

Consolidated Financial Statements
(Expressed in U.S. dollars)

FRANKLY INC.
(INCORPORATED UNDER THE LAWS OF ONTARIO)

As at and for the years ended December 31, 2015 and 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Frankly Inc.

We have audited the accompanying consolidated financial statements of Frankly Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Frankly Inc. and its subsidiaries, as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the material uncertainties that cast significant doubt about Frankly Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements dated April 28, 2015.



Chartered Professional Accountants
Licensed Public Accountants
April 26, 2016
Toronto, Ontario

FRANKLY INC.

Consolidated Statements of Financial Position
As at

(Expressed in U.S. dollars)

	Note	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash		\$ 7,554,128	\$ 28,839,964
Accounts receivable, net	9	3,114,146	11,903
Due from related parties	14	-	4,620
Prepaid expenses and other current assets		1,467,934	145,380
Total current assets		12,136,208	29,001,867
Property & equipment, net	10	2,133,372	72,207
Software development costs, net	11	4,366,338	-
Intangible assets, net	12	8,508,888	-
Goodwill	7, 12	22,756,581	-
Other assets		364,985	87,820
Total assets		\$ 50,266,372	\$ 29,161,894
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued expenses		\$ 4,167,326	\$ 2,030,198
Due to related parties	14	-	12,401
Deferred revenue		161,999	-
Promissory notes	14	15,000,000	-
Revolving credit facility	13	1,950,000	-
Capital leases, current portion	20	195,940	-
Total current liabilities		21,475,265	2,042,599
Capital leases, non-current portion	20	208,083	-
Deferred rent		32,410	-
Other liabilities		49,566	-
Total liabilities		21,765,324	2,042,599
Shareholders' equity			
Share capital	15 (a)	60,376,338	47,025,501
Contributed surplus	15 (b,c)	2,729,726	1,762,706
Accumulated other comprehensive income		20,076	53,592
Accumulated deficit		(34,625,092)	(21,722,504)
Total shareholders' equity		28,501,048	27,119,295
Total liabilities and shareholders' equity		\$ 50,266,372	\$ 29,161,894

Going concern (Note 1)

Commitments and contingencies (Note 21)

Subsequent events (Note 23)

Approved by the Board of Directors on April 22, 2016:

FRANKLY INC.

Consolidated Statements of Loss and Comprehensive Loss For the Year Ended

(Expressed in U.S. dollars)

	Year ended	
	December 31, 2015	December 31, 2014
Revenue		
License fees	\$ 3,684,078	\$ -
Video usage fees	550,531	-
National advertising	1,460,182	-
Local advertising	626,649	-
Local ad serving	274,999	-
Other revenue	396,894	172,377
Total revenue	6,993,333	172,377
Expenses		
Salaries and benefits, net of capitalized software	8,399,231	4,219,391
Business acquisition related costs	1,271,854	-
Transaction costs	-	2,729,538
Technology related costs	2,372,177	213,806
Professional fees	1,160,074	1,571,495
Consulting fees, net of capitalized software	1,114,822	501,669
Advertising and marketing	567,309	3,216,818
Office and administration	1,909,038	712,477
Other	121,227	59,035
Integration expenses	340,073	-
Stock based compensation	1,050,916	36,037
Depreciation and amortization	1,156,143	48,009
Loss on extinguishment of convertible debt	-	2,990,293
Loss from remeasurement of financial liability	-	290,321
Loss on disposal of assets	25,935	2,814
Impairment of intangibles	194,985	-
Sales tax settlement	(88,086)	-
Finance costs:		
Foreign exchange (gain) loss	(23,442)	15,096
Interest expense, net	300,420	180,690
Total expenses	19,872,676	16,787,489
Loss before income taxes	(12,879,343)	(16,615,112)
Income taxes (Note 19)	23,245	800
Net loss for the year	\$ (12,902,588)	\$ (16,615,912)
Other comprehensive (loss) income		
Foreign currency translation of foreign operations	(33,516)	53,592
Comprehensive loss for the year	\$ (12,936,104)	\$ (16,562,320)
Basic and diluted loss per share (Note 18)	\$ (0.50)	\$ (2.01)
Weighted average number of common shares outstanding		
Basic and diluted	25,574,673	8,277,570

FRANKLY INC.

Consolidated Statements of Changes in Equity For the Year Ended

(Expressed in U.S. dollars)

	Share Capital			Contributed Surplus	Translation Reserve	Accumulated Deficit	Total Shareholders' Equity
	Common Shares	Class A Restricted Voting Shares	Amount				
Balance, January 1, 2014	3,995,598	-	\$ 5,399,463	\$ 603,444	\$ -	\$ (5,106,592)	\$ 896,315
Issuance of common shares (Note 15)	13,830,324	-	32,881,843	-	-	-	32,881,843
Transaction costs on issuance of shares (Note 15)	-	-	(2,463,108)	336,265	-	-	(2,126,843)
Exchange of common shares for restricted voting shares	(362,401)	362,401	-	-	-	-	-
Issuance of common shares to effect merger (Note 15(a)(vii))	737,715	-	1,935,177	-	-	-	1,935,177
Issuance of share-based payments to effect merger (Note 15(b)(iii))	-	-	-	98,360	-	-	98,360
Capital contributions (Note 14(v))	-	-	-	688,600	-	-	688,600
Equity classified component of convertible debt (Note 14(v))	-	-	-	3,861,910	-	-	3,861,910
Issuance of common shares by convertible debt (Note 14(v))	3,494,085	-	9,272,126	(3,861,910)	-	-	5,410,216
Stock based compensation	-	-	-	36,037	-	-	36,037
Loss for the year	-	-	-	-	53,592	(16,615,912)	(16,562,320)
Balance, December 31, 2014	21,695,321	362,401	47,025,501	1,762,706	53,592	(21,722,504)	27,119,295
Exercise of options	37,959	-	70,261	(25,454)	-	-	44,807
Vesting of restricted share units	30,000	-	58,442	(58,442)	-	-	-
Exchange of restricted voting shares for common shares	39,578	(39,578)	-	-	-	-	-
Shares issued in acquisition of Worldnow (Note 7)	195,446	9,772,204	13,388,640	-	-	-	13,388,640
Transaction costs on issuance of shares (Note 15)	-	-	(170,000)	-	-	-	(170,000)
Refund of cost of issuance of common shares	-	-	3,494	-	-	-	3,494
Stock based compensation	-	-	-	1,050,916	-	-	1,050,916
Loss for the year	-	-	-	-	(33,516)	(12,902,588)	(12,936,104)
Balance, December 31, 2015	21,998,304	10,095,027	\$ 60,376,338	\$ 2,729,726	\$ 20,076	\$ (34,625,092)	\$ 28,501,048

FRANKLY INC.

Consolidated Statements of Cash Flows For the Year Ended

(Expressed in U.S. dollars)

	Year ended	
	December 31, 2015	December 31, 2014
Cash flows from operating activities:		
Loss for the period	\$ (12,902,588)	\$ (16,615,912)
Adjustment for non-cash items:		
Depreciation and amortization	1,156,143	48,009
Impairment of intangibles	194,985	-
Loss on extinguishment of convertible debt (Note 14(v))	-	2,990,293
Loss from remeasurement of financial liability (Note 14(v))	-	290,321
Loss on disposal of assets	25,935	2,814
Unrealized foreign exchange loss	-	37,323
Interest expense on convertible debt	-	180,690
Business acquisition related costs (Note 6)	-	1,920,795
Stock-based compensation expense	1,050,916	36,037
Changes in non-cash working capital:		
Accounts receivable	405,890	2,893
Due from related parties	4,620	(4,620)
Prepaid expenses and other current assets	(258,335)	37,769
Other assets	(66,013)	(45,788)
Accounts payable and accrued expenses	(1,481,424)	2,010,626
Due to related parties	(12,401)	(45,165)
Deferred revenue	(1,338,001)	-
Deferred rent and other liabilities	81,975	(19,775)
Severance liability	(1,000,000)	-
Net cash used in operating activities	(14,138,298)	(9,173,690)
Cash flows from investing activities:		
Purchases of property & equipment	(399,392)	(51,347)
Capitalized software costs	(834,073)	-
Purchases of intangible assets	(278,275)	-
Proceeds from sale of intangible assets	50,000	-
Proceeds from insurance claim on stolen equipment	1,189	-
Net cash acquired in connection with the merger between WBIII Acquisition Corp. and TicToc Planet Inc. (Note 6)	-	112,742
Acquisition of Worldnow, net of cash acquired (Note 7)	(4,512,698)	-
Net cash used in investing activities	(5,973,249)	61,395
Cash flows from financing activities:		
Revolving credit facility payments	(950,000)	-
Capital lease payments	(69,150)	-
Proceeds from issuance of common stock	44,807	32,881,843
Proceeds from issuance of convertible debt	-	6,500,000
Transaction costs for convertible debt and common stock	(166,506)	(2,126,843)
Net cash (used) provided by financing activities	(1,140,849)	37,255,000
Effect of exchange rate changes on cash	(33,440)	15,691
Net change in cash	(21,285,836)	28,158,396
Cash at beginning of year	28,839,964	681,568
Cash at end of year	\$ 7,554,128	\$ 28,839,964
Cash paid for interest	303,891	-
Cash paid for income taxes	45,780	800
Supplemental disclosure of non-cash financing transactions:		
Increase in capital by conversion of convertible note and related accrual of interest payable (Note 14(v))	-	9,272,126
Equity issue to effect the merger (Note 6)	-	2,033,537
Shares issued in acquisition of Worldnow (Note 7)	13,388,640	-
Promissory notes issued in acquisition of Worldnow (Note 7)	15,000,000	-

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

1. Description of business and going concern:

Frankly Inc. ("Frankly"), formerly named WB III Acquisition Corp. ("WB III"), was incorporated under the laws of the Province of Ontario on June 7, 2013. The address of the registered office of Frankly is 5 Hazelton Ave, Suite 300 Toronto ON M5R 2E1. These consolidated financial statements include Frankly and its subsidiaries (Frankly Co. and Frankly Media LLC), together referred to as the "Company". The Company provides an integrated software platform for brands and media companies to create, distribute, analyze and monetize their content across all of their digital properties on web, mobile, and TV.

