

Radiant Communications Corp.
Condensed Interim Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

signed "Don Calder"

Don Calder
Chair of the Board

signed "Chuck Leighton"

Chuck Leighton
Chief Financial Officer

August 24, 2011

RADIANT COMMUNICATIONS CORP.

BALANCE SHEETS

(Expressed in Canadian dollars)

(Unaudited)

	Note	June 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		\$ 3,505,014	\$ 3,748,225
Short-term investments		533,376	533,376
Trade and other receivables	8	3,833,081	3,057,969
Inventories	9	293,473	296,888
Prepaid expenses		537,123	272,330
		8,702,067	7,908,788
Other non-current assets			
Property and equipment	10	620,951	811,520
Right of access	11	2,348,296	2,276,688
Goodwill	12	1,961,413	2,097,065
		1,574,228	1,574,228
		\$ 15,206,955	\$ 14,668,289
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	13	\$ 3,227,925	\$ 2,282,750
Advance billings and customer deposits	14	3,470,737	3,402,461
Provisions and other current liabilities	15	241,785	329,189
		6,940,447	6,014,400
Unearned revenue			
Provisions and other non-current liabilities	15	841,588	967,081
		36,707	33,788
		7,818,742	7,015,269
Shareholder's equity			
Issued capital	16	7,511,130	7,511,130
Contributed surplus		4,690,462	4,655,230
Deficit		(4,813,379)	(4,513,340)
		7,388,213	7,653,020
		\$ 15,206,955	\$ 14,668,289

See accompanying notes to interim financial statements.

Approved on behalf of the Board:

"Ian Power" (signed) _____ Director

"Don Calder" (signed) _____ Director

RADIANT COMMUNICATIONS CORP.

STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 8,139,848	\$ 7,758,217	\$ 16,073,318	\$ 15,568,986
Cost of sales	(5,028,023)	(4,738,033)	(9,778,499)	(9,378,022)
Gross profit	3,111,825	3,020,184	6,294,819	6,190,964
Expenses				
Sales and marketing	(605,612)	(648,578)	(1,197,438)	(1,142,095)
General and administrative	(2,742,129)	(2,546,220)	(5,481,312)	(5,065,552)
Other income/expenses	207	1,232	104,280	18,985
	(3,347,534)	(3,193,566)	(6,574,470)	(6,188,662)
Operating (loss) income	(235,709)	(173,382)	(279,651)	2,302
Interest expense	230	145	385	196
Finance recovery (costs)	(721)	(5,052)	2,729	(11,817)
Foreign exchange gain (loss)	(1,369)	12,090	(23,502)	2,794
Net loss and comprehensive loss for the period	\$ (237,569)	\$ (166,199)	\$ (300,039)	\$ (6,525)
Attributable to Equity shareholders of the Company	\$ (237,569)	\$ (166,199)	\$ (300,039)	\$ (6,525)
Basic and diluted earnings (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.00)
Weighted average common shares, used in computing basic and diluted earnings (loss) per share	15,125,664	14,433,356	15,125,664	14,433,356

See accompanying notes to interim financial statements.

RADIANT COMMUNICATIONS CORP.

STATEMENTS OF CHANGE IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Share capital	Contributed surplus	Deficit	Total Equity
Balance, January 1, 2010	\$ 3,601,872	\$ 4,432,886	\$ (4,537,020)	\$ 3,497,738
For the six months ended June 30, 2010				
Issuance of commons shares	3,909,258	93,000	–	4,002,258
Share-based payment	–	77,312	–	77,312
Net loss and comprehensive loss	–	–	(6,525)	(6,525)
Balance, June 30, 2010	\$ 7,511,130	\$ 4,603,198	\$ (4,543,545)	\$ 7,570,783
From July 1, 2010 to Jan 1, 2011				
Share-based payment	–	52,032	–	52,032
Net income and comprehensive income	–	–	30,205	30,205
Balance, January 1, 2011	\$ 7,511,130	\$ 4,655,230	\$ (4,513,340)	\$ 7,653,020
For the six months ended June 30, 2011				
Share-based payment	–	35,232	–	35,232
Net loss and comprehensive loss	–	–	(300,039)	(300,039)
Balance, June 30, 2011	\$ 7,511,130	\$ 4,690,462	\$ (4,813,379)	\$ 7,388,213

See accompanying notes to interim financial statements.

