	(166)	160	(520)	115
Earnings (loss) per share <sup>2,3</sup>	\$(0.02)	\$(0.00)	\$(0.00)	\$0.00	\$(0.01)	\$ 0.01	\$( 0.05)	\$ 0.01

1. EBITDA is not a GAAP or IFRS term. See "Non-GAAP, Non-IFRS Measures" on page 2 and reconciliation with net income (loss) and operating income (loss) on page 15.
2. As IFRS was adopted with effect from January 1, 2010, quarterly information for 2010 and 2011 is presented under IFRS but all 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, quarterly information for 2011 and 2010 may not be comparable to that for 2009.
3. For all periods up to June 30, 2011, except for the period ended March 31, 2010, 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. For the period ended June 30, 2011, the basic and diluted weighted average number of shares was 15,125,664.
4. 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.

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

In 2010, Radiant entered into a National Broadband Network Investment Agreement with MTS Allstream Inc., this allowed 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 is aggressively marketing 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 98 employees and agents 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](http://www.radiant.net).

Radiant operates a national network with operations centers in Vancouver and Toronto connected via independent and redundant high capacity data links. 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 believes it has sufficient staff, bandwidth, supplier relationships and network capacity to continue and exceed its current growth rate.

*Quarter ended June 30, 2011 compared to the quarter ended June 30, 2010*

## **Revenue**

Revenues for the quarter ended June 30, 2011 increased 4.9% to \$8.1 million compared to \$7.8 million in the second quarter of 2010. 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.

In the second quarter AlwaysThere virtual services accounted for 6.7% of revenue, up from 4.7% of revenue in the second quarter of 2010. With AlwaysThere services accounting for over 15% of new sales year to date we expect to this high margin business continue to grow.

Revenue in the second quarter of 2011 increased by 2.6% compared to the preceding first quarter of 2011. This increase is attributable to several of our larger customers expanding locations as well as a decrease in the churn of the established base. Surelink revenue was 2.6% of revenue in the second quarter and increased by 33.4% over the preceding first quarter of 2011.

For the quarter ended June 30, 2011, the Company's gross profit was \$3.1 million compared to \$3.0 million in the second quarter of 2010. Gross profit as a percent of revenue was 38.2% for the quarter ended June 30, 2011 compared to 38.9% for the same period in 2010 and 40.1% in the immediately preceding quarter. In both the first and second quarters of 2011 Radiant has invested in additional monthly backhaul expenses for the new Surelink Central Office locations. We have also re-signed several of our core long term customers to new multi-year contracts with lower monthly revenue.

## **Expenses**

Operating expenses, including sales and marketing, general and administrative, and amortization costs of \$3.3 million in the second quarter of 2011 increased by 4.8% compared to \$3.2 million in the second quarter of 2010 and increased by 3.7% compared to the immediately preceding first quarter of 2011. Historically 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 the Surelink product and sees an immediate opportunity to capture market share.

Sales and marketing expenses include compensation expenses, agent and channel distribution, and marketing costs. For the quarter ended June 30, 2011, sales and marketing expense decreased 6.6% to \$605,612 compared to \$648,576 in the second quarter of 2010. Sales and marketing expenses in the second quarter of 2011 increased by 2.3% compared to sales and marketing costs in the first quarter of 2011.

General and administrative expenses, which include customer care, technical, network, executive and administrative staff, systems development, hardware, software, premises, office, amortization and general expenses, were 7.7% higher at \$2.7 million for the quarter ended June 30, 2011 compared to \$2.5 million in the second quarter of 2010. 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. General and administrative expenses in the second quarter of 2011 were 0.1% higher compared to the first quarter of 2011.

## EBITDA

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

(\$000s)	Q2 2011	Q2 2010
Operating Income (loss)	\$ (236)	\$ (173)
Amortization	364	271
Stock-based compensation expense	15	28
<b>EBITDA</b>	<b>\$ 143</b>	<b>\$ 126</b>

In the second quarter of 2011, Radiant achieved EBITDA of \$143,171 compared to EBITDA of \$126,010 in the second quarter of 2010.

## Net Income

The Company had a net loss of \$237,569 or a loss of \$0.02 per share for the quarter ended June 30, 2011 compared to a net loss of \$166,199 or \$0.01 per share in the second quarter of 2010. The weighted average number of shares outstanding for the second quarter of 2011 was 15.1 million and for the second quarter of 2010 was 14.4 million.

## RESULTS OF OPERATIONS

*Six months ended June 30, 2011 compared to the six months ended June 30, 2010*

### Revenue

Revenues for the six months ended June 30, 2011 increased 3.2% to \$16.1 million compared to \$15.6 million in the comparable period of 2010. 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 two, and three year customer contracts, revenue growth is relatively predictable and consistent over time.

