Unaudited Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars)

FRANKLY INC. AND SUBSIDIARIES

For the three and six months ended June 30, 2016 and 2017

Frankly Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	December 31, 2016	June 30, 2017
Assets		(Unaudited)
Current Assets		
Cash and cash equivalents	$ 6,053,203	$ 3,443,359
Restricted cash	634,115	634,115
Accounts receivable, net	3,242,866	3,204,676
Prepaid expenses and other current assets	650,898	1,397,508
Total Current Assets	**10,581,082**	**8,679,658**
Property & equipment, net	1,481,328	1,243,252
Software development costs, net	6,710,494	6,828,332
Intangible assets, net	7,635,552	7,198,884
Goodwill	6,546,581	6,546,581
Other assets	308,604	221,800
Total Assets	**$ 33,263,641**	**$ 30,718,507**
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable	$ 4,687,581	$ 4,286,960
Accrued expenses	1,367,040	1,184,477
Revolving credit facility	1,375,474	1,319,249
Capital leases, current portion	167,635	120,042
Deferred revenue	21,702	100,978
Due to related parties	2,561,572	3,790,726
Total Current Liabilities	**10,181,004**	**10,802,432**
Non-revolving credit facility, net	11,630,384	11,863,718
Capital leases, non-current portion	40,449	-
Deferred rent	42,827	39,355
Other liabilities	64,766	100,450
Total Liabilities	**21,959,430**	**22,805,955**
Commitments and Contingencies (Note 9 and 10)		
Shareholder's Equity		
Common shares, no par value, unlimited shares authorized, 2,030,800 and 2,139,392 shares outstanding as of December 31, 2016 and June 30, 2017, respectively	-	-
Class A restricted voting shares, no par value, unlimited shares authorized, 97,674 and 0 shares outstanding as of December 31, 2016 and June 30, 2017, respectively	-	-
Additional paid-in capital	64,986,368	65,498,540
Accumulated deficit	(53,642,691)	(57,550,619)
Accumulated other comprehensive loss	(39,466)	(35,369)
Total Shareholder's Equity	**11,304,211**	**7,912,552**
Total Liabilities and Shareholder's Equity	**$ 33,263,641**	**$ 30,718,507**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Operations and Comprehensive Loss – Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2017	2016	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total Revenue	**$ 5,247,618**	**$ 6,493,627**	**$ 10,467,888**	**$ 12,852,781**
Costs and operating expenses:				
Cost of revenue (excluding depreciation and amortization)	1,627,060	3,074,274	3,084,499	5,834,688
General and administrative (excluding depreciation and amortization)	2,290,781	2,237,874	4,382,769	4,130,857
Selling and marketing	824,199	743,107	1,628,866	1,406,791
Research and development (excluding depreciation and amortization)	924,794	1,100,528	2,056,798	1,948,943
Depreciation and amortization	803,763	1,092,626	1,599,019	2,159,357
Loss on disposal of assets	-	-	1,093	-
Other expense	-	-	341,212	27,017
Loss from operations	**(1,222,979)**	**(1,754,782)**	**(2,626,368)**	**(2,654,872)**
Foreign exchange (gain) loss	(867)	2,384	2,655	(4,092)
Interest expense, net	220,838	646,943	441,774	1,257,148
Loss before income tax expense	**(1,442,950)**	**(2,404,109)**	**(3,070,797)**	**(3,907,928)**
Income tax expense	-	-	-	-
Net Loss	**$ (1,442,950)**	**$ (2,404,109)**	**$ (3,070,797)**	**$ (3,907,928)**
Other Comprehensive Net (Loss) Income				
Foreign currency translation	(601)	7,973	2,287	4,097
Comprehensive Net Loss	**$ (1,443,551)**	**$ (2,396,136)**	**$ (3,068,510)**	**$ (3,903,831)**
Basic and Diluted Net Loss Per Share	**$ (0.76)**	**$ (1.13)**	**$ (1.63)**	**$ (1.83)**
Basic and Diluted Weighted-Average Common and Class A Restricted Voting Shares Outstanding	**1,887,843**	**2,133,512**	**1,887,843**	**2,131,499**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Shareholders' Equity – Unaudited