WB III was initially classified as a Capital Pool Company ("CPC"), as defined in Policy 2.4 of the TSX Venture Exchange Inc. (the "Exchange") Corporate Finance Manual. On December 23, 2014, WB III Subco Inc., a wholly owned subsidiary of WB III, merged with TicToc Planet Inc. ("TicToc"). The transaction was structured as a reverse triangular merger under the Delaware General Corporation Law, as a result of which TicToc became a wholly owned subsidiary of WB III. Subsequent to the transaction, WB III changed its name to Frankly Inc. and TicToc's name was changed to Frankly Co. Frankly Co. was incorporated in the state of Delaware on September 10, 2012 and is located in San Francisco, California.

As a result of the transaction described above, the former shareholders of TicToc acquired control of the Company as they owned the majority of the outstanding shares of the Company upon completion of the merger transaction. This transaction resulted in TicToc being identified as the accounting acquirer and the net assets of WB III being recorded at fair value at the date of the transaction. Consequently, the historical results of operations up to the date of the merger are those of TicToc.

On August 25, 2015, the Company completed the purchase of the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow ("Worldnow"). Refer to Note 7, "Acquisition of Gannaway Web Holdings LLC" for further information related to the acquisition. Subsequent to the acquisition, Worldnow changed its name to Frankly Media LLC ("Frankly Media"). These consolidated financial statements include approximately four months of Frankly Media results of operations post acquisition.

Frankly Media was a solutions service provider which provides digital publishing software as a service and related advertising services for local media sites on the internet. Frankly Media's software enables site owners to design, build, and host sites to publish local content and information on digital platforms.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

1. Description of business and going concern: (continued)

Today, Frankly Co. and Frankly Media have effectively integrated their operations into one, bringing together the two separate businesses under one unified management and operational team focused on the core market of local TV broadcasters, with all staff singularly focused on the mission of helping local media companies create, distribute, analyze and monetize their digital contents across all devices and platforms. Frankly's website publishing and management system (the Producer) allows the customer to manage media assets on all digital platforms and interact with its consumers. Frankly also sources national and local advertising for its customers to distribute over multiple consumer devices. Additionally, Frankly licenses or provides other technologies and services.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. Since its incorporation, the Company has had recurring losses and has negative cash flows from operating activities. For the year ended December 31, 2015, the Company incurred losses of \$12,902,588 (2014 – \$16,615,912) and negative cash flows from operating activities of \$14,138,298 (2014 – \$9,173,690) and as at December 31, 2015 has an accumulated deficit of \$34,625,092 (2014 – \$21,722,504). These conditions have resulted in material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern into the foreseeable future.

While management believes that the use of the going concern assumption is appropriate, the ability of the Company to continue as a going concern is dependent upon its ability to achieve sustainable profitable operations. There are various risks and uncertainties affecting the Company including, but not limited to, concentration of business among customers in the media and broadcasting industries, which may be affected by consolidation and adverse economic factors impacting that industry; the market acceptance and rate of commercialization of the Company's messaging products, its ability to successfully execute on its development and commercialization plan; and general economic conditions some of which are beyond the Company's control.

There can be no assurances that the Company will be successful in achieving profitable operations or that it will be able to raise additional cash needed to finance operations, if required. These consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements for the years ended December 31, 2015 and 2014 ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Board of Directors of the Company has approved the financial statements to be issued on April 22, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared primarily on the historical cost basis except for certain financial assets and liabilities which are measured at fair value, as described in the notes to the consolidated financial statements.

(c) Functional and presentation currency:

These financial statements have been presented in U.S. dollars.

Certain reclassifications have been made to prior year financial statements to conform to current presentation.

The following companies have been consolidated within these financial statements:

Company	Registered	% of ownership and voting rights	Principal activity	Functional currency
Frankly Inc.	Canada	n/a	Corporate and holding	CAD
Frankly Co.	United States of America	100%	Software development and servicing	USD
Frankly Media	United States of America	100%	Digital publishing software and advertising	USD

3. Significant accounting policies:

(a) Basis of consolidation:

These financial statements include the accounts of Frankly and its wholly owned subsidiaries Frankly Co. and Frankly Media LLC. Subsidiaries are consolidated from the date on which control is transferred to the Company. All intercompany balances and transactions have been eliminated on consolidation.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(b) Foreign currency:

(i) Foreign currency transactions and balances:

Transactions denominated in foreign currencies are translated into the functional currency of the Company and its subsidiaries as follows:

- Monetary assets and liabilities are translated at the rates of exchange at the reporting dates;
- Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date; and
- Revenue and expenses are translated at average exchange rates prevailing throughout the reporting period.
- Resulting gains / losses are recorded within foreign exchange (gain) loss on the consolidated statements of loss and comprehensive loss.

(ii) Foreign operations:

The assets and liabilities of foreign operations are translated into the Company's presentation currency at the exchange rate at the reporting date. The income and expenses of foreign operations are translated into the Company's presentation currency at average exchange rates prevailing throughout the reporting period. Foreign currency differences are recognized in other comprehensive income and are accumulated within accumulated other comprehensive income. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operations is reclassified to profit or loss as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date. Foreign currency differences are recognized in other comprehensive income and are accumulated within accumulated other comprehensive income.

(c) Business combinations:

Acquisitions during the year ended December 31, 2015 have been accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in income and comprehensive income as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(d) Cash:

Cash includes cash on hand, deposits held with banks and other short-term highly liquid investments with a maturity date of less than three months from the balance sheet date.

(e) Accounts receivable:

Accounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

(f) Property and equipment:

(i) Recognition and measurement:

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of items of equipment are determined by comparing the proceeds from disposal with the carrying amounts of equipment, and are recognized net within other operating income or expenses in the consolidated statements of loss and comprehensive loss.

The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(f) Property and equipment: (continued)

(ii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its estimated residual value. Depreciation methods, useful life and residual values are reviewed at each financial year end and adjusted if appropriate.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives as follows:

Leasehold improvements	Lesser of 10 years or remaining life of the lease
Computer equipment	2 – 5 years
Office equipment and furniture	5 – 7 years

(g) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded on a straight line basis over the estimated useful life of the asset acquired, which varies depending on the nature of the intangible asset.

The estimated useful life is reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Internally incurred development costs that are directly attributable to the design and testing of identifiable and unique software products are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(g) Intangible assets: (continued)

Other internal development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Software development costs recognized as assets are amortized on a straight-line basis over the estimated useful life of three years.

Intangible assets with definite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates on a prospective basis.

(h) Goodwill:

Goodwill represents the excess fair value of consideration transferred over the fair value of the underlying net assets in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGU") that are expected to benefit from the synergies of the acquisitions. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU.

(i) Accounts payable:

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are measured initially at fair value and subsequently measured at amortized cost using the effective interest method.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(j) Financial instruments:

(i) Financial Instruments - Initial Recognition and Subsequent Measurement - Financial Assets:

(a) Initial recognition and measurement:

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Loans and receivables consist of all non-derivative financial assets, including cash, accounts receivable, other current assets and due from related parties.

(b) Subsequent measurement - loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense, net in the consolidated statements of loss and comprehensive loss. Losses relating to impairment of accounts receivables are also recognized in the consolidated statements of loss and comprehensive loss.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses existing in the Company's accounts receivable; however, changes in circumstances relating to accounts receivable may result in an increase or a decrease in the allowance required in the future. The Company determines the allowance based on current market trends, customers' financial condition and current payment patterns, the amount of receivables in dispute and the receivable aging. The Company regularly reviews the adequacy of its allowance for doubtful accounts.

(c) Derecognition:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(j) Financial instruments: (continued)

(i) Financial Instruments - Initial Recognition and Subsequent Measurement - Financial Assets: (continued)

(d) Impairment of financial assets measured at amortized cost:

Financial assets not classified at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

The Company considers evidence of impairment at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

(ii) Financial Instruments - Initial Recognition and Subsequent Measurement - Financial Liabilities:

(a) Initial recognition and measurement:

The Company's financial liabilities are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company classifies all non-derivative financial liabilities, except for the liability component of the convertible debt, into the amortized cost measurement category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(j) Financial instruments: (continued)

(ii) Financial Instruments - Initial Recognition and Subsequent Measurement - Financial Liabilities: (continued)

(a) Initial recognition and measurement: (continued)

During the year ended December 31, 2014, the Company issued a convertible debt instrument (Note 14(v)). The liability component of the convertible debt instrument was designated as a financial liability at fair value through a profit or loss.

As of the reporting dates, the Company has accounts payable and accrued expenses, promissory notes, revolving credit facility, capital leases and due to related parties.

(b) Subsequent measurement:

After initial recognition, non-derivative financial liabilities, except convertible debt, are subsequently measured at amortized cost using EIR method. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated statements of loss and comprehensive loss.