For the six months ended June 30, 2011, the Company's gross profit increased to \$6.3 million compared to \$6.2 million in the six months ended June 30, 2010. Gross profit as a percent of revenue was 39.2% for the six months ended June 30, 2011 compared to 39.8% for the same period in 2010. 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 six month period ended June 30, 2011, Radiant has increased the revenue from AlwaysThere services to 6.4% of total revenue which is up from 4.3% of revenue in the first half of 2010.

## Expenses

Operating expenses, including sales and marketing, general and administrative, and amortization increased by 6.2% to \$6.6 million in the six months ended June 30, 2011 compared to \$6.2 million in the comparable six month period of 2010.

Sales and marketing expenses include compensation expenses, agent and channel distribution, and marketing costs. For the six months ended June 30, 2011, sales and marketing expense increased 4.8% to \$1.2 million compared to \$1.1 million in the same period of 2010. The Company has invested significantly in additional headcount and marketing efforts with respect to the new Surelink product offering.

General and administrative expenses, which include customer care, technical, network, executive and administrative staff, systems development, hardware, software, premises, office, amortization and general expenses, grew 8.2% to \$5.5 million for the six months ended June 30, 2011 compared to \$5.1 million in the six months ended June 30, 2010. 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 as well as new products and sales efforts.

## EBITDA

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

(\$000s)	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating Income (loss)	\$ (279)	\$ 2
Amortization	713	533
Stock-based compensation expense	35	77
<b>EBITDA</b>	<b>\$ 469</b>	<b>\$ 612</b>

In the six months ended June 30, 2011 Radiant achieved positive EBITDA of \$468,684 compared to positive EBITDA of \$612,127 in the comparable period of 2010.

## Net Income

The Company had a net loss of \$300,039 or a loss of \$0.02 per share for the six months ended June 30, 2011 compared to a net loss of \$6,525 or \$0.00 per share per share in the same period of 2010. The

weighted average number of shares outstanding for the six months ended June 30, 2011 was 15.1 million compared to 14.4 million for the six months ended June 30, 2010.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2011 Radiant had cash and short term investments of \$4.0 million compared to \$4.3 million at December 31, 2010. 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 for the existing business. Existing future commitments are primarily for premises and equipment leases and amount to \$1.0 million for 2011 and \$1.2 million for the remaining four years to 2015. The Company believes it has sufficient funds to ensure ongoing operations and will not require additional funding from capital markets or other sources in 2011.

*Quarter ended June 30, 2011 compared to the quarter ended June 30, 2010*

### **Operating Activities**

For the quarter ended June 30, 2011, Radiant's net cash flows from operations were an outflow of \$377,742 compared to an inflow of \$434,931 for the second quarter ended June 30, 2010. Operating activities generated cash of \$141,311 in the quarter (\$133,193 generated in Q2 2010), combined with \$519,053 used in working capital changes, (\$301,738 generated in Q2 2010), primarily related to a significant increase in accounts receivable and an increase in prepaid expenses offset by an increase in accrued liabilities. Trade receivables were abnormally high at the end of the second quarter due to the mail delivery issues experienced by Canada Post. Trade receivables have returned to normal levels of days outstanding since the end of the mail delivery issues.

### **Investing Activities**

For the quarter ended June 30, 2011 the Company used cash of \$317,614 to acquire property and equipment and received net \$12,908 from MTS Allstream for the repurchase of indefeasible rights of access. In the second quarter of 2010 the Company used cash to acquire \$966,591 of property and equipment including \$687,875 to acquire indefeasible rights of access.

### **Financing Activities**

For the quarter ended June 30, 2011, Radiant used \$54,176 to repay capital leases. In the second quarter of 2010 the company's financing activities generated \$4.0 million in cash as Radiant completed two non-brokered private placements for net proceeds of \$4.0 million.

*Six months ended June 30, 2011 compared to the six months ended June 30, 2010*

### **Operating Activities**

For the six months ended June 30, 2011, Radiant's net cash flows from operations were an inflow of \$304,513 compared to an inflow of \$573,781 for the six months ended June 30, 2010. Operating activities produced \$448,296 in the period, (\$603,300 in the first six months of 2010), combined with \$143,783 used through working capital changes primarily related to the previously mentioned increase in trade receivables and prepaid expenses and a decrease in deferred revenue offset by an increase in payables, deferred costs, and accrued liabilities. In the first half of 2010 Radiant used \$29,519 in non-cash working capital.

### **Investing Activities**

For the six months ended June 30, 2011 the Company used cash of \$501,782 to acquire property and equipment and received net \$20,296 from MTS Allstream for the repurchase of indefeasible rights of access. In the first half of 2010 the Company used cash to acquire \$1.7 million of property and equipment including \$859,875 to acquire indefeasible rights of access.