	Common Shares	Class A Restricted Voting Shares	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2015	**1,294,018**	**593,826**	**59,462,420**	**(42,931,749)**	**(30,623)**	**$ 16,500,048**
Stock-based compensation	-	-	583,569	-	-	583,569
Net loss	-	-	-	(3,070,797)	-	(3,070,797)
Other comprehensive loss	-	-	-	-	2,287	2,287
Balance, June 30, 2016	**1,294,018**	**593,826**	**$60,045,989**	**$ (46,002,546)**	**$ (28,336)**	**$ 14,015,107**
Balance, December 31, 2016	**2,030,800**	**97,674**	**$64,986,368**	**$ (53,642,691)**	**$ (39,466)**	**$ 11,304,211**
Vesting of restricted share units	10,918	-	-	-	-	-
Exchange of restricted voting shares for common shares	97,674	(97,674)	-	-	-	-
Stock-based compensation	-	-	512,172	-	-	512,172
Net loss	-	-	-	(3,907,928)	-	(3,907,928)
Other comprehensive loss	-	-	-	-	4,097	4,097
Balance, June 30, 2017	**2,139,392**	**-**	**$65,498,540**	**$ (57,550,619)**	**$ (35,369)**	**$ 7,912,552**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Cash Flows – Unaudited

	Six Months Ended June 30, 2016 (Unaudited)	Six Months Ended June 30, 2017 (Unaudited)
Cash flows from operating activities		
Net loss	**$ (3,070,797)**	**$ (3,907,928)**
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	1,599,019	2,159,357
Amortization of debt discount	-	272,962
Amortization of deferred financing costs	-	63,837
Stock-based compensation expense	583,569	512,172
Loss on disposal of assets	1,093	-
Other non-cash asset writeoff	178,147	-
Changes in assets and liabilities:		
Accounts receivable	163,567	38,189
Prepaid expenses and other current assets	183,424	(774,550)
Other assets	101,597	86,803
Accounts payable	419,861	(415,802)
Accrued expenses	(942,355)	(185,906)
Deferred revenue	50,475	79,276
Due to / from related parties	(25,452)	1,229,154
Deferred rent and other liabilities	39,428	32,212
Net cash used in operating activities	**(718,424)**	**(810,224)**
Cash flows from investing activities		
Capitalized software costs	(2,371,596)	(1,533,192)
Purchases of property & equipment	(32,019)	(69,257)
Proceeds from sale of intangible assets or equipment	2,111	-
Net cash used in investing activities	**(2,401,504)**	**(1,602,449)**
Cash flows from financing activities		
Revolving credit facility payments	-	(56,225)
Capital lease payments	(99,860)	(88,041)
Debt issuance costs	-	(64,615)
Net cash used in financing activities	**(99,860)**	**(208,881)**
Effect of exchange rate changes on cash	(2,126)	11,710
Net change in cash and cash equivalents	**(3,221,914)**	**(2,609,844)**
Cash and cash equivalents at beginning of period	7,554,128	6,053,203
Cash and cash equivalents at end of period	**$ 4,332,214**	**$ 3,443,359**
Supplemental cash flow disclosure		
Cash paid for interest	$ 442,018	$ 645,130
Cash paid for income taxes	$ -	$ -

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements – Unaudited

1. Description of Business and Going Concern

Organization

Frankly Inc. ("Frankly"), has been operating since the incorporation of its predecessor, TicToc Planet Inc. ("TicToc"), on September 10, 2012. These consolidated financial statements include Frankly and its subsidiaries (Frankly Co. and Frankly Media LLC), together referred to as the "Company."

On December 23, 2014, WB III, a Canadian public shell company traded on the Toronto Stock Exchange, completed a merger with TicToc whereby WB III Subco Inc., a wholly-owned subsidiary of the WB III, merged with TicToc. The transaction, referred to as the "Recapitalization", was structured as a reverse triangular merger under the Delaware General Corporation Law, which resulted in TicToc becoming a wholly-owned Canadian subsidiary of WB III. Subsequent to the completion of the Recapitalization, WB III changed its name to Frankly Inc. and TicToc changed its name to Frankly Co.

As described in Note 3, on August 25, 2015, the Company completed the purchase of the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow, in a transaction referred to as the acquisition of Worldnow. Subsequent to the acquisition, Worldnow changed its name to Frankly Media LLC.

On February 3, 2017, the Company effected a one-for-seventeen reverse split (the "Reverse Stock Split") of its issued and outstanding common shares and Class A restricted voting shares. All warrant, option, RSU, share and per share information in the consolidated financial statements gives retroactive effect to the Reverse Stock Split for all periods presented.

Going Concern

These consolidated financial statements have been prepared on the assumption 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.

As of June 30, 2017, the Company has an accumulated deficit of $57.6 million, representative of recurring losses since inception. Additionally, the Company had not generated positive cash flow from operations since inception, except in 2016. In the first half of 2017, the Company used cash in operations, and in the third quarter of 2017 paid off its revolving credit facility with Silicon Valley Bank (Note 10). The Company will need additional financing in the near term to continue operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

As discussed in Note 10, the Company has postponed its initial public offering on NASDAQ. Therefore, the Company is seeking financing from other sources. However, there can be no assurances that the Company will be able to raise additional cash needed to finance operations. 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.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The unaudited interim condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and include the accounts of Frankly Inc. and its wholly-owned subsidiaries Frankly Co. and Frankly Media LLC. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. These unaudited interim condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period.