(c) Derecognition:

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Offsetting of financial instruments:

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statements of financial position only if there is a current enforceable legal right to offset the recognized amounts and intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(j) Financial instruments: (continued)

(iv) Fair value of financial instruments:

Assets and liabilities for which fair value is measured in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's-length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

All of the Company's financial instruments such as cash, accounts receivable, other current assets, due from related parties, accounts payable and accrued expenses, promissory notes, revolving credit facility, current portion of capital leases and due to related parties are of short-term duration. Their carrying values, therefore, approximate their fair values.

The Company measured convertible debt, categorized as Level 3, at fair value. Valuation techniques used and assumptions made in determining the fair value of the convertible debt are disclosed in Note 14.

(k) Compound financial instruments:

Compound financial instruments issued by the Company comprise convertible debt that can be converted to common stock at the option of the holder. The convertible debt was initially issued on May 14, 2014 and the terms were substantially modified on September 12, 2014 (Note 14(v)). The convertible debt was fully converted during 2014.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(k) Compound financial instruments: (continued)

There were a number of different conversion options embedded in the convertible debt which, on a stand-alone basis, met the definition of embedded derivatives and, therefore, would require bifurcation from the host debt instrument. At initial issuance, and after the substantial modification, management elected to measure and account for the convertible debt at fair value through profit or loss. Such election is allowable as the embedded conversion feature would significantly modify cash flows that would otherwise arise on the contract, and it is not clear with little or no analysis at issuance that separation would be prohibited. The fair value through profit or loss designation was elected in order to avoid the complexity associated with separating the embedded derivative conversion features. As a result of the election, the fair value of the debt was remeasured at each reporting period, and the changes in fair value were reported in the consolidated statement of loss and comprehensive loss.

(l) Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered.

As a result of the acquisition of Worldnow (Note 7), the Company now has new sources of revenue. The Company's primary sources of revenue are license fees for the use of its content management system and video software, and digital advertising revenue.

License Fees

The Company enters into license agreements with customers for its content management system, video software, and mobile applications. These license agreements, generally non-cancellable and multiyear, provide the customer with the right to use the Company's application solely on a Company-hosted platform or on the purchased encoders. The license agreements also entitle the customer to technical support. Revenue from these license agreements is recognized ratably over the license term.

Video Usage Fees

The Company charges its customers for the use of content delivery network to stream and store videos. The revenue is recognized as earned based on the actual usage.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(l) Revenue recognition: (continued)

National Advertising

Under national advertising agreements, the Company sources, creates, and places advertising campaigns that run across the Company's network of website participants. National advertising revenue, net of third party costs, is shared with customers based on their respective contractual agreements. The Company invoices national advertising amounts due from advertisers and remits payments to website participants. Depending on the customer arrangement, the obligation to remit payment to the customer is based on either billing to the advertiser or the collection of cash from the advertiser. National advertising revenue is recognized in the period during which the ad impressions are delivered. The Company reports revenue earned through national advertising agreements on a net basis.

Local Advertising

Under local advertising agreements with customers, the Company provides local ad sales consulting and support services in exchange for monthly fees over the term of the agreement. The fees are established in the agreement with the customer in one of three ways: fixed annual amounts for an unlimited number of advertisers, flat fee paid per advertiser, or a commission rate of the local advertising revenue paid by the advertiser. Fixed amounts are recognized as revenue ratably over the contract term, and flat fee and commission-based amounts are recognized as revenue based on the revenue earned for each respective period based on actual delivery of the local advertising campaigns.

Local Ad Serving

The Company charges its customers for the use of its ad serving platform to serve ads under local advertising campaigns. The revenue is recognized as earned based on the actual usage.

(m) Share-based payments:

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are further discussed in Note 15(b) and (c).

The grant-date fair value of equity-settled share-based payment awards is generally recognized as an expense, with a corresponding increase in contributed surplus, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and nonmarket performance conditions at the vesting date.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(m) Share-based payments: (continued)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs plus amounts previously recognized as contributed surplus, are credited to share capital.

If the terms of an equity-settled award are modified, at a minimum an expense is recognized for the initial grant date fair value of the award. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award is treated as if they were a modification of the original award, as described in the previous paragraph.

For each Restricted Share Unit ("RSU") granted, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of RSUs expected to vest, recognized over the term of the vesting period, with a corresponding increase to contributed surplus for those anticipated to be equity settled or a corresponding increase to a liability for those anticipated to be cash settled. Compensation expense is adjusted for subsequent changes in management's estimate of the number of RSUs that are expected to vest and, for RSUs anticipated to be cash settled, changes in the market value of the Company's common shares. The effect of these changes is recognized in the period of the change. Vested RSUs are settled either in the Company's common shares or in cash or a combination thereof at the discretion of the Company.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(n) Income tax:

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of loss and comprehensive loss for the year, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case, the tax is also recognized in other comprehensive loss or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized for all deductible temporary differences and carryforwards of unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforwards of unused tax losses can be utilized. Deferred income tax liabilities are provided on taxable temporary differences.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

3. Significant accounting policies: (continued)

(o) Impairment of non-financial assets:

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Share issue costs:

The Company charges incremental costs incurred in respect of raising capital against the equity proceeds raised, including legal, accounting, agent and investment banking fees.

(q) Finance income and finance costs:

Finance income generally comprises interest income on funds invested, if any. Interest income is recognized, as it accrues, in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings and the liability component of the convertible debt.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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3. Significant accounting policies: (continued)

(r) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of loss and comprehensive loss on a straight-line basis over the period of the lease.

Leases entered into by the Company that transfer substantially all the benefits and risks of ownership to the Company are recorded as capital leases and are included in property and equipment, net with the obligation recorded under capital leases. Obligations under capital leases are reduced by lease payments net of imputed interest.

(s) Loss per share:

The Company presents basic and diluted loss per share relating to its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive common shares. Dilutive common shares shall be deemed to have been converted into common shares at the beginning of the year or, if later, at the date of issue of the common shares. For the purpose of calculating diluted loss per share, the Company assumes the exercise of its dilutive options. The assumed proceeds from these instruments are regarded as having been received from the issue of common shares at the average market price of its shares during the year.

(t) Provisions:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

FRANKLY INC.

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4. Accounting changes and recent accounting pronouncements:

New standards and interpretations not yet adopted:

Information on new standards, amendments and interpretations that have been issued but are not yet effective and may impact the Company's consolidated financial statements are provided below:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 was published in July 2014 and replaces the existing guidance in IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not intend to adopt this standard early. Management is in the process of assessing the impact on the Company's consolidated financial statements of this new standard.

(ii) IFRS 7, Financial Instruments: Disclosures ("IFRS 7"):

IFRS 7 has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

(iii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

IFRS 15 was issued by the IASB in May 2014 and replaces existing revenue recognition guidance including IAS 18, Revenue, IAS 11, Construction Contracts, and IFRIC 13, Customer Loyalty Programmes. This standard establishes a comprehensive model to address the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. This standard is mandatorily effective for annual reporting periods beginning on or after January 1, 2018. Management is in the process of assessing the impact on the Company's consolidated financial statements of this new standard.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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(Expressed in U.S. dollars)

4. Accounting changes and recent accounting pronouncements: (continued)

(iv) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"):

IAS 1 was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendment is mandatorily effective for annual reporting periods beginning on or after January 1, 2016. Earlier application is permitted. Management is in the process of assessing the impact on the Company's consolidated financial statements of this new standard.

(v) IFRS 16, Leases ("IFRS 16"):

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

There are no other IFRSs that are not yet effective that would be expected to have a material impact on the Company.

5. Significant judgments, estimates, and assumptions:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting year. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from these estimates.

The areas which require management to make significant estimates and assumptions in applying the Company's accounting policies in determining carrying values include:

FRANKLY INC.

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5. Significant judgments, estimates, and assumptions: (continued)

(a) Income taxes:

The Company is subject to income taxes in certain jurisdictions. Significant judgment is required in determining the provision for income taxes. There may be some transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

(b) Accounts receivable:

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses existing in the Company's accounts receivable; however, changes in circumstances relating to accounts receivable may result in an increase or decrease in the allowance required in the future.

(c) Amortization and impairment of non-financial assets:

The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. It also reviews annually non-financial assets with indefinite life for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

The amortization expense related to intangible and other assets is determined using estimates relating to the useful life of the related assets.

(d) Capitalization of development costs:

Initial capitalization of development costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. Subsequent development costs are capitalized if the Company can demonstrate betterment to the original product. An intangible asset arising from development is recognized if the Company can demonstrate all of the following:

- (i) the technological feasibility of completing the intangible asset so that it will be available for use or sale
- (ii) its intention to complete the intangible asset and use or sell it
- (iii) its ability to use or sell the intangible asset

FRANKLY INC.

Notes to the Consolidated Financial Statements
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5. Significant judgments, estimates, and assumptions: (continued)

(d) Capitalization of development costs: (continued)

- (iv) how the intangible asset will generate probable, future economic benefits
- (v) the availability of adequate technical, financial and other resources
- (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase

(e) Fair value of convertible debt:

The fair value of the liability portion of the convertible debt was determined using the binomial lattice model. The model was based on the terms of the note and certain assumptions including volatility, risk-free rate, and yield. The model assumed that all uncertainty in the future value of a convertible debt stems from the volatility of the underlying stock price. It used a credit-adjusted discount rate when calculating the present value of future cash flows, in order to account for the credit sensitivity of a convertible debt.

(f) Business combinations:

The Company assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business.

Purchase prices related to business combinations and asset acquisitions are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The measurement of the purchase consideration and allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities, future net earnings due to the impact on future depreciation and amortization expense and impairment tests.

(g) Valuation of intangible assets:

The determination of estimated fair values of acquired intangible assets, as well as the useful economic life ascribed to finite lived intangible assets, requires the use of significant judgment. The use of different estimates and assumptions to those used by the Company could result in a materially different valuation of acquired intangible assets, which could have a material effect on the Company's consolidated results of operations.

