

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that are based on our current expectations, estimates and projections about our business and operations. See "Cautionary Notice Regarding Forward-Looking Statements." Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this Form 10-Q.*

### CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements, which reflect our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this quarterly report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described under the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Forward-looking statements include, but are not limited to, statements with respect to the nature of the usage of our software-as-a-service platform, our strategy and capabilities, changing audience and advertising demand for local news and media, needs for new technology from local news and media industry, the vertical and regional expansion of our market and business opportunities, the expansion of our product offering, and the estimated number of smart device users, local news and media businesses and digital advertisers in the future. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond our control. Consequently, readers should not place undue reliance on such forward-looking statements.

The forward-looking statements reflect our current expectations and are based on information currently available to us and on assumptions we believe to be reasonable. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, activities, performance or achievements to be materially different from that expressed or implied by such forward-looking statements. These forward-looking statements include, but are not limited to:

- our ability to obtain additional financing;
- our ability to implement our business strategy;
- our ability to successfully integrate any acquired businesses;
- our overall ability to effectively respond to technology changes affecting the industry and increasing competition from other technology providers;
- our ability to retain existing content management system ("CMS") platform customers or add new ones;
- our ability to generate new customers for our mobile technology products;
- the availability of advertising inventory and the market demand and prices of such inventory;
- our ability to introduce changes to our existing products or develop and introduce new and unproven products and our customers' or the market's acceptance of such products;
- our ability to manage our growth effectively;
- the recent consolidation and vertical integration within the local news broadcasting industry;
- the business conditions of our customers particularly in the local news broadcasting and adjacent industries;

- the adoption of ASTC 3.0 and its implications on our customers;
- our ability to expand our customer base to global markets; and
- our ability to protect our intellectual property

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. The forward-looking information contained herein is made as of the date of this quarterly report on Form 10-Q and, other than as required by law, we do not assume any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

This quarterly report on Form 10-Q also includes estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

In this quarterly report on Form 10-Q, currency amounts are stated in U.S. dollars (“\$”), unless specified otherwise. All references to CDN\$ are to Canadian dollars.

## **Overview**

We have had two distinct phases of product evolution in our history. From February 2013 until August 2015, we developed mobile applications and a next generation server platform. Through the acquisition of Frankly Media in August 2015, we leveraged our existing mobile and platform expertise to become a SaaS provider of content management for broadcasters and media companies.

Our mission is to help TV broadcasters and media companies transform their traditional business from just delivering content over-the-air via broadcast television to distributing content in multi-platform, digital formats on new platforms such as mobile, tablets, desktop and other connected devices. Our core product is a white-labeled software platform that enables media companies to publish their official content onto multiscreen devices, increase social interaction on those multiscreen experiences, and enable digital advertising. The platform consists of a CMS platform, native mobile and OTT applications, responsive web framework, digital video solutions and digital advertising solutions.

We generate revenues by charging monthly recurring software licensing fees, variable usage fees for our platform and sharing digital advertising revenue with our customers. We enter into written contracts with our customers pursuant to which we provide access to our online, software-as-a-service, content management platform. These contracts typically cover the use of the platform and ancillary services such as delivery and storage of video content, and access to ad-serving and analytics functionality. Many of these agreements also grant us the right to sell online advertising inventory on behalf of the customer pursuant to a revenue sharing arrangement with the customer. Our agreements are generally for a three-year term and do not provide for early termination rights. We bill our customers monthly or quarterly for the fees associated with the software license, and monthly in arrears for variable usage fees incurred by a customer’s use of our platform. We generally make advertising revenue share payments to our customers on a quarterly basis.

Our platform is currently being used by approximately 200 U.S. local news stations, mostly affiliated with large broadcasting networks such as NBC, CBS, FOX and ABC. We plan to enhance our platform in the future by expanding our offerings to other media verticals and international markets, together with investments into channel partnerships, sales and marketing, enhanced data analytics and innovative advertising products.

We acquired Worldnow in August 2015. Since the acquisition, our revenues have increased significantly, primarily as a result of the acquisition and the inclusion of Worldnow's results in our consolidated financial statements. Our revenues increased from \$6.9 million for the year ended December 31, 2015 to \$22.8 million for the year ended December 31, 2016, representing a period-over-period increase of \$15.9 million, or 232%. We had a net loss of \$24.7 million in 2015 and \$10.7 million in 2016.