The accompanying condensed consolidated balance sheet as of December 31, 2016 was derived from the audited financial statements as of that date, but does not include all the information and footnotes required by U.S. GAAP. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report for the year ended December 31, 2016, included within its Form 10 as filed with the SEC on August 7, 2017.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Concentrations of Risk

Accounts receivable are subject to credit risk and as of December 31, 2016 and June 30, 2017, two customers each accounted for greater than 10% of the Company's accounts receivable balance. In total, these two customers accounted for 26% and 54% of the Company's accounts receivable balance as of December 31, 2016 and June 30, 2017, respectively. Additionally, approximately 32% and 37% of the Company's revenue for the six months ended June 30, 2016 and 2017 was generated from customers that accounted for greater than 10% of the Company's total revenue.

Recently Issued Accounting Pronouncements

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) — In May 2014, the FASB issued ASU 2014-09 that will replace most existing revenue recognition guidance in GAAP. In July 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. In March, April and May 2016, the FASB issued additional amendments to the technical guidance of Topic 606. Topic 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will be effective for the Company in 2018 (unless we choose to delay until 2019 as permitted under our election as an EGC). The Company is evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures. The Company expects to utilize the modified retrospective transition method of adoption.

ASU 2015-17: Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes — In November 2015, the FASB issued ASU 2015-17 to simplify the presentation of deferred taxes in the balance sheet. Current guidance requires an entity to separate deferred income tax assets and liabilities into current and noncurrent amounts. The new guidance requires all deferred tax assets and liabilities to be presented as noncurrent. ASU 2015-17 was adopted in 2017 and did not have a significant impact on the consolidated financial statements.

ASU 2016-02: Leases (Topic 842) — In February 2016, the FASB issued ASU 2016-02, which requires a lessee to recognize assets and liabilities on its consolidated balance sheet for leases with accounting lease terms of more than 12 months. ASU 2016-02 will replace most existing lease accounting guidance in GAAP when it becomes effective. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. ASU 2016-02 will be effective for the Company in 2019 and requires the modified retrospective method of adoption. Early adoption is permitted. Although the Company is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

ASU 2016-09: Compensation – Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting — In March 2016, the FASB issued ASU 2016-09, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences and classification on the statement of cash flows. ASU 2016-09 was adopted in 2017 and did not have a significant impact on the consolidated financial statements.

3. Acquisition of Worldnow

On July 28, 2015, the Company signed an agreement (the "Purchase Agreement") to purchase all of the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow, for total consideration of $45,000,000. 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. The acquisition of Worldnow was made primarily to extend the reach of Frankly to Worldnow's existing customer base within the local broadcast marketplace.

Under the terms of the Purchase Agreement, the Company paid $10,000,000 in cash, issued $20,000,000 in Class A restricted voting shares of the Company (the "Share Consideration") and executed promissory notes to two shareholders of Worldnow bearing simple interest at a rate of 5 percent per year and agreed to pay $15,000,000 on August 31, 2016 (See Note 6 and Note 10). The number of restricted voting shares comprising the Share Consideration was 574,836, 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 (CDN$45.46 or $34.79). 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 comprising 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 expired August 25, 2016; and the lock-up period with respect to the remainder of the Share Consideration will expire upon August 25, 2017. The lock-up periods are subject to earlier expiry upon the occurrence of certain events that constitute a change of control of the Company.

4. Related Party Transactions and Balances

The Company has several significant shareholders as follows: SKP America LLC ("SKP America"), Raycom Media Inc. ("Raycom"), and Gannaway Entertainment Inc. ("GEI") who each owned approximately 25.6%, 25.7% and 8.3%, respectively, as of both December 31, 2016 and June 30, 2017 of the aggregate Common Shares and Class A restricted voting shares.

The following table summarizes related party balances in the condensed consolidated balance sheets for the periods presented:

Amounts Due (to) from Related Parties	**December 31, 2016**	**June 30, 2017**
		(Unaudited)
Non-revolving credit facility, net		
Raycom	$ (11,630,384)	$ (11,863,718)
Due (to) from Raycom:		
Accounts receivable, net	295,231	2,008,333
Prepaid expenses and other current assets	70,000	(156,041)
Accounts payable	(159,385)	(227,766)
Deferred revenue	(2,896,585)	(5,486,085)
Total due to Raycom	(2,690,739)	(3,861,559)
Due from Mobdub:		
Prepaid expenses and other current assets	129,167	70,833
Total due from Mobdub	129,167	70,833
Total due (to) from related parties	$ (2,561,572)	$ (3,790,726)

The following table summarizes related party transactions in the condensed consolidated statements of operations and comprehensive loss for the periods presented:

Revenue (Expense) from Related Parties	**Three Months Ended June 30, 2016**	**Three Months Ended June 30, 2017**	**Six Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Raycom:				
Revenue	$ 1,264,015	$ 1,285,469	$ 2,554,751	$ 2,647,353
Interest on promissory notes	(50,000)	-	(100,000)	-
Interest on non-revolving credit facility	-	(506,911)	-	(1,016,991)
Interest on the Raycom Advance	-	(98,043)	-	(156,041)
	1,214,015	680,515	2,454,751	1,474,321
GEI:				
Interest on promissory notes	(137,500)	-	(275,000)	-
Mobdub:				
License fees	(38,065)	(29,166)	(73,098)	(58,333)
	(38,065)	(29,166)	(73,098)	(58,333)
	$ 1,038,450	$ 651,349	$ 2,106,653	$ 1,415,988

Raycom

As partial consideration for the acquisition of Worldnow on August 25, 2015, the Company issued a $4,000,000 promissory note to Raycom and 397,126 Class A restricted voting shares (Note 3). The note bears interest at 5% per annum and was due on August 31, 2016 (Note 6). Raycom was a customer and significant shareholder of Worldnow and, subsequent to the acquisition of Worldnow, remains a customer and significant shareholder of Frankly. Accordingly, during the three and six months ended June 30, 2016 and 2017, revenue-related transactions and balances with Raycom arose in the ordinary course of business.

On September 1, 2016, the Company completed the closing of its financing with Raycom Media Inc (Note 6). The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit (collectively, the "Loan"). The proceeds were used to pay down $14 million of the $15 million outstanding promissory notes. In addition, Raycom converted the remaining $1.0 million of its existing $4.0 million promissory note from the Company into 150,200 common shares of the Company and the Company issued 871,160 common stock purchase warrants to Raycom. The Loan was recorded at fair value of $11,578,593 with the remaining $2,921,407 being allocated to the warrants. The carrying value of the Loan at December 31, 2016 and June 30, 2017, net of debt discount and deferred financing costs, was $11,630,384 and $11,863,718. Interest expense on the Loan amounted to $506,911 and $1,016,991 for the three and six months ended June 30, 2017, respectively, and is presented within interest expense, net on the consolidated statements of operations and comprehensive loss.

On December 22, 2016, Raycom pre-paid $3 million of future fees for services to be provided by the Company (the "Advance Agreement"). On March 30, 2017, the Company entered into an amendment to the Advance Agreement pursuant to which Raycom pre-paid an additional $2 million of future fees for services to be provided by the Company. In connection with this agreement, the Company recognized interest expense of $98,043 and $156,041 for the three and six months ended June 30, 2017, respectively.

GEI

As partial consideration for the acquisition of Worldnow on August 25, 2015, the Company issued an $11,000,000 promissory note to GEI and 177,710 Class A restricted voting shares (Note 3). The note had interest at 5% per annum and was due on August 31, 2016 (Note 6, Note 10). On September 1, 2016, the promissory note to GEI was paid in full using the proceeds from the Raycom financing transaction discussed above.

Mobdub

The Company has a license agreement with a company that is owned by an officer of the Company. The agreement is for licensing of mobile applications and has a total contract value of $350,000. The period of the agreement is three years and commenced on October 14, 2015.

5. Long-Lived Assets

All of the Company's long-lived assets are domiciled in the U.S. Depreciation and amortization expense for long-lived assets was as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2017**	**2016**	**2017**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation of property and equipment	$ 176,724	$ 152,486	$ 367,763	$ 307,335
Amortization of capitalized software	408,705	721,806	794,588	1,415,354
Amortization of other intangibles	218,334	218,334	436,668	436,668
Total depreciation and amortization	$ 803,763	$ 1,092,626	$ 1,599,019	$ 2,159,357

Property and Equipment, Net

The following table summarizes property and equipment, net, including assets held under capital lease:

	December 31, 2016	June 30, 2017
		(Unaudited)
Cost:		
Office and computer equipment and software	$ 1,981,889	$ 2,025,950
Leasehold improvements	578,781	603,978
	2,560,670	2,629,928
Accumulated depreciation and amortization:		
Office and computer equipment and software	(926,901)	(1,177,909)
Leasehold improvements	(152,441)	(208,767)
	(1,079,342)	(1,386,676)
	$ 1,481,328	$ 1,243,252

Depreciation expense for assets held under capital lease was $41,062, $82,124, $35,950 and $71,900, for the three and six months ended June 30, 2016 and 2017, respectively. The net carrying value of assets held under capital lease was $404,346 and $332,446 as of December 31, 2016 and June 30, 2017, respectively (Note 9).