FRANKLY INC.

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(Expressed in U.S. dollars)

5. Significant judgments, estimates, and assumptions: (continued)

(h) Share-based payment transactions:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rate. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 15(b) and (c).

6. Merger:

On December 23, 2014, WB III completed a merger with TicToc. In accordance with the merger agreement dated December 8, 2014, WB III Subco Inc., a wholly owned subsidiary of the WB III, merged with TicToc. The transaction was structured as a reverse triangular merger under the Delaware General Corporation Law, which resulted in TicToc becoming a wholly owned subsidiary of WB III. Subsequent to the completion of the merger, WB III changed its name to Frankly Inc. and TicToc changed its name to Frankly Co.

Prior to the completion of the transaction, the common shares of WB III were consolidated on the basis of 20.333 common shares outstanding prior thereto to one common share outstanding thereafter. Immediately prior to giving effect to the merger, WB III had 737,715 common shares issued and outstanding.

As a condition precedent to the completion of the merger, TicToc completed a private placement of 8,596,700 subscription receipts at a price of CAD \$3.05 per subscription receipt for total gross proceeds of CAD \$26,219,935 (U.S. \$22,918,845) (Note 15(a)(v)). After giving effect to the private placement, TicToc had 21,320,007 common shares issued and outstanding. Immediately prior to giving effect to the merger, 362,401 common shares in TicToc were exchanged for Class A restricted voting shares ("restricted voting shares") of TicToc on a one-for-one basis, resulting in 20,957,606 common shares and 362,401 restricted voting shares issued and outstanding. To effect the merger, all of the common shares and restricted voting shares in WB III and TicToc were exchanged for common shares and restricted voting shares in Frankly Inc. on a one-for-one basis, resulting in the total issuance of 21,695,321 common shares and 362,401 restricted voting shares of Frankly Inc.

FRANKLY INC.

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6. Merger: (continued)

As a result of the transaction described above, the former shareholders of TicToc acquired control of the Company as they owned the majority of the outstanding shares of the Company upon completion of the merger transaction. This transaction resulted in a reverse takeover with TicToc being identified as the accounting acquirer and the net assets of WB III being recorded at fair value at the date of the transaction. Consequently, the historical results of operations up to the date of the merger are those of TicToc.

The following summarizes the reverse take-over and the WB III assets acquired by Frankly Inc.:

Net assets acquired:			
		CAD	USD
Cash	\$	131,086	\$ 112,742
Consideration paid:			
		CAD	USD
Shares (i)	\$	2,250,031	\$ 1,935,177
Options (ii)		114,363	98,360
Total consideration		2,364,394	2,033,537
Listing cost		(2,233,308)	(1,920,795)
	\$	131,086	\$ 112,742

- (i) Upon the issuance of the financing, shares issued as consideration were measured using the market price of TicToc's shares, which was determined by the value of the private placement completed concurrently with the merger being CAD \$3.05 per share (or U.S. \$2.67 on December 23, 2014).
- (ii) WB III stock options re-issued as consideration to the former option holders of WB III. The estimated fair values of the options re-issued to option holders of WB III were calculated using the Black-Scholes option pricing model. For more details see Note 15(b)(iii).

As the transaction was not considered to be a business combination, the excess of the fair value of the consideration over the net assets acquired in the amount of \$1,920,795, together with \$808,743 in fees incurred, were included as transaction costs on the consolidated statement of loss and comprehensive loss totaling \$2,729,538.

The voting common shares of the Company started trading on the TSX Venture Exchange ("TSX-V") under the symbol "TLK" on January 5, 2015.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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7. Acquisition of Gannaway Web Holdings, LLC:

On July 28, 2015, the Company signed an agreement (the "Purchase Agreement") to purchase the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow, for total consideration of \$45 million. On August 25, 2015 (the "Closing Date"), the Company completed the acquisition of Worldnow. Subsequent to the acquisition, Worldnow changed its name to Frankly Media LLC.

Under the terms of the Purchase Agreement, the Company paid \$10 million in cash, issued \$20 million in Class A restricted voting shares of the Company (the "Share Consideration") and executed promissory notes bearing simple interest at a rate of 5 percent per year, to pay an additional \$15 million in cash on August 31, 2016. The number of restricted voting shares comprising the Share Consideration is 9,772,204, determined with reference to the volume-weighted average price of the common shares of the Company on the TSX-V for the five days prior to the date of the Purchase Agreement (being \$2.6471; US\$2.0466). For purposes of the purchase price allocation, the Share Consideration, prior to discount for lack of marketability, was reflected at fair value as of the Closing Date which amounted to \$15,523,058.

All of the securities composing the Share Consideration are subject to a lock-up agreement. The lock-up period with respect to securities representing 50 percent of the value of the Share Consideration will expire upon the first anniversary of the Closing Date of the transaction; and the lock-up period with respect to the remainder of the Share Consideration will expire upon the second anniversary of Closing Date of the transaction. The lock-up periods are subject to earlier expiry upon the occurrence of certain events that constitute a change of control of the Company. Further, upon expiry of the lock-up periods, the restricted voting shares will be converted into common shares.

The following summarizes the purchase price allocation relating to the acquisition of Worldnow:

Purchase consideration	Shares	Amount
Cash	-	\$ 10,000,000
Class A restricted voting shares	9,772,204	15,523,058
Class A restricted voting shares - discount for lack of marketability		(2,444,882)
Promissory notes	-	15,000,000
Additional investment in Frankly Media ^(a)	195,446	310,464
Total purchase consideration	9,967,650	\$ 38,388,640

(a) In connection with the acquisition, additional units of Worldnow were issued to Frankly Inc. for the assumption of a \$400,000 liability of Worldnow due to Schwartz & Associates PC. Frankly Inc. satisfied the liability by granting 195,446 common shares to Schwartz & Associates PC. The common shares were issued at a price of CAD\$2.6471 (US\$2.0466) per common share, being the volume-weighted average price of the common shares on the TSX-V for the five days prior to the date of the Purchase Agreement. For purposes of the purchase price allocation, this additional investment was reflected at fair value as of the Closing Date which amounted to \$310,464.

FRANKLY INC.

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7. Acquisition of Gannaway Web Holdings, LLC: (continued)

Purchase price allocation	Amount
Cash	\$ 5,487,302
Accounts receivable	3,508,133
Prepaid expenses and other current assets	1,136,553
Other assets	211,152
Software development costs	4,000,000
Property and equipment	2,002,903
Intangible assets	8,800,000
Accounts payable and accrued expenses	(3,640,811)
Revolving credit facility	(2,900,000)
Deferred revenue	(1,500,000)
Capital leases	(473,173)
Other liabilities	(1,000,000)
Fair value of identifiable net assets acquired	15,632,059
Goodwill	22,756,581
Total net assets acquired	\$ 38,388,640

The balance of goodwill is the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. All of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:

- cost savings and operating synergies expected to result from combining the operations of Worldnow with those of the Company;
- intangible assets that do not qualify for separate recognition such as the assembled workforce

The Company incurred fees of \$1,271,854 which were recognized separately from the acquisition and included as business acquisition related costs on the consolidated statement of loss and comprehensive loss. The Company also incurred \$170,000 of share issue costs related to the Share Consideration and shares issued to settle the liability assumed from Worldnow as described above. These costs were not expensed, but rather are included as a reduction to share capital in the consolidated statements of changes in equity.

Revenue and net loss of Frankly Media LLC since the Closing Date included in the consolidated statements of loss and comprehensive loss for the year amounted to \$6,720,251 and \$279,791, respectively.

Pro-forma revenue and net loss of the Company for the year ended December 31, 2015, assuming the acquisition of Worldnow occurred on January 1, 2015, amounted to \$25,704,963 and \$9,376,057, respectively.

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8. Operating segment information:

The Company has one operating segment which provides white-labeled content and chat platforms to media companies and brands that use the Company's technology to get their content onto multi-screen devices, and the Company's chat platforms to increase social interaction on those multi-screen experiences. As at December 31, 2015 and 2014, all of the Company's long term assets were located in the United States of America.

All of the Company's revenue in the years ended December 31, 2015 and 2014 was earned in the United States of America.

The Company's chief operating decision maker is the Chief Executive Officer ("CEO"). The CEO evaluates performance and makes operating decisions and allocates resources based on financial data that is consistent with that presented in these consolidated financial statements.

9. Accounts receivable, net:

The following table summarizes the balance of accounts receivable, net as at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Accounts receivable	\$ 3,171,869	\$ 11,903
Allowance for doubtful accounts	(57,723)	-
	<u>\$ 3,114,146</u>	<u>\$ 11,903</u>

Bad debt write-offs of \$Nil were recorded during the year ended December 31, 2015 (2014 - \$Nil). Allowance for doubtful accounts includes \$57,723 assumed with the Worldnow acquisition.

FRANKLY INC.

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10. Property and equipment, net:

The following table summarizes the changes in property and equipment, net, including assets held under capital lease, for the year ended December 31, 2015:

	Leasehold improvements	Office equipment & software	Total
Cost:			
Balance at Jan 1, 2015	\$ -	\$ 115,268	\$ 115,268
Additions	195,884	203,507	399,391
Acquisition of Worldnow (Note 7)	382,898	1,620,005	2,002,903
Write-off of assets	-	(5,165)	(5,165)
Balance before depreciation	578,782	1,933,615	2,512,397
Accumulated depreciation:			
Balance at Jan 1, 2015	-	(43,061)	(43,061)
Depreciation	(43,988)	(295,017)	(339,005)
Write-off of assets	-	3,041	3,041
Total accumulated depreciation	(43,988)	(335,037)	(379,025)
Net book value as at December 31, 2015	\$ 534,794	\$ 1,598,578	\$ 2,133,372

Depreciation expense for assets held under capital lease was \$57,749 for the year ended December 31, 2015 (2014 – \$Nil). The net carrying value of assets held under capital lease was \$568,594 as of December 31, 2015 (2014 – \$Nil).