RADIANT COMMUNICATIONS CORP.

STATEMENTS OF CASH FLOW

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended		Six months ended	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net loss for the period	\$ (237,569)	\$ (166,199)	\$ (300,039)	\$ (6,525)
Items not involving cash:				
Depreciation of property and equipment	306,605	255,188	597,747	513,316
Amortization of right of access	57,286	15,963	115,356	19,197
Share-based compensation	14,989	28,241	35,232	77,312
	141,311	133,193	448,296	603,300
Change in non-cash working capital:				
Trade and other receivables	(660,837)	304,376	(775,112)	(342,304)
Inventories	(13,548)	69,168	3,415	117,526
Prepaid expenses	(191,125)	(13,819)	(264,793)	(140,595)
Change in other non-current assets	53,797	201,352	190,569	414,070
Trade and other payables	267,213	(59,183)	945,175	338,275
Advance billings, customer deposits and unearned revenue	44,577	(122,465)	(57,217)	(278,424)
Provisions and other financial liabilities	(19,130)	(77,691)	(185,820)	(138,067)
	(377,742)	434,931	304,513	573,781
Cash flows used in investing activities:				
Purchase of property and equipment	(317,614)	(278,716)	(501,781)	(871,400)
Reimbursement (payments) for right of access	12,908	(687,875)	20,296	(859,875)
	(304,706)	(966,591)	(481,485)	(1,731,275)
Cash flows from financing activities:				
Payments of finance leases	(54,176)	(12,320)	(66,239)	(24,435)
Proceeds from issuance of common shares	—	4,002,258	—	4,002,258
	(54,176)	3,989,938	(66,239)	3,977,823
Increase (decrease) in cash and cash equivalents	(736,624)	3,458,278	(243,211)	2,820,329
Cash and cash equivalents, beginning of period	4,241,638	2774,832	3,748,225	3,412,781
Cash and cash equivalents, end of period	\$ 3,505,014	\$ 6,233,110	\$ 3,505,014	\$ 6,233,110

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

Interest paid	\$ 469	\$ 5,052	\$ 1,316	\$ 12,477
Interest received	230	146	385	197
Non-cash investing and financing activities:				
Issuance of common share purchase warrants	—	93,000	—	93,000
Purchase of equipment under finance lease	167,573	—	167,573	—

See accompanying notes to interim financial statements.

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011 and 2010

1. Nature of operations

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

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

2. Basis of preparation and adoption of IFRS

The unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim consolidated financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and IFRS 1, First-time Adoption of IFRS ("IFRS 1"), which the Company adopted on January 1, 2010 (the "Transition Date"). The policies applied in these 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.

The accounting policies followed in these 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. Note 22 discloses the impact of the transition to IFRS. The notes presented in these condensed interim financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company's annual audited financial statements; thus, these interim financial statements are referred to as condensed and should be read in conjunction with the Company audited financial statements for the year ended December 31, 2010 which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and the Company's condensed interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

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

3. Summary of significant accounting policies

(a) Basis of presentation

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

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

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

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

(b) Revenue recognition

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

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

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

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

Equipment

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

Activation

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

Subscription-based service

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

Multiple component arrangements

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

RADIANT COMMUNICATIONS CORP.

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

(c) Foreign currencies

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

(d) Goodwill

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

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

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

(e) Right of access

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

(f) Property and equipment

Owned assets

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

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

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Depreciation

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

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

(g) Share-based payments

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

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

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

(h) Inventories

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

(i) Trade receivables

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

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

RADIANT COMMUNICATIONS CORP.