### **Financing Activities**

For the six months ended June 30, 2011, Radiant used \$243,211 to repay capital leases. In the first half of 2010 the company's financing activities generated \$4.0 million in cash as Radiant completed two non-brokered private placements for net proceeds of \$4.0 million.

### **CRITICAL ACCOUNTING ESTIMATES AND POLICIES**

#### *Critical accounting estimates*

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 unaudited condensed interim financial statements in conformity with IFRS. IFRS also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates and assumptions include the valuation of trade receivables, the valuation of inventory, recoverability of non-current assets, the valuation of identifiable intangible assets and goodwill, stock-based compensation expense, the estimation of the useful lives of various classes of property and equipment and revenue recognition. Please refer to Note 4 of our Second Quarter 2011 unaudited condensed interim financial statements for a detailed discussion regarding critical accounting estimates and judgements.

The following are significant accounting policies of the Company:

#### *Revenue recognition*

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

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

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

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

#### *Equipment*

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

#### *Activation*

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

*Subscription-based service*

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

*Multiple component arrangements*

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

*Goodwill*

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

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

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

*Right of Access*

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

*Property and equipment*

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

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

*Share-based payments*

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to

reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

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

#### *Inventories*

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

#### *Trade receivables*

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

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

#### *Impairments*

##### (i) Non-finance assets

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

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

##### (ii) Financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets are impaired. Where there is objective evidence that an impairment loss has arisen on assets carried

at amortized cost, the carrying amount is reduced with the loss being recognized in the income statement. The impairment loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is only reversed if it can be related objectively to an event after the impairment was recognized and is reversed to the extent the carrying value of the asset does not exceed its amortized cost at the date of reversal.

#### *Provision*

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

#### *Financial Instruments*

##### (i) Financial assets

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

##### Financial assets at fair value through profit or loss

###### *Classification*

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

###### *Recognition and measurement*

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

##### Loans and receivables

###### *Classification*

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

Assets in this category include trade and other receivables and are classified as current assets in the balance sheet.

*Recognition and measurement*

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

(ii) Financial liabilities

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

## **ACCOUNTING POLICY DEVELOPMENTS**

### ***International Financial Reporting Standards***

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.

Radiant changed over to IFRS on January 1, 2011 and starting from this quarter, Radiant has provided unaudited quarterly financial information in accordance with IFRS including comparative figures for 2010. Radiant's first annual IFRS financial statements will be for the year ended December 31, 2011 and will include the comparative period of 2010. The accounting policies followed in the second quarter condensed interim financial statements are the same as those applied in the Company's condensed interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The policies applied in the second quarter condensed interim financial statements are based on IFRS issued and outstanding as of August 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in a restatement of these condensed interim financial statements, including the transition adjustments recognized on changeover to IFRS.

Refer to Note 3 of the Company's June 30, 2011 unaudited condensed interim financial statements for a description of its accounting policies under IFRS and Note 22 for reconciliation and explanation of transition to IFRS.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Team. Key management personnel compensation for the six months ended June 30, 2011 and 2010 is shown in the table below:

	June 30, 2011	June 30, 2010
Salaries and short-term benefits	\$ 780,374	\$ 562,583
Director fees	45,000	39,000
Stock-based payments	33,846	56,253
	<b>\$ 859,220</b>	<b>\$ 657,836</b>

The Company did not have any other transactions with related parties during the six month period ended June 30, 2011.

## ENVIRONMENTAL AND CLIMATE CHANGE ISSUES

The Company operates two network operation centers as well as several Canadian points 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.

## 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 finance 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 slowdown 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. As a regulated industry, telecommunications services are administered and monitored by the CRTC. Pricing and availability of services to Radiant may be impacted by decisions or rulings made by the CRTC.

*Foreign Currency:* The Company obtains approximately 12.6% 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)	June 30, 2011 (Unaudited)	March 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)	September 30, 2010 (Unaudited)	June 30, 2010 (Unaudited)	March 31, 2010 (Unaudited)	December 31, 2009 (Unaudited)	September 30, 2009 (Unaudited)
Net income (loss)	(237)	(62)	(15)	45	(166)	160	(520)	115
Interest income	0	0	(1)	0	0	0	–	–
Interest expense	(0)	(4)	1	2	5	7	9	1
(Gain) loss on foreign exchange	1	22	22	17	(12)	9	–	–
Other (income) expense	–	–	–	–	–	–	481	51
Operating income (loss)	(236)	(44)	7	64	(173)	176	(30)	167
Depreciation and amortization	364	349	354	318	271	261	231	256
Share-based compensation expense	15	20	25	27	28	49	75	75
EBITDA	143	325	386	409	126	486	276	498

1. As IFRS was adopted with effect from January 1, 2010, quarterly information for 2010 and 2011 is presented under IFRS but all 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, quarterly information for 2011 and 2010 may not be comparable to that for 2009.