The following table summarizes the changes in property and equipment, net for the year ended December 31, 2014:

	Leasehold improvements	Office equipment & software	Total
Cost:			
Balance at Jan 1, 2014	\$ 25,474	\$ 66,184	\$ 91,658
Additions	-	51,347	51,347
Removal of fully-depreciated assets	(25,474)	(2,263)	(27,737)
Balance before depreciation	-	115,268	115,268
Accumulated depreciation:			
Balance at Jan 1, 2014	(7,076)	(12,899)	(19,975)
Depreciation	(16,983)	(31,026)	(48,009)
Write-off of assets	(1,415)	(1,399)	(2,814)
Removal of fully-depreciated assets	25,474	2,263	27,737
Total accumulated depreciation	-	(43,061)	(43,061)
Net book value as at December 31, 2014	\$ -	\$ 72,207	\$ 72,207

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(Expressed in U.S. dollars)

11. Software development costs, net:

The following table summarizes the changes in software development costs, net for the year ended December 31, 2015:

	Total
Cost:	
Balance at Jan 1, 2015	\$ -
Acquisition of Worldnow (Note 7)	4,000,000
Additions - internally generated	843,597
Write-off of assets	(9,524)
Balance before amortization	4,834,073
Accumulated amortization:	
Balance at Jan 1, 2015	-
Amortization	(467,735)
Total accumulated amortization	(467,735)
Net book value as at December 31, 2015	\$ 4,366,338

Amortization of software development costs is presented within depreciation and amortization on the consolidated statements of loss and comprehensive loss.

12. Intangible assets, net and goodwill:

The following table summarizes the changes in intangible assets, net for the year ended December 31, 2015:

	Muzy (a)	GetSocial (b)	Broadcast Relationships (c)	Advertiser Relationships (c)	Total
Cost:					
Balance at Jan 1, 2015	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	100,000	228,275	-	-	328,275
Acquisition of Worldnow (Note 7)	-	-	7,600,000	1,200,000	8,800,000
Disposal of assets	(100,000)	-	-	-	(100,000)
Write-off of assets	-	(228,275)	-	-	(228,275)
Balance before amortization	-	-	7,600,000	1,200,000	8,800,000
Accumulated amortization:					
Balance at Jan 1, 2015	-	-	-	-	-
Amortization	(25,000)	(33,290)	(211,112)	(80,000)	(349,402)
Disposal of assets	25,000	-	-	-	25,000
Write-off of assets	-	33,290	-	-	33,290
Total accumulated amortization	-	-	(211,112)	(80,000)	(291,112)
Net book value as at December 31, 2015	\$ -	\$ -	\$ 7,388,888	\$ 1,120,000	\$ 8,508,888

Amortization of intangible assets is presented within depreciation and amortization on the consolidated statement of loss and comprehensive loss.

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12. Intangible assets, net and goodwill: (continued)

- (a) On September 16, 2014, the Company entered into an asset purchase agreement with Muzy Inc. ("Muzy") in which the Company purchased properties and rights owned by Muzy for the conduct of Muzy's business for \$100,000, completed in March 2015. These properties and rights include the following assets of Muzy: its website, the Muzy application, domain names, source codes, contracts, databases, social media accounts associated with muzy.com, backend infrastructure, and Muzy's Facebook application. These properties and rights also included all rights, titles, and interest in the intellectual property related to the aforementioned. This asset is amortized on a straight-line basis over the estimated useful life of three years.

Muzy was sold in December 2015 for \$50,000 with a carrying value at time of sale of \$75,000, resulting in a loss on disposal of \$25,000.

- (b) On June 22, 2015, the Company entered into a joint licensing agreement with GetSocial, a social engagement platform for gaming apps to bring Frankly's advanced chat SDK platform and mobile messaging expertise to GetSocial's suite of tools.
- (i) In connection with this Agreement, the Company paid EUR200,000 (USD \$228,275) to GetSocial which has been recorded as intangible asset to reflect the intellectual property that Frankly received from GetSocial per IAS 38. This asset is amortized on a straight-line basis over the estimated useful life of four years as a result of three years in the contract with a one-year automatic renewal from the date of initial recognition.
- (ii) Subject to the terms, conditions and adjustments set forth in the Agreement: (i) GetSocial will be entitled to receive 20% of the Frankly Revenue received from Frankly's product, service offering that is combined with the GetSocial; and (ii) Frankly will be entitled to receive 50% of the GetSocial Revenue received from GetSocial's product, service offering that is combined with the Frankly SDK. Royalties arising out of this agreement will be recorded as sales occur, based on the percentage stated in the contract, in accordance with IAS 18.30(b).

For the year ended December 31, 2015, the Company recorded \$Nil in Royalties related to this asset.

Due to the lack of cash flows generated by this asset through December 31, 2015, management determined it necessary to perform a recoverability test on the GetSocial asset. As a result of the recoverability test, it was concluded GetSocial was fully impaired as at year end. Consequently, the carrying value of \$194,985 was written off as at December 31, 2015.

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12. Intangible assets, net and goodwill: (continued)

- (c) On August 25, 2015, the Company completed the purchase of the outstanding units of Worldnow, currently named Frankly Media. As a result of the purchase price allocation, \$7,600,000 and \$1,200,000 were allocated to Broadcast Relationships and Advertiser Relationships, respectively.

Frankly Media has established relationships with local broadcasters and TV stations ("Broadcast Relationships") which are expected to result in future sales. The fair value of the Broadcast Relationships intangible asset was determined based on the excess earnings method under the income approach. The Broadcast Relationships intangible asset was valued using Level 3 inputs which consisted of the following key inputs: (a) cash flow projections (b) customer attribution rate / probability of renewal rate (c) charges for use of assets and (d) present value factor. This asset is amortized on a straight-line basis over the estimated useful life of twelve years.

Frankly Media has established relationships with advertising agencies ("Advertiser Relationships") which are expected to result in future sales. The fair value of the Advertiser Relationships intangible asset was determined based on the lost profits method under the income approach. The "With" scenario assumes that the Advertiser Relationships are in place and the "Without" scenario assumes the Advertiser Relationships do not exist at the time of the valuation and must be re-created post valuation. The Advertiser Relationships cash flows are calculated by taking the difference in after-tax cash flows between the "With" and "Without" scenarios. The Advertiser Relationships intangible asset was valued using Level 3 inputs which consisted of the following key inputs: (a) cash flow projections under the With scenario (b) probability of success to be applied to the Without scenario and (c) present value factor. This asset is amortized on a straight-line basis over the estimated useful life of five years.

Goodwill is measured as the fair value of consideration paid less the fair value of the net assets acquired and liabilities assumed on the acquisition date. As a result of the purchase price allocation, \$22,756,581 was allocated to goodwill. Goodwill is tested at least annually for impairment or more frequently when impairment indicators are identified.

In accordance with IAS 36, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

The goodwill impairment analysis performed by the Company concluded there was no impairment to goodwill as at December 31, 2015 as the fair value of the CGU exceeded its carrying value.

FRANKLY INC.

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12. Intangible assets, net and goodwill: (continued)

(c) (continued)

The Company concluded it had one cash-generating unit ("CGU") as of December 31, 2015. As such, all of the goodwill resulting from the acquisition of Worldnow noted above was allocated to that CGU. A goodwill impairment analysis was performed as of December 31, 2015 in accordance with IAS 36. The CGUs recoverable amount was determined based on its value in use using a discounted cash flow model (income approach). Key assumptions used in the discounted cash flow model are as follows: (a) revenue during the projection period was estimated considering current and historical results as well as planned new customer acquisition during the projection period (b) operating expenses during the projection period were estimated using current and historical results as a percentage of revenue with consideration to variable costs. Fixed costs were estimated to remain fairly constant unless scale would cause otherwise. In an effort to be conservative, the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budget/forecast (two years) was 4%. The discount rate applied in the discounted cash flow model was 17.1%.

13. Revolving credit facility:

The Company's subsidiary Frankly Media, has a credit facility which provides for a \$3,000,000 revolving line of credit and a \$500,000 letter of credit (collectively, the "Credit Facility"). Borrowings on the revolving line of credit are limited to the lesser of \$3,000,000 or a percentage of eligible accounts receivable (the "advance rate"). The advance rate is 85% of eligible accounts receivable, unless the dilution rate from items such as credits and billing adjustments is 3.5% but less than 5%, in which case it will be reduced to 80%. The lender may reduce the advance rate below 80% in the event the lender determines that dilution as to the Company's receivables exceeds 5.0%. Eligible accounts receivable exclude, among other things, past-due invoices, and customer balances where more than 35% of the amounts owed by the customer are past due. The Credit Facility was renewed in April 2015 for two years. It expires in April 2017 and requires monthly interest payments. The interest rate applicable to the revolving credit facility is the greater of 3.25% or the lender's prime rate, plus 2.50%. As at December 31, 2015, \$1,950,000 was outstanding under the revolving line of credit, and the applicable interest rate was 6.00%.