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(j) Impairments

Non-financial assets

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

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

Financial assets

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

(k) Cash and cash equivalents

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

(l) Short-term investments

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

(m) Leases

Operating leases

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

Finance leases

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

Determining whether an arrangement contains a lease

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

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(n) Provision

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

(o) Employee benefits

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

(p) Finance income and finance costs

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

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

(q) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss

Classification

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

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Recognition and measurement

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

Loans and receivables

Classification

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

Recognition and measurement

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

(ii) Financial liabilities

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

(r) Income tax

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

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

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

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

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

(s) Earnings per share

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

4. Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

Providing for doubtful debts

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

Other identifiable intangible assets and goodwill

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

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

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

Income Taxes

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

(b) Critical judgments in applying accounting policies

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

Revenue recognition

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

5. Recent accounting pronouncements

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

(a) IFRS 9 - Financial instruments

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

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

(b) IFRS 10 - Consolidated Financial Statements

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

(c) IFRS 11 – Joint Arrangements

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

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

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

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(e) IFRS 13 – Fair Value Measurement

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

(f) IAS 1 – Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements to require companies to group together items within other comprehensive income (“OCI”) that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are to be applied retrospectively and are effective for annual periods commencing on or after July 1, 2012, with earlier application permitted. The Company is currently reviewing these amendments to determine the potential impact, if any, on its financial statements.

(g) IAS 19 – Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, Employee Benefits (“IAS 19”). The amended standard eliminates the option for deferred recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan asset. In addition, the amended IAS 19 requires a net interest approach which will replace the expected return on assets and will enhance the disclosure requirements for defined benefit plans. The amendments are effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The Company is currently reviewing these amendments to determine the potential impact, if any, on its financial statements.

6. Revenue

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Connectivity	\$ 7,602,642	\$ 7,395,626	\$ 15,055,402	\$ 14,892,918
Hosted exchange	537,206	362,591	1,017,916	676,068
Total	\$ 8,139,848	\$ 7,758,217	\$ 16,073,318	\$ 15,568,986

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7. Personnel expenses

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries and benefits	\$ 2,128,193	\$ 1,965,840	\$ 4,267,399	\$ 3,836,758
Share-based payments	14,989	28,241	35,232	77,312
Total	\$ 2,143,182	\$ 1,994,081	\$ 4,302,631	\$ 3,914,070

8. Trade and other receivables

	June 30, 2011	December 31, 2010
Trade receivables	\$ 3,827,721	\$ 3,051,469
Other loans and receivables	5,360	6,500
	\$ 3,833,081	\$ 3,057,969

Trade receivables are stated after deducting \$164,315 and \$135,491 as at June 30, 2011 and December 31, 2010 respectively for doubtful debts. The amount charged to the income statement for doubtful debts for the six months ended June 30, 2011 and 2010 was \$69,938 and \$52,774.

9. Inventories

Inventories include only finished goods. During the three and six months ended June 30, 2011, inventory expensed within cost of sales was \$325,005 and \$536,369 (2010: \$299,566 and \$661,763) respectively. There was no write-down in these periods.