### **Trends Affecting Our Business**

Our primary customers today are local affiliate TV stations, which as an industry, are undergoing consolidation which we believe will continue in the coming years. This would result in a contraction of the number of customers available to use our services in this particular customer segment, although not necessarily in the total aggregate value of the addressable market size of this segment. In parallel, the local affiliate TV stations are facing increasing competition from companies that deliver video content over the internet, commonly referred to as "over-the-top," or OTT. The increased competition includes both direct competition from other local affiliate TV stations that are keeping pace with these changing trends and early adoption of OTT alternatives for their user base, as well as new competitors which include a range of players from an individual YouTube star at one end, to large well-funded technology enabled companies such as Netflix, Hulu, Google, Apple and Amazon.

With such growth of OTT programming, consumers' video content consumption preferences may shift away from existing viewing habits. As a result, many of our customers and potential customers are compelled to find new ways to deliver services and content to their consumers via the internet. We expect this pressure to become even greater as more video content becomes available online. As our customers typically do not have adequate resources in-house to adapt to this changing landscape, we expect to benefit from this trend as customers adopt our solutions to enable digital media and OTT services using our multi-platform technology and services. In fact, customers are enhancing / upgrading their websites to use the internet to deliver rich media content, such as newscasts and weather updates, to attract advertisers and to compete with other internet sites and smart phone and tablet device applications and other social media outlets.

We also see the growth of non-traditional media players that is driven by the availability of less expensive content production and distribution methods. With technology advances in the tools and platforms that enable content producers to produce content with less people and financial resources, content is further becoming more democratized. We expect our results of operations to benefit from this trend as our software-as-a-service platform further enables content producers to leverage technology to produce, distribute and monetize their content.

Another trend affecting our customers and our business is the proliferation of internet-connected devices, especially mobile devices. Smartphones, tablets and connected TVs have made it more convenient for consumers to access services and content online, including television programming. To remain competitive, our customers and potential customers must have the capability to deliver their services and products to consumers on these new devices. Our technology enables them to extend their presence beyond traditional personal computers, and we expect that some portion of our revenue growth will come from traffic on these devices.

Our business is also affected by growth in advertising on the Internet, for which the proliferation of high-speed internet access and internet-connected devices will be the principal drivers. As such, we expect to see growth in new platforms such as mobile, tablets, Internet-connected TVs, and other emerging platforms that require an advertising solutions like ours. We expect our results of operations will benefit from the growth in the number of new platforms as our customers adopt these new platforms to drive their business growth.

## Key Metrics

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies.

### *Adjusted EBITDA*

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA is not a recognized financial measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, it may not be comparable to similar financial measures presented by other issuers. Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income (loss) before interest expense, net, income tax expense, depreciation and amortization, further, adjusted to exclude certain non-cash charges and other items that we do not believe are reflective of our ongoing operating results.

The following unaudited table presents the reconciliation of net loss to Adjusted EBITDA for the three and nine months ended September 30, 2016 and 2017.

|                                | <b>Three Months Ended September 30,</b> |                     | <b>Nine Months Ended September 30,</b> |                     |
|--------------------------------|---|---------------------|--|---------------------|
|                                | <b>2016</b>                             | <b>2017</b>         | <b>2016</b>                            | <b>2017</b>         |
| Net Loss                       | \$ (1,371,987)                          | \$ (3,129,135)      | \$ (4,442,784)                         | \$ (7,037,064)      |
| Interest expense, net          | 307,932                                 | 601,909             | 749,706                                | 1,859,058           |
| Income tax expense             | -                                       | -                   | -                                      | -                   |
| Depreciation and amortization  | 848,246                                 | 1,102,576           | 2,447,265                              | 3,261,933           |
| Stock-based compensation       | 276,230                                 | 262,604             | 859,799                                | 774,776             |
| Loss on disposal of assets     | -                                       | -                   | 1,093                                  | -                   |
| Loss on extinguishment of debt | -                                       | 38,287              | -                                      | 38,287              |
| Nasdaq listing fees            | 410,225                                 | 943,822             | 410,225                                | 943,822             |
| Other expense                  | (135,531)                               | -                   | 205,681                                | 27,017              |
| Adjusted EBITDA                | <u>\$ 335,115</u>                       | <u>\$ (179,937)</u> | <u>\$ 230,985</u>                      | <u>\$ (132,171)</u> |

### *Limitations of Adjusted EBITDA*

Adjusted EBITDA, a non-GAAP financial measure, has limitations as an analytical tool, and should not be considered in isolation from or as a substitute for measures presented in accordance with U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;
- Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;
- Adjusted EBITDA excludes depreciation and amortization of property and equipment and intangible assets, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income (loss) and our financial results presented in accordance with U.S. GAAP.