The Credit Facility contains financial covenants for which compliance must be measured monthly and before each advance. These covenants include an asset coverage ratio of not less than 1.05 to 1.0, revised to 1.4 to 1.0 as of November 10, 2015, defined as unrestricted cash maintained at lender plus eligible receivables less contra-accounts, counterclaims, and offsets, which include liabilities of Frankly Media to its customers for their share of advertising revenue, divided by the credit facility balance, including the letter of credit. Beginning November 10, 2015, Frankly Media has an additional covenant to maintain a minimum unrestricted cash balance of at least \$1,000,000. All covenants were met as of December 31, 2015.

FRANKLY INC.

Notes to the Consolidated Financial Statements
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13. Revolving credit facility: (continued)

In the event there is an event of default under the Credit Facility, the interest rates on the revolving line of credit will be subject to an additional 5% (500 basis points). There were no defaults under the Credit Facility during the year.

14. Related party transactions and balances:

The following table summarizes related party balances in the statement of financial position as at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Statement of financial position		
Due from related parties (vi)	\$ -	\$ 4,620
Due to related parties (vii)	-	12,401
Accounts receivable (ii)	86,112	-
Accounts payable (ii)	92,089	-
Deferred revenue (ii)	79,560	-
Promissory notes (iii)	\$ 15,000,000	\$ -

The following table summarizes related party transactions for the year ended December 31, 2015 and 2014:

	Year ended	
	December 31, 2015	December 31, 2014
Statement of loss and comprehensive loss		
Revenue - Raycom Media (ii)	\$ 946,383	\$ -
Revenue - SK Planet (vi)	-	161,501
Interest expense, net (iii)	250,000	-
Consulting fees, net of capitalized software (i)	108,587	52,366
Office and administration (Office rent)	-	22,500
Other transactions		
Issuance of common stock (iv)	-	3,500,000
Capital contribution (v)	-	688,600
Equity classified component of convertible debt (v)	-	3,861,910
Conversion of convertible debt and related interest into common shares (v)	-	5,410,216

- (i) The Company had services agreements with its then ultimate parent company, SK Planet Co. Ltd. ("SK Planet") Korean and U.S. subsidiaries, whereby the affiliated companies provide market research, mobile application development, and support for the Company's back office operations as requested. The agreements provide that all intellectual property interest in all works completed by the affiliated company will be transferred to the Company. Pursuant to the agreements, the Company incurred consulting fees of \$108,587 and \$52,366 for the years ended December 31, 2015 and 2014, respectively.

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14. Related party transactions and balances: (continued)

- (ii) The Company recorded revenues from Raycom Media, Inc. of approximately \$946,383 for the year ended December 31, 2015. Related party balances with this affiliate in the accompanying statement of financial position as at December 31, 2015 include accounts receivable of \$86,112, accounts payable of \$92,089 and deferred revenue of \$79,560. Raycom Media, Inc. is considered a significant shareholder of the Company.
- (iii) In connection with the acquisition of Worldnow (Note 7), the Company executed promissory notes, bearing simple interest at a rate of 5 percent per year, to pay an additional \$15 million in cash on August 31, 2016. The holders of the promissory notes also hold equity in the Company. Interest expense on the promissory notes amounted to \$250,000 for the year ended December 31, 2015 and is presented within interest expense, net on the consolidated statement of loss and comprehensive loss.
- (iv) In January 2014, the Company's then parent company acquired 2,536,232 common shares for gross proceeds of \$3,500,000.
- (v) Convertible Promissory Note:

On March 14, 2014, the Company entered into a convertible note purchase agreement with its then parent for aggregate gross proceeds of \$6,500,000. The proceeds of the notes exceeded its fair value at issuance, resulting in the recognition of capital contribution on issuance in the amount of \$688,600. The notes were unsecured and had priority rank above, and preference over all current and future indebtedness of the Company. Interest on the notes was equal to 5% per annum and was due and payable, along with the principal, on the maturity date of March 14, 2017.

Subsequent to issuance, the Company amended certain of the embedded conversion features to permit the holder to convert all or a portion of the notes into common shares of the Company at any time on or after September 15, 2014 at a fixed rate of \$2.39 per share less a 20% discount. A loss on extinguishment of debt of \$2,990,293 was recognized in the consolidated statement of loss and comprehensive loss, based on the difference in the fair value of the newly issued instrument as compared with the fair value of the extinguished instrument.

On September 15, 2014 and November 24, 2014, the holder elected to convert \$5,053,581 and \$1,627,108 of principal and accrued interest into 2,643,087 and 850,998 common shares of the Company, respectively. The total fair value of converted debt including interest was \$9,272,126 represented by financial liability of \$5,410,216 and fair value of the equity component of \$3,861,910.

FRANKLY INC.

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14. Related party transactions and balances: (continued)

- (vi) SK Planet Services Agreement:

The Company entered into a services agreement with its then ultimate parent company, SK Planet, in January 2014. Pursuant to the services agreement, the Company provided access to certain members of its mobile development team in connection with the general development of mobile applications and related products. The agreement terminated in October 2014. The Company recorded revenues of \$161,501 for the year ended December 31, 2014 in connection with this services agreement. SKP America LLC is a U.S. subsidiary of SK Planet.

- (vii) Due from related parties in the amount of \$4,620 at December 31, 2014 included a tax refund. The balance as at December 31, 2015 is \$Nil.

- (viii) Due to related party in the amount of \$12,401 at December 31, 2014 included salaries and office administrative costs allocated and charged by the related parties. The balance as at December 31, 2015 is \$Nil.

- (ix) Compensation to key management is as follows:

Key management personnel include the directors and corporate officers of the Company who are responsible for planning, directing and controlling business activities. Their compensation for the years ended December 31, 2015 and 2014 is as follows:

	Year ended	
	December 31, 2015	December 31, 2014
Salaries, bonuses and employee benefits	\$ 1,585,315	\$ 1,228,529
Stock based compensation (at full fair value) ^(a)	2,157,592	-
	\$ 3,742,907	\$ 1,228,529

- (a) Stock based compensation for the year ended December 31, 2015 was estimated using the fair value of the (i) 1,237,915 options granted to the Company's directors and corporate officers. The fair values at the grant date were estimated based on the Black-Scholes option pricing model as described in Note 15(b), and (ii) 277,676 restricted share units ("RSU") granted to the Company's directors and an executive officer. The fair value was estimated based on a closing price of CAD \$2.70 (or USD \$2.14) per common share on the date of issuance of the RSUs, being April 1, 2015, as described in Note 15(c).

FRANKLY INC.

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15. Share capital:

(a) Authorized and issued share capital:

The Company's authorized share capital consists of an unlimited number of authorized common shares with no par value and an unlimited number of Class A restricted voting shares with no par value.

The restricted voting shares have the same voting rights as common shares except for voting for the election and removal of directors of the Company. The restricted voting shares participate in dividends and liquidation events in the same manner as common shares. In terms of restrictions on transfer, no restricted voting shares shall be transferred to another party unless an offer to acquire common shares is concurrently made that is identical to the offer for the restricted voting shares in terms of price per share, percentage of outstanding shares to be transferred and in all other material respects.

As at December 31, 2015 and 2014 the Company had 21,998,304 and 21,695,321 common shares issued and outstanding, respectively.

As at December 31, 2015 and 2014 the Company had 10,095,027 and 362,401 Class A restricted voting shares issued and outstanding, respectively.

The movement in the Company's issued and outstanding share capital during the year is as follows:

	Common Shares	Class A Restricted Voting Shares	Amount
Balance, January 1, 2014	3,995,598	-	\$ 5,399,463
Shares issued for cash (i)	2,536,232	-	3,500,000
Conversion of convertible debt into common shares (ii)	3,494,085	-	9,272,126
Shares issued in Private Placement (iii)	2,092,050	-	5,000,000
Share issued in non-brokered Private Placement (iv)	549,372	-	1,312,998
Shares issued in Private Placement (v)	8,596,700	-	22,918,845
Share issued in non-brokered Private Placement (vi)	55,970	-	150,000
Exchange of common shares for restricted voting shares	(362,401)	362,401	-
Shares issued on merger as exchange (vii)	737,715	-	1,935,177
Transaction costs on issuance of shares	-	-	(2,463,108)
Balance, December 31, 2014	21,695,321	362,401	47,025,501
Exercise of options	37,959	-	70,261
Vesting of restricted share units	30,000	-	58,442
Refund of cost of issued shares in Private Placement (v)	-	-	3,494
Exchange of restricted voting shares for common shares	39,578	(39,578)	-
Shares issued in acquisition of Worldnow (viii)	195,446	9,772,204	13,388,640
Transaction costs on issuance of shares	-	-	(170,000)
Balance, December 31, 2015	21,998,304	10,095,027	\$ 60,376,338

- (i) In January 2014, SKP America, LLC. acquired 2,536,232 common shares for total gross proceeds of \$3,500,000. The Company incurred costs of \$34,400 in connection of this issue, which were recorded as a reduction in equity.

FRANKLY INC.

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15. Share capital: (continued)

(a) Authorized and issued share capital: (continued)

- (ii) In September 2014, the holder of the Company's convertible notes payable elected to convert \$5,053,581 of principal and accrued interest (Note 14(v)) into 2,643,087 common shares of the Company. The fair value of the financial liability portion of the notes converted was \$4,076,738 and the fair value of equity component of \$2,909,099 on conversion was reclassified into common shares.

In November 2014, the remaining principal and accrued interest of \$1,627,108 was converted into 850,998 common shares of the Company. The fair value of the financial liability portion of the instrument on that date was \$1,333,478 and the remaining fair value of equity component of \$952,811 was reclassified in its entirety into common shares. The total fair value of converted debt including interest was \$9,272,126, represented by financial liability of \$5,410,216 and fair value of equity component of \$3,861,910.