10. Other non-current assets

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

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11. Property and equipment

	Computer equipment	Furniture and equipment	Assets under finance lease	Leasehold improve- ments	Total
Cost					
As at January 1, 2010	\$ 7,874,942	\$ 316,667	\$ 147,683	\$ 487,475	\$ 8,826,767
Additions	1,635,915	174,827	–	–	1,810,742
Disposal	–	–	(4,754)	–	(4,754)
As at December 31, 2010	9,510,857	491,494	142,929	487,475	10,632,755
Additions	476,314	25,468	167,574	–	669,356
As at June 30, 2011	\$ 9,987,171	\$ 516,962	\$ 310,503	\$ 487,475	\$ 11,302,111
Accumulated depreciation					
As at January 1, 2010	\$ (6,635,896)	\$ (131,619)	\$ (57,432)	\$ (432,991)	\$ (7,257,938)
Changes for the year	(960,788)	(67,186)	(47,445)	(22,710)	(1,098,129)
As at December 31, 2010	(7,596,684)	(198,805)	(104,877)	(455,701)	(8,356,067)
Changes for the period	(510,979)	(43,273)	(32,141)	(11,355)	(597,748)
As at June 30, 2011	\$ (8,107,663)	\$ (242,078)	\$ (137,018)	\$ (467,056)	\$ (8,953,815)
Net book value					
As at December 31, 2010	\$ 1,914,173	\$ 292,689	\$ 38,052	\$ 31,774	\$ 2,276,688
As at June 30, 2011	1,879,508	274,884	173,485	20,419	2,348,296

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12. Right of access

Cost		
Balance at January 1, 2010	\$	–
Additional payments		2,203,399
Balance at December 31, 2010		2,203,399
Additional payments (reimbursements)		(20,296)
Balance at June 30, 2011	\$	2,183,103
Accumulated amortization		
Balance at January 1, 2010	\$	–
Amortization		(106,334)
Balance at December 31, 2010		(106,334)
Amortization		(111,356)
Balance at June 30, 2011	\$	(217,690)
Net book value		
Balance at January 1, 2010	\$	–
Balance at December 31, 2010	\$	2,097,065
Balance at June 30, 2011	\$	1,965,413

13. Trade and other payables

	June 30, 2011	December 31, 2010
Trade payables	\$ 1,665,818	\$ 1,024,986
Salaries and benefits payable	604,952	477,048
Other payables	957,153	780,716
	\$ 3,227,923	\$ 2,282,750

14. Advance billings and customer deposits

	June 30, 2011	December 31, 2010
Current:		
Advance billings	\$ 3,384,253	\$ 3,315,977
Customer deposits	86,484	86,484
	\$ 3,470,737	\$ 3,402,461

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15. Provisions and other liabilities

	June 30, 2011	December 31, 2010
Current:		
Severance payable	\$ 64,278	\$ 257,113
Lease inducement	35,102	31,007
Finance leases	142,405	41,069
	241,785	329,189
Non-current:		
Lease inducement	36,707	33,788
	\$ 278,492	\$ 362,977

16. Share capital

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

- (b) Issued and outstanding

	Number of shares	Amount
Issued and outstanding – January 1 and March 31, 2010	10,925,664	\$ 3,601,872
Issued pursuant to private placements	4,200,000	4,200,000
Share issuance costs – cash	–	(197,742)
Share issuance costs – non-cash	–	(93,000)
Issued and outstanding – December 31, 2010 and June 30, 2011	15,125,664	\$ 7,511,130

- (c) Stock option plan

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

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

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

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The following table summarizes activity under the Plan for the six months ended June 30, 2011 and year ended December 31, 2010

	June 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,605,000	\$ 1.08	1,398,252	\$ 1.11
Granted	130,000	1.00	260,000	1.01
Expired without exercise	–	–	(53,252)	1.96
Forfeited	(10,000)	1.00	–	–
Outstanding, end of period	1,725,000	\$ 1.07	1,605,000	\$ 1.08

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.80 to \$1.00	710,000	2.96 years	\$0.97	390,375	\$0.98
\$1.05 to \$1.30	1,015,000	1.37 years	1.15	983,938	1.05
\$0.80 to \$1.30	1,725,000	2.02 years	\$1.07	1,374,313	\$1.10

During the six months ended June 30, 2011, the Company granted 130,000 (2010: 210,000) stock options to officers, employees and directors at an exercise price of \$1.00 (2010: \$0.8 to \$1.00) with an expiry date of June 23, 2016 (2010: January 26, 2015 to June 23, 2015). For the six months ended June 30, 2011, the total fair value of stock options granted was \$24,778 (2010: \$95,582) with the weighted average grant date fair value of \$0.19 (2010: \$0.46). The Company recorded a stock-based compensation expense of \$35,232 for the six months ended June 30, 2011 (2010: \$77,312).