## Components of our Results of Operations

### *Revenue*

We derive our revenue from three categories: recurring fee based revenue for use of our platform (including license fees and usage fees), revenue generated from digital advertising activities (national and local advertising) and professional services revenue.

#### *License fees and usage fees*

We enter into license agreements with customers for our CMS, video software, and mobile applications. These license agreements, generally non-cancellable and multiyear, provide the customer with the right to use our application solely on a company-hosted platform or, in certain instances, on purchased encoders. The license agreements also entitle the customer to technical support. Revenue from these license agreements, which are accounted for as service arrangements, is recognized ratably over the license term.

We charge our customers for the optional use of our content delivery network to stream and store videos. Revenue from these fees is recognized as earned based on actual usage because it has stand-alone value and delivery is in the control of the customer. We also charge our customers for the use of our ad serving platform to serve ads under local advertising campaigns. We report revenue as earned based on the actual usage.

#### *National and local advertising*

Under national advertising agreements with advertisers, we source, create, and place advertising campaigns that run across our network of publisher sites. National advertising revenue, net of third-party costs, is shared with publishers based on their respective contractual agreements. We invoice national advertising amounts due from advertisers and remit payments to publishers for their share. Depending on the agreement with the publisher, the obligation to remit payment to the publisher 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. We report revenue earned through national advertising agreements either on a net or gross basis in accordance with ASC Subtopic 605-45, Revenue Recognition - Principal Agent Considerations. Under national advertising agreements wherein we do not bear inventory risk and only have credit risk on our portion of the revenue, national advertising revenues are accounted for on a net basis and the publisher is identified as the customer. Beginning in the second quarter of 2016, we began amending certain advertising agreements with our publishers to take on inventory risk and additional credit risk. Under these revised agreements, we either a) provide the publisher with a guaranteed minimum gross selling price per advertising unit delivered, wherein the greater of the actual selling price or guaranteed minimum selling price is used in determining the publisher's share or b) provide the publisher with a fixed rate per advertising unit delivered, wherein the publisher is paid the fixed rate per advertising unit delivered irrespective of the actual selling price. Under these national advertising agreements, national advertising revenues are accounted for on a gross basis with the advertiser identified as the customer and the publisher identified as a supplier, with amounts billed to the advertiser reported as revenue and amounts due to the publisher reported as a revenue sharing expense, within cost of revenue.

Under local advertising agreements with customers, we provide 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.

#### *Professional services*

Professional services consist primarily of installation and website design services. Installation fees are contracted on a fixed-fee basis. We recognize revenue as services are performed. Such services are readily available from other vendors and are not considered essential to the functionality of the product. Website design services are also not considered essential to the functionality of the product and have historically been insignificant; the fee allocable to website design is recognized as revenue as we perform the services.

## *Costs and expenses*

### *Cost of revenue (excluding depreciation and amortization)*

Cost of revenue consists of the following: compensation-related expenses of employees, primarily our client services personnel, and outsourced services that directly service our customers, infrastructure costs, licenses and computer support used directly in the delivery of service, content delivery and storage costs including ad serving costs, fees paid for content and revenue sharing expenses related to national advertising revenue.

### *General and administrative (excluding depreciation and amortization)*

General and administrative expenses consist primarily of compensation-related expenses for executive management, finance, accounting, legal and human resources, professional fees and other administrative functions. It also includes certain technology overhead expenses that are not considered to be part of research and development expenses.

### *Selling and marketing*

Selling and marketing expenses consist primarily of compensation-related expenses to our direct sales and marketing personnel, as well as costs related to advertising, industry conferences, and other sales and marketing programs. Advertising cost is expensed as incurred.

### *Research and development (excluding depreciation and amortization)*

Research and development expenses consist primarily of compensation-related expenses to employees and outsourced services incurred for the research and development of, enhancements to, and maintenance and operation of our products, equipment and related infrastructure. Research and development expenses are reported net of amounts capitalized as software development costs. We account for our software development costs as internal-use software in accordance with ASC 350-40 – *Intangibles, Goodwill and other Internal-Use Software* because software usage by our customers is cloud-based. Development costs that do not meet the criteria of ASC 350-40 are expensed as incurred.