Software Development Costs, Net

The following table summarizes software development costs, net for the periods presented:

	December 31, 2016	June 30, 2017 (Unaudited)
Cost	$ 9,001,660	$ 10,534,852
Accumulated amortization	(2,291,166)	(3,706,520)
	$ 6,710,494	$ 6,828,332

During the six months ended June 30, 2016 and 2017, the Company capitalized software development costs of $2,371,596 and $1,533,192, respectively.

Goodwill

The following table summarizes the changes in goodwill for the periods presented:

	Carrying Value
Balance, December 31, 2015	$ 10,755,581
Impairment	(4,209,000)
Balance, December 31, 2016	$ 6,546,581
Activity	-
Balance, June 30, 2017 (Unaudited)	$ 6,546,581

Other Intangible Assets, Net

The following table summarizes intangible assets, net for the periods presented:

	December 31, 2016	June 30, 2017 (Unaudited)
Cost:		
Broadcast relationships, 12-year useful life	$ 7,600,000	$ 7,600,000
Advertiser relationships, 5-year useful life	1,200,000	1,200,000
	8,800,000	8,800,000
Accumulated amortization:		
Broadcast relationships	(844,448)	(1,161,116)
Advertiser relationships	(320,000)	(440,000)
	(1,164,448)	(1,601,116)
	$ 7,635,552	$ 7,198,884

6. Debt

Non-revolving Credit Facility, Extinguishment of Promissory Notes and Old Revolving Credit Facility

On September 1, 2016, the Company completed the closing of its financing with Raycom, a related party (Note 4). The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit (collectively, the "Loan"). In addition, Raycom converted $1.0 million of its existing $4.0 million promissory note from the Company into 150,200 common shares of the Company and the Company issued 871,160 warrants to Raycom entitling the holder of each warrant to acquire one common share of the Company upon exercise of each warrant at a price per common share equal to CDN$8.50 ($6.63 based on the exchange rate at August 18, 2016). The warrants will expire on the earlier of: (i) the repayment of the Loan in accordance with its terms; and (ii) 5 years. To the extent that there is a mandatory repayment of any portion of the principal balance of the Loan, a proportionate number of the warrants will have their term reduced to the later of one year from issuance and 30 days from the date of such repayment.

The warrants were recorded within shareholders' equity in accordance with ASC 470-20 - *Debt With Conversion and Other Options*. Proceeds from the sale of the debt instrument with stock purchase warrants (detachable call options) were allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The value allocated to the Loan with Raycom was $11,578,593 with the remaining $2,921,407 being allocated to the warrants. The fair value of the 871,160 warrants issued were estimated based on the Black-Scholes pricing model, using the following assumptions: 1) Dividend yield of 0%, 2) Risk free rate of 0.66% for 751,000 warrants and 0.56% for 120,160 warrants, 3) Volatility of 71.14%, 4) Expected term of 5 years for 751,000 warrants and 7 months for 120,160 warrants, and 5) Forfeiture rate of 0%.

The debt discount of $2,921,407 is being amortized to interest expense, net on the consolidated statement of operations and comprehensive loss using the effective-interest method. Amortization of debt discount included in interest expense, net for the three and six months ended June 30, 2017 amounted to $127,526 and $272,962, respectively. In accordance with ASC 470-50 *Debt Modifications and Extinguishments*, the Company accounted for the refinancing transaction as an extinguishment of debt. The Company incurred legal fees directly related to the refinancing of $206,805, which were recorded as deferred financing costs and recorded against the carrying value of the Loan. Amortization of deferred financing costs included in interest expense, net for the three and six months ended June 30, 2017 amounted to $17,879 and $24,988, respectively.

Prior to the completion of the financing arrangements, Raycom held 397,125 voting shares of the Company, which represented approximately 21% of the issued and outstanding voting shares of the Company. Immediately following the completion of the financing transactions, Raycom held 547,325 voting shares of the Company and 871,160 warrants, which collectively represents approximately 27% of the issued and outstanding voting shares of the Company on a non-diluted basis.

The proceeds of the Loan were used to pay off the outstanding $15.0 million of promissory notes issued by the Company in connection with the 2015 acquisition of Worldnow, including $3.0 million of the $4.0 million of such notes issued to Raycom, with the remaining $1.0 million promissory note balance owed to Raycom being converted to common shares of the Company as described above.

The Loan has a five-year term and is secured by the grant of a security interest in the Company's assets, a pledge of shares of the Company's subsidiaries and a guarantee by the Company's subsidiaries secured by their assets. Simultaneously, the Company and Raycom also entered into a software code escrow agreement.

Interest on outstanding balances of the Loan will accrue at a rate of 10% per annum, with a default interest rate of 12% per annum. The Loan is subject to certain scheduled mandatory principal repayments, with additional mandatory repayments occurring upon the Company's raising of additional financing, sales of assets and excess cash flow.