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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:

	Six months ended March 31, 2011	Year ended December 31, 2010
Weighted average risk-free interest rate	1.93%	2.18%
Dividend yield	0%	0%
Weighted average expected life of the options	2.95 years	2.95 years
Weighted average volatility	63.34%	77.25%
Estimated forfeiture rate	0%	0%

(d) Share purchase warrants

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

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

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

17. Earnings per share

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

Earnings (loss) used in determining earnings (loss) per share

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net loss	\$ (235,709)	\$ (166,199)	\$ (300,039)	\$ (6,525)

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Weighted average number of common shares

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Basic and diluted	15,125,664	14,433,356	15,125,664	14,433,356

At June 30, 2011, 1,374,313 options (2010: 1,145,605) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

18. Finance and operating leases

The Company's finance leases concern computer equipment. There is no subleasing. See Note 11 above for details of the carrying value of the leased assets as of the balance sheet dates. As of June 30, 2011, the Company had two finance leases with two maturity dates up to April 2012. Due to the short-term nature of the obligation, the future minimum lease payments and the related present value of future minimum lease payments payable for not later than one year was \$142,405.

For the three and six months ended June 30, 2011, depreciation relating to the finance leases totaled \$20,725 and \$32,141 (2010: \$12,307 and \$24,614) respectively.

Expected requirements to meet both operating lease payments and finance lease obligations owing as at June 30, 2011, for each of the next five fiscal years are as follows:

Years ending December 31	Operating leases	Finance leases
2011 (balance of year)	\$ 220,197	\$ 142,405
2012	393,942	–
2013	196,371	–
2014	149,958	–
2015	51,487	–
	\$ 1,011,955	\$ 142,405

The two finance leases issued at 7.2 % and 0% will mature in October 2011 and April 2012 respectively.

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19. Related party transactions

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries and short-term benefits	379,629	280,990	780,374	562,583
Director fees	22,500	19,500	45,000	39,000
Stock-based payments	14,345	25,966	33,846	56,253
	\$ 416,474	\$ 326,457	\$ 859,220	\$ 657,836

20. Financial instruments and risk management

(a) Financial assets and liabilities

The carrying value of financial assets and liabilities as of June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011		December 31, 2010	
Assets carried at fair value:				
Cash and cash equivalents	\$ 3,505,014	\$ 3,748,225		
Short-term investments	533,376	533,376		
	\$ 4,038,390	\$ 4,281,601		
Assets carried at amortized cost:				
Trade and other receivables	\$ 3,833,081	\$ 3,057,969		
Liabilities carried at amortized cost:				
Trade and other payables	\$ 3,227,925	\$ 2,282,750		
Finance leases	142,405	41,069		
	\$ 3,370,330	\$ 2,323,819		

(b) Fair value

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

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(c) Liquidity risk

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

The following table details the Company's expected remaining contractual maturities for its financial liabilities at June 30, 2011. The table is based on the undiscounted cash flows of financial liabilities on the earliest date on which the Company is required to satisfy the liabilities.

	Carrying amount	0 to 6 months	6 to 12 months
Trade and other payables	\$ 3,227,925	\$ 3,226,247	\$ 1,678
Finance lease liabilities	142,405	100,511	41,894
	\$ 3,370,330	\$ 3,326,758	\$ 43,572

The Company currently has a provision of \$164,315 for potential credit losses associated with trade accounts receivable. A reconciliation of the allowance for doubtful account is provided below.