### *Depreciation and amortization*

Depreciation and amortization includes depreciation and amortization of our computer hardware and software, office equipment, leasehold improvements, capitalized software development costs and intangible assets.

### *Other expenses*

Other expenses are comprised of items that we do not believe are reflective of our ongoing operating results, such as costs incurred in integration efforts and legal or other settlements.

### *Interest expense, net*

Interest expense, net consists of interest on debt and capital leases, net of interest income.

### *Income tax expense*

Income tax expense consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions, as well as any changes to deferred tax assets or liabilities, and deferred tax valuation allowances.

## Results of Operations

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

|  | Three Months Ended September 30, |                       |                       |
|--|----------------------------------|-----------------------|-----------------------|
|  | 2016                             | 2017                  | Variance              |
| <b>Total Revenue</b>   | \$ 6,196,691                     | \$ 6,537,308          | \$ 340,617            |
| <b>Costs and operating expenses:</b>                                 |                                  |                       |                       |
| Cost of revenue (excluding depreciation and amortization)            | 2,677,281                        | 3,307,870             | 630,589               |
| General and administrative (excluding depreciation and amortization) | 1,992,650                        | 1,869,037             | (123,613)             |
| Selling and marketing  | 628,909                          | 606,383               | (22,526)              |
| Research and development (excluding depreciation and amortization)   | 844,682                          | 1,212,703             | 368,021               |
| Depreciation and amortization  | 848,246                          | 1,102,576             | 254,330               |
| Loss on extinguishment of debt                                       | -                                | 38,287                | 38,287                |
| Nasdaq listing fees  | 410,225                          | 943,822               | 533,597               |
| Other expense  | (135,531)                        | -                     | 135,531               |
| <b>Loss from operations</b>  | <b>(1,069,771)</b>               | <b>(2,543,370)</b>    | <b>(1,473,599)</b>    |
| Foreign exchange gain  | (5,716)                          | (16,144)              | (10,428)              |
| Interest expense, net  | 307,932                          | 601,909               | 293,977               |
| <b>Loss before income tax expense</b>                                | <b>(1,371,987)</b>               | <b>(3,129,135)</b>    | <b>(1,757,148)</b>    |
| Income tax expense   | -                                | -                     | -                     |
| <b>Net Loss</b>  | <b>\$ (1,371,987)</b>            | <b>\$ (3,129,135)</b> | <b>\$ (1,757,148)</b> |

The following is a breakdown of total revenue for the three months ended September 30, 2017 compared to the three months ended September 30, 2016:

|                                 | Three Months Ended September 30, |                     |                   |
|---------------------------------|----------------------------------|---------------------|-------------------|
|                                 | 2016                             | 2017                | Variance          |
| <b>Revenue:</b>                 |                                  |                     |                   |
| License fees                    | \$ 2,873,055                     | \$ 2,588,798        | \$ (284,257)      |
| Advertising                     | 2,415,878                        | 2,775,704           | 359,826           |
| Usage fees                      | 723,947                          | 712,074             | (11,873)          |
| Professional services and other | 183,811                          | 460,732             | 276,921           |
| <b>Total Revenue</b>            | <b>\$ 6,196,691</b>              | <b>\$ 6,537,308</b> | <b>\$ 340,617</b> |

### License fees

License fees for the three months ended September 30, 2017 were \$2.6 million compared to \$2.9 million for the comparable period of 2016, a decrease of \$0.3 million. The decrease was due to contract termination fees recognized during the three months ended September 30, 2016 resulting from anticipated consolidation of some of our existing customers. The contract termination fees were partially offset primarily by growth in our next generation mobile and OTT application license fees.

### Advertising

Advertising revenue for the three months ended September 30, 2017 was \$2.8 million compared to \$2.4 million for the comparable period of 2016, an increase of \$0.4 million. The increase was primarily due to amendments to national advertising contracts with select publishers that required us to account for national advertising revenues on a gross basis as amount billed to advertisers with amounts due to publishers presented as a revenue sharing expense within cost of sales. See below for related increase to cost of sales. The remainder of the increase was due to launch of our new product offering "Frankly Local" which expands the products offered within our local advertising business.

#### *Usage fees*

Usage fees for the three months ended September 30, 2017 and 2016 were \$0.7 million. There was no significant change between the periods presented.