Raycom Conversion

The Company entered into a Securities Purchase Agreement with Raycom (the "Raycom Agreement") dated June 26, 2017, pursuant to which it has agreed to issue to Raycom common shares and warrants in exchange for the reduction of US$7,000,000 principal amount of indebtedness due to Raycom pursuant to the Loan and the associated promissory note. As a result of the transactions contemplated by the Raycom Agreement, the principal amount due to Raycom will reduce from US$14,500,000 to US$7,500,000.

Pursuant to the Raycom Agreement, Raycom will receive (i) such number of our common shares as is equal to the Canadian dollar equivalent of US$7,000,000 as of the date of the Raycom Agreement, divided by the greater of (A) 85% of the last closing price of our common shares on the TSX-V on the last trading day completed prior to the issuance of the news release announcing the execution of the Raycom Agreement, which closing price was CDN$4.89 ($3.69 based on the exchange rate on June 26, 2017), and (B) 85% of the Canadian dollar equivalent of the initial public offering price of securities sold in the Company's U.S. initial public offering, and (ii) warrants to purchase up to 675,900 common shares. The warrants will have an exercise price per share equal to the greater of (A) the U.S. dollar equivalent of the last closing price of our common shares on the TSX-V on the last trading day completed prior to the issuance of the news release announcing the execution of the Raycom Agreement (being $3.69), or (B) 120% of the initial public offering price in the Company's U.S. initial public offering, and will expire on August 31, 2021.

The Raycom Conversion is subject to completion of the Company's U.S. initial public offering with gross proceeds to us of at least US$11,000,000 by October 31, 2017 and the listing of our common shares on NASDAQ.

The Company applied the guidance within ASC 470-20-25-20 – *General Contingent Conversion Options*, which states, conversion terms that would be triggered by future events not controlled by the issuer shall be accounted for as contingent conversion options, and the intrinsic value of such conversion options shall not be recognized until and unless the triggering event occurs. The term recognized is used to mean that the calculated intrinsic value is recorded in equity with a corresponding discount to the convertible instrument. Based on the foregoing guidance, the Company did not recognize the intrinsic value of the conversion option resulting from the Raycom Agreement.

Promissory Notes Payable to Related Parties

In connection with the acquisition of Worldnow on August 25, 2015 (Note 3), the Company executed unsecured promissory notes, bearing a simple interest at a rate of 5 percent per year, to pay an aggregate of $15,000,000 in cash on August 31, 2016. The holders of the promissory notes were Raycom ($4,000,000) and GEI ($11,000,000), former shareholders of Worldnow (Note 4). Interest expense on the promissory notes amounted to $187,500 and $375,000 for the three and six months ended June 30, 2016, respectively, and is presented within interest expense, net on the consolidated statements of operations and comprehensive loss. On September 1, 2016, the promissory notes were extinguished in connection with the refinancing transaction discussed above.

Revolving Credit Facility – Silicon Valley Bank

On December 28, 2016, the Company entered into the Loan and Security Agreement pursuant to which Silicon Valley Bank ("SVB") issued to the Company a $3 million revolving line of credit (the "Revolving Credit Facility").

Subject to any adjustments upon an event of default, the principal amount outstanding under the line of credit will accrue interest at a floating per annum rate equal to 2.25% above the Prime Rate published on the Wall Street Journal, which interest will be payable monthly and computed on the basis of a 360-day year for the actual number of days elapsed.

As of December 31, 2016 and June 30, 2017, the principal amount outstanding under the Revolving Credit Facility was $1,375,474 and $1,319,249, respectively. On August 1, 2017, the Company repaid all amounts owed to SVB under these agreements and such agreements were terminated.

Letter of Credit – Western Alliance Bank

On August 31, 2016, in lieu of a security deposit under the lease dated October 26, 2010, with Metropolitan Life Insurance Company, for real property located at 27-01 Queens Plaza North, Long Island City, NY, Frankly Media LLC entered into a standby letter of credit with Western Alliance Bank for an amount of $500,000 (the "Letter of Credit"). For each advance, interest will accrue at a rate equal to the sum of (i) the Base Rate (as defined below), plus (ii) 3.50%, provided that such interest rate will change from time to time as the Base Rate changes. The "Base Rate" means the rate of interest used as the reference or base rate to establish the actual rates charged on commercial loans and which is publicly announced or reported from time to time by the Wall Street Journal as the "prime rate". Interest will accrue from the date of the advance until such advance is paid in full. The Company has granted Western Alliance Bank a security interest in a $524,115 controlled cash deposit account together with (i) all interest, whether now accrued or hereafter accruing; (ii) all additional deposits hereafter made to the account; (iii) any and all proceeds from the account; and (iv) all renewals, replacements and substitutions for any of the foregoing. As of December 31, 2016 and June 30, 2017, no advances were made under the Letter of Credit. The cash security interest of $524,115 is presented within restricted cash on the consolidated balance sheet.