Allowance for doubtful accounts:

Balance, December 31, 2010	\$ 135,490
Write-offs of specific accounts	(47,060)
Provision	75,885
Balance, June 30, 2011	\$ 164,315

(d) Currency risk

The Company undertakes certain transactions in US dollars and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. For the three and six months ended June 30, 2011, the Company had 11% of its revenue and 8% of its cost of sales denominated in US dollars. At June 30, 2011, if the Canadian dollar fluctuated 10% against the US dollar with all other variables held constant, the impact on net loss and comprehensive loss for the period would be approximately \$109,000 and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations.

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

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	Amount (in US\$)
Cash and cash equivalents	\$ 493,731
Trade receivable, net	387,322
Trade payable and accrued liabilities	248,178

(e) Credit risk

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

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

The Company is exposed to concentration of credit risk on the trade accounts receivable from its customers. As at June 30, 2011 approximately 24% of the trade accounts receivable balances are owed from three customers.

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

As at June 30, 2011, the Company had \$198,460 (December 31, 2010 - \$118,962) in material past due trade receivables. The following table outlines the aging of these trade accounts receivables as at the dates of the balance sheets:

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	June 30, 2011	December 31, 2010
Trade accounts receivable net of allowance for doubtful accounts		
Current	\$ 3,456,362	\$ 2,896,094
1 – 30 days past due	217,715	88,931
31 – 60 days past due	72,927	51,370
Greater than 60 days past due	80,718	15,074
	\$ 3,827,721	\$ 3,051,469
Trade accounts receivable, gross	\$ 3,992,036	\$ 3,186,960
Allowance for doubtful accounts	(164,315)	(135,491)
	\$ 3,827,721	\$ 3,051,469

(f) Interest rate risk

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

21. Segment information

(a) Operating segment

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

(b) Geographic information

The Company earned revenue for the three and six months ended June 30, 2011 and 2010 by geographic area as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Canada	\$ 7,214,116	\$ 6,913,260	\$ 14,258,274	\$ 13,844,651
United States	886,614	814,185	1,746,429	1,662,344
Other	39,118	30,772	68,615	61,991
Total	\$ 8,139,848	\$ 7,758,217	\$ 16,073,318	\$ 15,568,986

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The revenue by geographic area is based on the location of the Company's customers. For the three and six months ended June 30, 2011, the Company has one customer that accounts for 17% (2010: 19% and 17%) of total revenue. All of the Company's property and equipment, goodwill and intangible assets are located in Canada.

22. Transition to IFRS

The accounting policies in Note 4 have been applied in preparing the unaudited condensed interim financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010 and as at December 31, 2010.

In preparing the interim financial statements for the three and six months ended June 30, 2011, comparative information for the three and six months ended June 30, 2010 and as at December 31, 2010 have been adjusted or reclassified from amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. The significant optional exemptions and mandatory exceptions applied upon adoption are summarized in Note 22 to the unaudited condensed interim financial statements for the period ended March 31, 2011.

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

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Reconciliation of Balance Sheet as of June 30, 2010