#### *Professional services and other*

Professional services and other for the three months ended September 30, 2017 was \$0.5 million compared to \$0.2 million for the comparable period of 2016, an increase of \$0.3 million. The increase was due to additional ad hoc professional services engagements in the 2017 period.

#### *Cost of revenue (excluding depreciation and amortization)*

Cost of revenue for the three months ended September 30, 2017 was \$3.3 million compared to \$2.7 million for the comparable period of 2016, an increase of \$0.6 million. The increase was primarily due to the approximately \$0.3 million increase in revenue sharing expense related to advertising as described above. The remainder of the increase was primarily due to launch of our new product offering “Frankly Local” which expands the products offered within our local advertising business, and the direct costs associated with this new business.

#### *General and administrative (excluding depreciation and amortization)*

General and administrative expense for the three months ended September 30, 2017 was \$1.9 million compared to \$2.0 million for the comparable period of 2016, a decrease of \$0.1 million. The decrease was due to headcount reduction, including resignation of the former Chief Product Officer effective January 31, 2017 and decrease in technology overhead.

#### *Selling and marketing*

Selling and marketing expense for the three months ended September 30, 2017 and 2016 was \$0.6 million. There was no significant change between the periods presented.

#### *Research and development (excluding depreciation and amortization)*

Research and development expense for the three months ended September 30, 2017 was \$1.2 million compared to \$0.8 million for the comparable period of 2016, an increase of approximately \$0.4 million. The increase was partially due to a reduction of \$0.1 million in capitalized software development costs compared to the 2016 period. The remainder of the increase was due to increases in headcount of our technology personnel along with increases in outsourced research and development related to acceleration of our product roadmap.

#### *Depreciation and amortization*

Depreciation and amortization expense was \$1.1 million for the three months ended September 30, 2017 compared to \$0.8 million for the comparable period of 2016, an increase of approximately \$0.3 million. The increase resulted from an increase to amortization of capitalized software costs due to the increased software development throughout 2016 and 2017 related to our next-generation content management system, native mobile applications and OTT applications.

#### *Nasdaq listing fees*

Nasdaq listing fees were \$0.9 million for the three months ended September 30, 2017 compared to \$0.4 million for the comparable period of 2016, an increase of approximately \$0.5 million. The increase was due to write-off of all deferred financing costs associated with our registration process in the U.S in the third quarter of 2017. As a result of the GEI complaint filed on July 21, 2017, we decided to postpone the U.S. IPO until the resolution of the litigation is more certain.

### Interest expense, net

Interest expense, net was \$0.6 million for the three months ended September 30, 2017 compared to \$0.3 million for the comparable period of 2016, an increase of \$0.3 million. The increase was primarily due to the \$15 million Worldnow Promissory Notes, as defined below, issued in connection with the acquisition of Worldnow and the \$14.5 million non-revolving credit facility with Raycom, which closed on September 1, 2016 and refinanced the Worldnow Promissory Notes. The 2016 period included two months of interest expense of approximately \$125,000 on the Worldnow Promissory Notes and one month of interest expense of approximately \$160,000 on the non-revolving credit facility with Raycom. The 2017 period included three months of interest expense of approximately \$509,000 on the non-revolving credit facility with Raycom, an increase of approximately \$224,000.

### Income tax expense

No income tax expense was recognized during the periods presented.

### Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

|  | Nine Months Ended September 30, |                       | Variance              |
|--|---------------------------------|-----------------------|-----------------------|
|  | 2016                            | 2017                  |                       |
| <b>Total Revenue</b>   | <b>\$ 16,664,579</b>            | <b>\$ 19,390,089</b>  | <b>\$ 2,725,510</b>   |
| <b>Costs and operating expenses:</b>                                 |                                 |                       |                       |
| Cost of revenue (excluding depreciation and amortization)            | 5,761,780                       | 9,142,558             | 3,380,778             |
| General and administrative (excluding depreciation and amortization) | 6,375,419                       | 5,999,894             | (375,525)             |
| Selling and marketing  | 2,257,775                       | 2,013,174             | (244,601)             |
| Research and development (excluding depreciation and amortization)   | 2,901,480                       | 3,161,646             | 260,166               |
| Depreciation and amortization  | 2,447,265                       | 3,261,933             | 814,668               |
| Loss on disposal of assets   | 1,093                           | -                     | (1,093)               |
| Loss on extinguishment of debt                                       | -                               | 38,287                | 38,287                |
| Nasdaq listing fees  | 410,225                         | 943,822               | 533,597               |
| Other expense  | 205,681                         | 27,017                | (178,664)             |
| <b>Loss from operations</b>  | <b>(3,696,139)</b>              | <b>(5,198,242)</b>    | <b>(1,502,103)</b>    |
| Foreign exchange gain  | (3,061)                         | (20,236)              | (17,175)              |
| Interest expense, net  | 749,706                         | 1,859,058             | 1,109,352             |
| <b>Loss before income tax expense</b>                                | <b>(4,442,784)</b>              | <b>(7,037,064)</b>    | <b>(2,594,280)</b>    |
| Income tax expense   | -                               | -                     | -                     |
| <b>Net Loss</b>  | <b>\$ (4,442,784)</b>           | <b>\$ (7,037,064)</b> | <b>\$ (2,594,280)</b> |