7. Shareholders' Equity

Common Shares and Class A Restricted Voting Shares

Subsequent to the Recapitalization on December 23, 2014, all common and Class A restricted voting shares and related stock-based grants have been denominated in Canadian dollars and have been translated to U.S. dollars using the exchange rate in effect at the date of transaction or grant, as applicable.

The Class A 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 Class A restricted voting shares participate in dividends and liquidation events in the same manner as common shares. In terms of restrictions on transfer, no Class A 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 Class A restricted voting shares in terms of price per share, percentage of outstanding shares to be transferred and in all other material respects.

On February 3, 2017, the Company effected a one-for-seventeen reverse split (the "Reverse Stock Split") of its issued and outstanding common shares and Class A restricted voting shares. All warrant, option, RSU, share and per share information in the consolidated financial statements gives retroactive effect to the Reverse Stock Split for all periods presented.

Shares Issued During the Six Months Ended June 30, 2017

During the six months ended June 30, 2017, the Company issued a total of 10,918 common shares for employee and director RSUs that vested.

In addition, the Company exchanged 97,674 Class A restricted shares for an equal number of common shares.

Stock-Based Compensation

Description of the Plan

On April 1, 2015, the Company adopted an amended and restated equity incentive plan, which amends and restates the equity incentive plan, or the "Plan", which was previously established as of December 23, 2014. On January 22, 2016, the Company and its Board of Directors (the "Board") amended the Plan to fix the number of shares reserved for issuance of both stock options and RSUs at 336,183.

Based on the number of outstanding options and RSUs as of June 30, 2017 and RSUs vested through June 30, 2017, the Company had 17,812 options or RSUs remaining for issuance under the Plan.

The Company did not recognize any tax benefits for stock-based compensation during any of the periods presented.

On March 2, 2017, the Company further amended the Plan so that upon its listing of its common shares on NASDAQ and completion of a public offering raising at least US$5 million (the "Offering"), the maximum number of shares that may be granted under the Plan pursuant to options and RSUs shall be increased to a fixed number equal to 20% of the aggregate number of its common shares and Class A restricted voting shares outstanding at the closing of the Offering. On March 3, 2017, the Company cancelled all outstanding options granted under the Plan with an exercise price of CDN$17.00 or greater and issued one new option for each 1.7 canceled options.

Stock Options

The following table sets forth the activity for the Company's stock options during the periods presented:

		Weighted Average		
	Shares	**Exercise Price**	**Grant Date Fair Value**	**Remaining Contractual Term (Years)**
Balance, December 31, 2015	140,809	$ 35.53	$ 17.17	7.12
Granted	170,147	12.19	3.61	
Exercised	-	-	-	
Forfeited or canceled	(65,194)	34.82	12.32	
Balance, December 31, 2016	245,762	$ 19.52	$ 9.10	8.71
Vested and expected to vest, December 31, 2016	235,854	$ 19.62	$ 9.18	8.70
Exercisable, December 31, 2016	47,595	$ 29.18	$ 17.07	7.74
Unaudited interim activity:				
Balance, January 1, 2017	245,762	$ 19.52	$ 9.10	8.71
Adjustment - Balance, December 31, 2016	(53)(a)	-	-	
Granted	61,851	5.44	3.12	
Exercised	-	-	-	
Forfeited or canceled	(43,633)	20.22	9.63	
Canceled (Option Replacement)	(193,339)(b)	19.90	9.11	
Granted (Option Replacement)	113,677(b)	5.30	9.11	
Balance, June 30, 2017	184,265	$ 5.46	$ 6.96	8.08
Vested and expected to vest, June 30, 2017	177,960	$ 5.46	$ 7.02	8.05
Exercisable, June 30, 2017	58,168	$ 5.81	$ 10.40	6.69

(a) On February 3, 2017, the Company effected a one-for-seventeen reverse split. Upon finalizing the impact at the holder level, a small rounding adjustment was required to true-up options outstanding as of December 31, 2016.

(b) On March 3, 2017, the Company cancelled all outstanding options granted under the Plan with an exercise price of CDN$17.00 or greater and issued one new option for each 1.7 canceled options (the "Option Replacement"). The Company accounted for the Option Replacement as a modification in accordance with ASC 718, *Compensation—Stock Compensation.* The Company canceled 193,339 existing options (the "original options") and concurrently granted 113,677 replacement options (the "replacement options"). The total stock-based compensation expense recognized by the Company for the three months ended March 31, 2017, relating to the Option replacement, was computed using the original grant date fair value of the original options, plus the incremental fair value calculated as the excess of the fair value of the replacement options over the fair value of the original options on the modification date.