- (iii) In October 2014, JJR Frankly Holdco Limited Partnership acquired 2,092,050 common shares for total gross proceeds of \$5,000,000 less transaction costs of \$175,000.
- (iv) In October 2014, the Company completed two non-brokered private placements of 549,372 common shares for total gross proceeds of \$1,312,998.
- (v) In December 2014, the Company completed a private placement of 8,596,700 common shares of the Company for aggregate gross proceeds of CAD\$26,219,935 (U.S. \$22,918,845) at a price of CAD\$3.05 (U.S. \$2.67) per share. Agents in connection with the private placement (the "Agents") received a cash commission in the amount of \$1,375,131 together with 515,802 options, valued at \$336,265, to buy one common share of the Company for CAD\$3.05 per share for a period of eighteen months from the date of release of the proceeds from the private placement on December 23, 2014. The total net proceeds received from the proceeds on the private placement, net of agent fees, agent commission and other costs, amounted to CAD\$24,482,877 (U.S. \$20,665,137). In the year ended December 31, 2015, the Company recorded a refund of share issuance costs of \$3,494.
- (vi) In December 2014, the Company completed a non-brokered private placement of 55,970 common shares at a price of U.S. \$2.68 per share for gross proceeds of \$150,000.
- (vii) In connection with the Merger 737,715 common shares in WB III were exchanged for shares of the Company at a one to one ratio. The fair value of the exchanged shares was CAD\$2,250,031 (U.S. \$1,935,177).

FRANKLY INC.

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15. Share capital: (continued)

(a) Authorized and issued share capital: (continued)

- (viii) In connection with the acquisition of Worldnow, the Company issued \$20 million in Class A restricted voting shares. The number of restricted voting shares comprising the Share Consideration is 9,772,204, determined with reference to the volume-weighted average price of the common shares of the Company on the TSX-V for the five days prior to the date of the Purchase Agreement (being CAD\$2.6471; US\$2.0466). All of the securities composing the Share Consideration are subject to a lock-up agreement as further discussed at Note 7. For purposes of the purchase price allocation, the Share Consideration was reflected at fair value as of the Closing Date which amounted to \$15,523,058. As a result of the lock-up agreement, a discount for lack of marketability in the amount of \$2,444,882 was applied to arrive at the fair value of the restricted voting shares as of the Closing Date of \$13,078,176.

Further, in connection with the acquisition, the Company assumed a \$400,000 liability of Worldnow with Schwartz & Associates, which the Company satisfied by granting 195,446 common shares to Schwartz & Associates. The common shares were issued at a price of CAD\$2.6471 (US\$2.0466) per common share, being the volume-weighted average price of the common shares on the TSX-V for the five days prior to the date of the Purchase Agreement. For purposes of the purchase price allocation, this additional investment was reflected at fair value as of the Closing Date which amounted to \$310,464.

(b) Stock options:

Under the terms of the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for issuance under the Plan is 10 percent of the issued common shares on a rolling basis.

Options may be exercisable over periods of up to 10 years as determined by the Board of Directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval.

The following table reflects the continuity of stock options for the years ended December 31, 2015 and 2014 (all options are exercisable into one common share):

	Number of options	Weighted average exercise price	Weighted average grant-date fair value	Weighted average remaining contractual term
Options outstanding, December 31, 2013	348,943	0.45	0.35	9.68
Issued	705,500	2.41	0.69	2.60
Forfeited or expired	(57,736)	0.32	0.23	5.52
Options outstanding, December 31, 2014	996,707	1.84	0.59	4.37
Issued	1,850,979	2.20	1.27	9.22
Exercised	(37,959)	1.24	0.67	3.10
Forfeited or expired	(415,972)	2.10	1.21	7.86
Options outstanding, December 31, 2015	2,393,755 *	2.09	1.01	7.12

* Includes 515,802 options granted to the Company's Agent as a part of Agent's commission on completion of a private placement.

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15. Share capital: (continued)

(b) Stock options: (continued)

The weighted average share price at the time of the 37,959 options exercised during the year ended December 31, 2015 was \$2.50 per common share. As at December 31, 2015 of the total 2,393,755 options outstanding, 810,942 were vested and exercisable.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(i) During the years ended December 31, 2015 and 2014, the following stock options were granted to directors, officers and employees of the Company. The fair value of the options granted for the years ended December 31, 2015 and 2014 were estimated based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	Year ended	
	December 31, 2015	December 31, 2014
Number of options granted	1,850,979	91,338
Weighted average exercise price	\$ 2.20	\$ 1.61
Weighted average fair value per stock option granted	\$ 1.27	\$ 0.59
Number of options forfeited or expired	(415,972)	(57,736)
Weighted average exercise price forfeited or expired	\$ 2.10	\$ 0.32
Weighted average fair value per stock option forfeited or expired	\$ 1.21	\$ 0.23
Number of options exercised	(37,959)	-
Weighted average exercise price of options exercised	\$ 1.24	\$ -
Weighted average fair value per stock option of option exercised	\$ 0.67	\$ -
Dividend yield	0%	0%
Risk-free interest rate	0.65%~1.25%	1.38%~2.06%
Volatility	63.96%~68.01%	34.34%~40.49%
Expected term in years	5~6.25	5~6.25

(ii) In December 23, 2014, as the part of Agent's commission on completion of the private placement, the Company issued 515,802 agent compensation options, which entitle the holder to acquire one common share upon payment of CAD \$3.05 (U.S. \$2.67) for a period of eighteen months. These compensation options vested immediately. The estimated fair value of the compensation options of \$336,265 was calculated using the Black-Scholes option pricing model with the following assumptions: (i) expected option life of eighteen months; (ii) risk free interest rate of 1.88%; (iii) dividend yield of nil; (iv) expected volatility of 48.1%. These are highly subjective assumptions and any changes in the subjective input assumptions can materially affect the fair value estimate.

FRANKLY INC.

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15. Share capital: (continued)

(b) Stock options: (continued)

(iii) As a part of the Merger (Note 6), the Company reissued stock options to option holders of WB III. The estimated fair values of the 98,360 options re-issued to option holders of WB III were calculated using the Black-Scholes option pricing model with the following assumptions:

(a) 73,770 options: (i) expected option life of one year; (ii) risk free interest rate of 1.88%; (iii) dividend yield of nil; (iv) expected volatility of 48.1% determined based on historical rates.

(b) 24,590 options: (i) expected option life of five years; (ii) risk free interest rate of 1.88%; (iii) dividend yield of nil; (iv) expected volatility of 48.1% determined based on historical rates.

(c) Restricted share units:

On April 1, 2015, the Company adopted an amended and restated equity incentive plan, which amends and restates the equity incentive plan which was previously established as of December 23, 2014.

The restated plan allows the Company to award restricted share units to officers, employees, directors and consultants of Frankly and its subsidiaries upon such conditions as the board may establish, including the attainment of performance goals recommended by the Company's compensation committee. The purchase price for common shares of the company issuable under each Restricted Share Unit ("RSU") award, if any, shall be established by the board at its discretion. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, conditions, restrictions, time periods or performance goals established by the board.

The maximum aggregate number of shares that may be issued under the restated plan pursuant to the exercise of RSUs shall not exceed 2,205,772 shares. As previously contemplated pursuant to the equity incentive plan, the maximum number of common shares of Frankly which may be reserved and set aside for issuance upon the grant or exercise of option awards under the restated plan is 10 percent of Frankly's common shares issued and outstanding from time to time on a non-diluted basis.

In connection with the extension of the CEO's employment agreement, the Company granted an aggregate of 247,676 RSUs in 2015, which are subject to the following vesting conditions, provided that the CEO is still employed on the applicable vesting date: (1) all unvested RSUs will vest and the shares underlying the RSUs shall be immediately issued on a date that is seven years from February 1, 2015; and (2) until December 31, 2017, the RSUs will vest in accordance with a number of non-market performance-based vesting conditions.

FRANKLY INC.

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15. Share capital: (continued)

(c) Restricted share units: (continued)

In addition, to compensate its two independent directors for their time and expenses in connection with the fulfilment of their duties as directors of the Company, the Company granted the total of 30,000 RSUs in 2015 to its independent directors, which vest upon the anniversary of their election to the board.

The fair value of RSUs granted was estimated based on a closing price of CAD\$2.70 (or USD \$2.14) common shares on a date of issuance of RSU April 1, 2015, being CAD \$749,725 which is being amortized over the vesting period.

In November 2015, the Company granted a total of 360,360 RSUs to compensate two key employees, which vest 25% per annum over four years from the date of grant.

The Company's outstanding RSUs are as follows:

	Number of RSUs
Balance, January 1, 2015	-
Granted during the year	638,036
Cancelled during the year	-
Vested during the year	(30,000)
Balance, December 31, 2015	608,036

16. Capital management:

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of issued common shares, contributed surplus, accumulated other comprehensive loss and deficit in the definition of capital. The Company may adjust the amount of dividends paid to stockholders, return capital to stockholders, issue new shares or debt instruments or sell assets to reduce debt. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

As at December 31, 2015, managed capital was \$28,501,048 (2014 - \$27,119,295). Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2015. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

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17. Financial risk management:

Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Top management frequently meets to discuss early identification of those risks, if any, monitors its compliance with the policies and procedures and documents their follow-up.

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(a) Credit risk:

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss to the Company. The Company is exposed to credit risk from its operating activities (primarily from accounts receivable) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk relates to cash, cash equivalents and accounts receivable, and arises from the possibility that any counterparty to an instrument fails to perform. The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors. As at December 31, 2015 and 2014, the Company's maximum exposure to credit risk was the carrying value of cash and accounts receivable.