The following is a breakdown of total revenue for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016:

|                                 | Nine Months Ended September 30, |                      | Variance            |
|---------------------------------|---------------------------------|----------------------|---------------------|
|                                 | 2016                            | 2017                 |                     |
| <b>Revenue:</b>                 |                                 |                      |                     |
| License fees                    | \$ 8,106,932                    | \$ 7,773,859         | \$ (333,073)        |
| Advertising                     | 5,523,774                       | 8,026,011            | 2,502,237           |
| Usage fees                      | 2,189,793                       | 2,362,983            | 173,190             |
| Professional services and other | 844,080                         | 1,227,236            | 383,156             |
| <b>Total Revenue</b>            | <b>\$ 16,664,579</b>            | <b>\$ 19,390,089</b> | <b>\$ 2,725,510</b> |

### License fees

License fees for the nine months ended September 30, 2017 were \$7.8 million compared to \$8.1 million for the comparable period of 2016, a decrease of \$0.3 million. The decrease was due to contract termination fees recognized during the nine months ended September 30, 2016 resulting from anticipated consolidation of some of our existing customers. The contract termination fees were partially offset primarily by growth in our next generation mobile and OTT application license fees.

### *Advertising*

Advertising revenue for the nine months ended September 30, 2017 was \$8.0 million compared to \$5.5 million for the comparable period of 2016, an increase of \$2.5 million. The increase was primarily due to amendments to national advertising contracts with select publishers that required us to account for national advertising revenues on a gross basis as amount billed to advertisers with amounts due to publishers presented as a revenue sharing expense within cost of sales. See below for related increase to cost of sales.

### *Usage fees*

Usage fees for the nine months ended September 30, 2017 were \$2.4 million compared to \$2.2 million for the comparable period of 2016, an increase of \$0.2 million. The increase was primarily due to increases in local ad serving revenue.

### *Professional services and other*

Professional services and other for the nine months ended September 30, 2017 was \$1.2 million compared to \$0.8 million for the comparable period of 2016, an increase of \$0.4 million. The increase was due to additional ad hoc professional services engagements in the 2017 period.

### *Cost of revenue (excluding depreciation and amortization)*

Cost of revenue for the nine months ended September 30, 2017 was \$9.1 million compared to \$5.8 million for the comparable period of 2016, an increase of \$3.3 million. The increase was primarily due to the approximately \$2.5 million increase in revenue sharing expense related to advertising as described above. The remaining increase was primarily due to additional software licenses used directly in service delivery relating to the advertising business.

### *General and administrative (excluding depreciation and amortization)*

General and administrative expense for the nine months ended September 30, 2017 was \$6.0 million compared to \$6.4 million for the comparable period of 2016, a decrease of \$0.4 million. The decrease was due to headcount reduction, including resignation of the former Chief Product Officer effective January 31, 2017 and decrease in technology overhead.

### *Selling and marketing*

Selling and marketing expense for the nine months ended September 30, 2017 was \$2.0 million compared to \$2.3 million for the comparable period of 2016, a decrease of \$0.3 million. The decrease was primarily due to headcount reduction.

### *Research and development (excluding depreciation and amortization)*

Research and development expense for the nine months ended September 30, 2017 was \$3.2 million compared to \$2.9 million for the comparable period of 2016, an increase of approximately \$0.3 million. The increase was primarily due to a reduction of \$0.9 million in capitalized software development costs compared to the 2016 period. This increase was offset by a reduction in headcount of the technology department and reduction in outsourced research and development relating to the legacy instant messaging apps.