The aggregate intrinsic value of outstanding and exercisable stock options as of June 30, 2017 is $0.

Restricted Share Units

The following table sets forth the activity for the Company's RSUs for the periods presented:

	Shares	Weighted-Average Grant Date Fair Value
Balance, December 31, 2015	35,767	21.26
Granted	60,832	6.38
Vested	(5,299)	10.89
Forfeited or canceled	(14,569)	36.35
Balance, December 31, 2016	76,731	$ 7.31
Unaudited interim activity:		
Balance, January 1, 2017	76,731	$ 7.31
Adjustment - Balance, December 31, 2016	(7)(a)	-
Granted	52,836	5.21
Vested	(10,918)	5.37
Forfeited or canceled	(754)	6.44
Balance, June 30, 2017	117,888	$ 6.55

(a) On February 3, 2017, the Company effected a one-for-seventeen reverse split. Upon finalizing the impact at the holder level, a small rounding adjustment was required to true-up RSUs outstanding as of December 31, 2016.

The RSUs granted during the three and six months ended June 30, 2017 had an aggregate fair value of $0 and $275,123, respectively, based on the closing price for common shares on the date of grant. Unrecognized compensation cost related to the Company's non-vested RSUs was $369,976 as of December 31, 2016, which is expected to be recognized from 2017 through 2019.

8. Income Taxes

The Company had $0 income tax expense for all periods presented. Deferred tax assets have not been recognized given the Company's history of losses.

9. Commitments and Contingencies

Operating Lease Commitments

The Company is obligated under several non-cancellable operating leases for office space, expiring in 2017 through 2023. The Company has one sublease for its excess office space as of December 31, 2016.

The future aggregate minimum lease payments under these non-cancellable operating leases, without regard to subleases, are payable as follows as of December 31, 2016:

Payments Due During the Years Ending December 31,		Total
2017	$	1,403,958
2018		1,381,158
2019		1,076,658
2020		852,908
2021		852,908
Thereafter		995,061
Total	$	6,562,651

Capital Lease Commitments

The Company is party to various computer-related equipment leases that qualify as capital lease obligations, expiring in 2017 and 2018. The present value of the future minimum lease payments at inception of the lease is recorded as a capitalized asset within property and equipment (Note 5) with the related capital lease obligation as a liability in the accompanying consolidated balance sheets.

Future minimum capital lease payments were payable as follows as of December 31, 2016:

Payments Due During the Years Ending December 31,		Total
2017	$	173,224
2018		40,742
Total		213,966
Amount representing interest		(5,882)
Present value of minimum lease payments		208,084
Less current portion		(167,635)
Non-current portion	$	40,449

Employee Benefit Plan

The Company's subsidiaries, Frankly Co. and Frankly Media, have 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 limits determined each year.

10. Subsequent Events

The Company has evaluated subsequent events through August 28, 2017 which is the date these unaudited interim condensed consolidated financial statements were available to be issued, and determined that there have been no events that have occurred that would require adjustments to or disclosure in the unaudited interim condensed consolidated financial statements except for the transaction described below.

Legal Proceedings

On July 21, 2017, a complaint was filed by Gannaway Entertainment, Inc. ("GEI"), Albert C. Gannaway III, and Samantha Gannaway, and was served on August 4, 2017, captioned Gannaway Entertainment, Inc., Albert C. Gannaway III, Samantha Gannaway V.S. Frankly Inc., Steve Chung, SKP America, LLC, JJR Private Capital Limited Partnership, Ron Schmeichel, Louis Schwartz in the United States District Court for the Northern District of California against the Company, the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and others alleging violations of U.S. securities laws, fraud and breach of fiduciary duties, and seeking in excess of $15 million in damages, arising out of the Company's acquisition of Gannaway Web Holdings, LLC from GEI and other parties in 2015. The Company is reviewing the complaint with its counsel and believe that the claims are without merit. The Company intends to defend the claims vigorously.

Nasdaq IPO

As a result of the complaint filed on July 21, 2017 as discussed above, the Company decided to postpone the Nasdaq IPO until the resolution of the litigation is more certain.

ASC 340-10-S99-1 states that the deferred costs of an aborted offering may not be deferred and charged against proceeds of a subsequent offering. Any costs related to an aborted offering should be expensed in the period in which the company elects to abort the offering. A short postponement (up to 90 days) does not represent an aborted offering. Given the Company believes the litigation will not be resolved within 90 days, the offering will be deemed aborted for accounting purposes. As such, the Company will expense these deferred costs, which amounted to approximately $714,000 as of June 30, 2017, in the third quarter of 2017, the period in which the Company elected to postpone the offering.

Silicon Valley Bank Line of Credit

On August 1, 2017, the Company repaid all amounts owed to SVB under these agreements and such agreements were terminated.