Accounts receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The allowance for doubtful accounts was \$57,723 and \$Nil as at December 31, 2015 and 2014, respectively.

FRANKLY INC.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014

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17. Financial risk management: (continued)

(a) Credit risk: (continued)

Accounts receivable: (continued)

The Company's accounts receivable are concentrated among customers in the media and broadcasting industry, which may be affected by adverse economic factors impacting that industry. The Company performs ongoing credit evaluations of its major customers, maintains reserves for potential credit losses, and does not require any collateral deposits. As at December 31, 2015, two customers each accounted for greater than 10% of the Company's accounts receivable balance. In total, these two customers accounted for 36% of the Company's accounts receivable balance as at December 31, 2015.

Financial instruments and cash deposits:

Credit risk from balances with banks and financial institutions is managed by the Company's treasury function in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counter party.

(b) Liquidity risk:

The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet purchase commitments and to sustain operations. The Company controls its liquidity risk by managing working capital and cash flows. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2015, the Company had a cash and accounts receivable balance of \$10,668,274 (2014 - \$28,851,867) to settle current financial liabilities of \$19,363,266, excluding deferred revenue and revolving credit facility, (2014 - \$2,042,599). All of the Company's financial liabilities, excluding non-current portion of capital leases, have contractual maturities of less than 12 months. Reference Note 1 for further discussion on liquidity risk.

Management believes that cash on hand, cash to be generated from operations, and cash available under the Credit Facility (Note 13) will be sufficient to meet the Company's needs. However, circumstances such as the ability to raise additional financing, the loss of significant customers or deterioration in the economy, particularly in the media and advertising industries, could cause these sources of cash and liquidity to be insufficient. Additionally, the terms of the Company's credit facility require that all cash receipts be used to reduce any outstanding balance on the revolving credit facility and, in the event of a default, any other credit facility obligation. Any additional borrowings under the credit facility, such as those necessary to fund cash disbursements, are subject to the lender determining whether a material adverse change has occurred.

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Notes to the Consolidated Financial Statements
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17. Financial risk management: (continued)

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign exchange rates:

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's transactions with parties located outside the United States of America, including the Canadian head office and Korean liaison office of the Company. The following table provides the impact on the net assets given a change in the indicated foreign exchange rates:

	CAD denominated (in USD)		KRW denominated (in USD)		Total (in USD)
Cash	\$	22,583	\$	8,109	\$ 30,692
Accounts receivable		-		9,609	9,609
Prepaid expenses and other current assets		184,862		-	184,862
		207,445		17,718	225,163
Accounts payable and accrued liabilities		(173,954)		-	(173,954)
Net assets exposure	\$	33,491	\$	17,718	\$ 51,209

Based on the above net exposures as at December 31, 2015, a 10% depreciation or appreciation of the above currencies against the U.S. dollar would result in an increase or decrease, respectively, in the net assets by \$5,121 (2014 - \$6,383). Management believes the carrying values of the financial assets and liabilities listed above approximate their fair values due to their short term nature.

Interest rates:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The revolving credit facility which bears interest at floating rates is subject to interest rate cash flow risk resulting from market fluctuations in interest rates. Promissory notes bear interest at a fixed rate of interest, and as such are subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates. A 1% increase or decrease in the interest rate related to the revolving credit facility would result in an increase or decrease in annual interest expense of approximately \$19,500 based on amount due as at December 31, 2015 of \$1,950,000.

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17. Financial risk management: (continued)

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company's objective is to manage these operational risks so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

18. Loss per share:

Loss per share has been calculated using the weighted average number of common shares and common share equivalents issued and outstanding during the year. At December 31, 2015 and 2014, there is no effect of potentially dilutive securities. All options and RSUs outstanding were excluded from the diluted weighted average number of shares calculated as their effect would have been anti-dilutive.

The following table details the weighted average number of outstanding common shares for the purpose of computing basic and diluted earnings per common share for the following years:

	Year ended	
	December 31, 2015	December 31, 2014
Net loss for the year	\$ (12,902,588)	\$ (16,615,912)
Basic weighted average shares outstanding	25,574,673	8,277,570
Diluted weighted average shares outstanding	25,574,673	8,277,570
Basic and diluted loss per share	\$ (0.50)	\$ (2.01)

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19. Income taxes:

(a) Reconciliation of effective tax rate:

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% to the Company's effective tax rate is as follows:

	Year ended	
	December 31, 2015	December 31, 2014
Loss before income taxes	\$ (12,879,343)	\$ (16,615,112)
Canadian statutory income tax rate	26.50%	26.50%
Expected income tax recovery based		
on loss before income taxes	\$ (3,413,026)	\$ (4,403,217)
Foreign tax rate differential	(1,395,132)	(1,089,917)
Loss on convertible debt	-	1,115,409
Non-deductible transaction costs	337,041	522,446
Change in deferred tax assets not recognized	3,834,969	3,507,666
Permanent and other differences	659,393	348,413
Income tax expense	\$ 23,245	\$ 800

(b) Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

	December 31, 2015	December 31, 2014
Property & equipment	\$ 24,771	\$ 1,882
Intangible assets	(153,628)	-
Other	12,698	15,103
Tax losses	10,697,178	6,729,065
Total	\$ 10,581,019	\$ 6,746,050

The Company has non-capital losses of approximately \$27,211,119 as at December 31, 2015 to apply against future taxable income. If not utilized, the non-capital losses will expire from 2032 to 2035.

The potential tax benefit relating to these losses has not been reflected in these consolidated financial statements. Utilization of certain foreign net operating loss carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

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Notes to the Consolidated Financial Statements
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19. Income taxes: (continued)

(b) Unrecognized deferred tax assets: (continued)

Frankly Co. files its California franchise tax return with its affiliates on the water's edge combined basis. However, for financial reporting purposes, the California franchise tax is provided on the separate return method that allocates current and deferred taxes to members of the group as if it were a separate taxpayer.

Due to the Company's non-capital losses ("NOL") carryforward position, all loss tax years remain open for audit pending the application of the NOL carryforwards against income in a subsequent tax year. In general, the statute of limitations expires within three years (four years for California) from the date when a company files a tax return utilizing prior year NOL carryforwards against current income for tax purposes. The state income tax statute would generally follow the federal provision in this regard. Therefore, all tax years remain open for audit.

Based on the assessment, the Company believes that it does not have any material uncertain tax positions or unrecorded tax benefits, which, if recognized, would affect the effective tax rates for the years ended December 31, 2015 and 2014.

20. Capital leases:

The Company is party to various computer-related equipment leases that qualify as capital lease obligations. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized asset and a related capital lease obligation in the accompanying statements of financial position. The net carrying value of assets held under capital lease was \$568,594 as of December 31, 2015 (2014 – \$Nil). Future minimum capital lease payments as at December 31, 2015 and 2014 are payable as follows:

	December 31, 2015	December 31, 2014
Future payments		
Within one year	\$ 210,084	\$ -
After one year but not more than five years	213,966	-
Thereafter	-	-
Total	424,050	-
Amount representing interest	(20,027)	-
Present value of minimum lease payments	404,023	-
Less current portion	(195,940)	-
Total noncurrent portion	\$ 208,083	\$ -

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21. Commitments and contingencies:

- (a) The Company is obligated under several non-cancellable operating leases for office space, expiring in 2017 - 2023. The future aggregate minimum lease payments under these non-cancellable operating leases are as follows:

	December 31, 2015	December 31, 2014
Future payments		
Within one year	\$ 1,668,446	\$ 161,850
After one year but not more than five years	4,714,683	213,150
Thereafter	1,847,968	-
Total	\$ 8,231,097	\$ 375,000

- (b) On May 19, 2014, an individual filed a punitive class action complaint against Frankly Co. (then named TicToc Planet, Inc.) in the U.S. District Court for the Northern District of California. The plaintiff asserted a single cause of action against the Company for violation of the Telephone Consumer Protection Act ("TCPA"). The complaint alleged that the Company violated the TCPA when it enabled users of its Frankly messaging service to send short message service ("SMS") text message invitations to the users' friends and other contacts via a short code assigned to the Company. The complaint alleged that the Company was the sender of those messages, and that the messages violated the TCPA, because the recipients had not given prior express consent to receive SMS messages. The plaintiff sought to represent a putative nationwide class of persons who allegedly received SMS message invitations from a short code assigned to the Company, and the plaintiff seeks actual or statutory damages in the amount of \$500 per message.

On June 13, 2014, the Company filed a motion to dismiss the complaint for failure to state a claim, on the ground that the complaint does not sufficiently allege that the Company sent plaintiff any SMS message using an automated telephone dialing system - that is, a system with the present capacity to store or produce, and dial, numbers generated by a random or sequential number generator. In the alternative, the Company asked the court to stay the action pending rulings by the Federal Communications Commission (FCC) on four pending petitions for declaratory rulings concerning the interpretation of the TCPA. The court denied the Company's motion on March 11, 2015, and the Company answered the complaint on March 26, 2015.

On August 18, 2015, the parties reached a settlement agreement, the terms of which are confidential. The parties filed a joint stipulation to dismiss the case on August 21, 2015.

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22. Employee benefit plan:

The Company's subsidiary, Frankly Co., has a 401(k) plan (the "Plan"), which covers all eligible employees. Under the Plan, employees may contribute from their gross salaries on a before tax basis up to annual statutory limitation determined each year. The Company's matching contributions amounted to \$21,224 and \$12,429 for the years ended December 31, 2015 and 2014, respectively.

23. Subsequent events:

The Company has evaluated subsequent events from the balance sheet date through April 26, 2016, the date at which the financial statements were available to be issued, and determined there were no additional items to be disclosed.