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
Assets					
Current assets					
Cash and cash equivalents		\$ 6,233,110	\$ –	\$ –	\$ 6,233,110
Short-term investments		533,376	–	–	533,376
Trade and other receivables		2,868,470	–	12,500	2,880,970
Inventories		240,610	–	–	240,610
Prepaid expenses		422,313	–	(12,500)	409,813
Deferred costs		1,059,417	–	(1,059,417)	–
		11,357,296	–	(1,059,417)	10,297,879
Other non-current assets					
Property and equipment		–	–	1,059,417	1,059,417
Right of access		1,922,160	–	–	1,922,160
Goodwill		840,678	–	–	840,678
		1,574,228	–	–	1,574,228
		\$ 15,694,362	\$ –	\$ –	\$ 15,694,362
Liabilities					
Current liabilities					
Trade and other payables	(a)	\$ 3,453,801	\$ –	\$ (371,444)	\$ 3,082,357
Customer deposits		122,115	–	(122,115)	–
Advance billings and customer deposits	(a)	4,401,379	–	(995,960)	3,405,419
Current portion of deferred lease inducements		33,463	–	(33,463)	–
Current portion of obligations under capital leases		47,828	–	(47,828)	–
Provisions and other current liabilities	(a)	–	–	452,735	452,735
		8,058,586	–	(1,118,075)	6,940,511
Unearned revenue					
Deferred lease inducement	(a)	–	–	1,118,075	1,118,075
Obligations under capital leases	(a)	48,269	–	(48,269)	–
Provisions and other non-current liabilities	(a)	16,724	–	(16,724)	–
		–	–	64,993	64,993
		8,123,579	–	–	8,123,579
Equities					
Issued capital		7,511,130	–	–	7,511,130
Contributed surplus	(b)	4,673,392	(70,194)	–	4,603,193
Deficit	(b)	(4,613,739)	70,194	–	(4,543,545)
		7,570,783	–	–	7,570,783
		\$ 15,694,362	\$ –	\$ –	\$ 15,694,362

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011 and 2010

Reconciliation of Balance Sheet as of December 31, 2010

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

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011 and 2010

Reconciliation of Comprehensive Loss for the three months ended June 30, 2010:

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
Revenue		\$ 7,758,217	\$ –	\$ –	\$ 7,758,217
Cost of sales		(4,738,033)	–	–	(4,738,033)
Gross profit		3,020,184	–	–	3,020,184
Expenses					
Sales and marketing		(648,791)	213	–	(648,578)
General and administrative		(2,306,749)	31,680	(271,151)	(2,546,220)
Amortization		(271,151)	–	271,151	–
Other income/expenses		–	–	1,232	1,232
		(3,226,691)	31,893	1,232	(3,193,566)
Operating income (loss)		(206,507)	31,893	1,232	(173,382)
Interest income	(c)	–	–	145	145
Finance costs	(c)	(5,052)	–	–	(5,052)
Foreign exchange loss	(c)	–	–	12,090	12,090
Other income/expenses	(c)	13,467	–	(13,467)	–
Net loss and comprehensive loss for the period		\$ (198,092)	\$ –	\$ –	\$ (166,199)
Basic and diluted earnings (loss) per share		\$ (0.01)	\$ –	\$ –	\$ (0.01)

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011 and 2010

Reconciliation of Comprehensive Loss for the six months ended June 30, 2010:

	Note	Canadian GAAP	IFRS Adjustment	IFRS Reclass- ification	IFRS
Revenue		\$ 15,568,986	\$ –	\$ –	\$ 15,568,986
Cost of sales		(9,378,022)	–	–	(9,378,022)
Gross profit		6,190,964	–	–	6,190,964
Expenses					
Sales and marketing		(1,141,931)	(164)	–	(1,142,095)
General and administrative		(4,602,352)	69,313	(532,513)	(5,065,552)
Amortization		(532,513)	–	532,513	–
Other income/expenses		–	–	18,985	18,985
		(6,276,796)	69,149	18,985	(6,188,662)
Operating income (loss)		(85,832)	69,149	18,985	2,302
Interest income	(c)	–	–	196	196
Finance costs	(c)	(11,817)	–	–	(11,817)
Foreign exchange loss	(c)	–	–	2,794	2,794
Other income/expenses	(c)	21,975	–	(21,975)	–
Net loss and comprehensive loss for the period		\$ (75,674)	\$ 69,149	\$ –	\$ (6,525)
Basic and diluted earnings (loss) per share		\$ (0.01)	\$ –	\$ –	\$ (0.01)

Notes to the reconciliations

(a) Accounts payable, accrued liabilities and provisions

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

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

(b) Share-based payments

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

IFRS – Each tranche in an award is considered a separate grant with a different vesting date and fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

RADIANT COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

June 30, 2011 and 2010

(c) Presentation of other income or expenses

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

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