### *Depreciation and amortization*

Depreciation and amortization expense was \$3.3 million for the nine months ended September 30, 2017 compared to \$2.4 million for the comparable period of 2016, an increase of approximately \$0.9 million. The increase resulted from an increase to amortization of capitalized software costs due to the increased software development throughout 2016 and 2017 related to our next-generation content management system, native mobile applications and OTT applications.

### *Nasdaq listing fees*

Nasdaq listing fees were \$0.9 million for the nine months ended September 30, 2017 compared to \$0.4 million for the comparable period of 2016, an increase of approximately \$0.5 million. The increase was due to write-off of all deferred financing costs associated with our registration process in the U.S in the third quarter of 2017. As a result of the GEI complaint filed on July 21, 2017, we decided to postpone the U.S. IPO until the resolution of the litigation is more certain.

### *Interest expense, net*

Interest expense, net was \$1.9 million for the nine months ended September 30, 2017 compared to \$0.8 million for the comparable period of 2016, an increase of \$1.1 million. The increase was primarily due to the \$15 million Worldnow Promissory Notes, as defined below, issued in connection with the acquisition of Worldnow and the \$14.5 million non-revolving credit facility with Raycom, which closed on September 1, 2016 and refinanced the Worldnow Promissory Notes. The 2016 period included eight months of interest expense of approximately \$500,000 on the Worldnow Promissory Notes and one month of interest expense of approximately \$160,000 on the non-revolving credit facility with Raycom. The 2017 period included nine months of interest expense of approximately \$1.5 million on the non-revolving credit facility with Raycom, an increase of approximately \$0.9 million.

### *Income tax expense*

No income tax expense was recognized during the periods presented.

### **Liquidity and Capital Resources**

Since inception, we have financed our cash requirements (including acquisitions) primarily through the issuance of securities and convertible promissory notes. Due to our start-up status and limited revenue generated from operations, we have had recurring losses and negative cash flows from operating activities. With the acquisition of Worldnow on August 25, 2015, we have been able to utilize the cash flows from operating activities of the acquired business to help finance and support our operations. As of September 30, 2017, we had total current assets of approximately \$5.5 million and total current liabilities of approximately \$10.2 million. As of September 30, 2017, our principal sources of liquidity were our cash and trade accounts receivable. Our cash and cash equivalents and trade accounts receivable, net balances as of September 30, 2017 were \$1.3 million and \$2.7 million, respectively.

As of September 30, 2017, we had an accumulated deficit of \$60.7 million representative of recurring losses since inception. Additionally, we had not generated positive cash flow from operations since inception, except in 2016. In the first nine months of 2017, we used cash in operations, and in the third quarter of 2017 we paid off our revolving credit line with Silicon Valley Bank. Also, in the third quarter of 2017, we decided to postpone our US IPO and expensed deferred financing costs of \$943,822 related to the IPO effort. Lastly, as of September 30, 2017, we were in compliance with all debt covenants, but may not be in compliance as of December 31, 2017 with two financial covenants which have a measurement date of December 31, 2017. We will need additional financing in the near term to continue operations. These conditions raise substantial doubt about our ability to continue as a going concern into the foreseeable future.

We expect that through the next 12 months from the date of this filing, we will require external funding to sustain operations and to follow through on the execution of our business plan. We are considering several strategic alternatives which may include raising funds from strategic sources and we have retained the corporate advisory services of Waller Capital Partners, an independent investment bank and advisory firm, to explore and evaluate strategic options. There can be no assurance that our plans will materialize and/or that we will be successful in our efforts to obtain the funding to cover working capital shortfalls.

### ***Operating Activities***

Net cash used in operating activities for the nine months ended September 30, 2017 was \$0.7 million compared to cash provided by operating activities of \$0.4 million for the comparable period of 2016, a decrease of \$1.1 million. The decrease resulted primarily from an increase of \$1.6 million of net loss adjusted to add back non-cash charges, offset by an increase of \$0.5 million in changes in operating assets and liabilities.

### ***Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2017 was \$2.5 million compared to \$3.4 million for the comparable period of 2016, a decrease of \$0.9 million. The decrease resulted primarily from a decrease of \$0.9 million in capitalized software costs. Beginning in 2016, we started a large scale development effort for the development of our next-generation content management system, native mobile applications, connected TV applications and mobile responsive web products. Capitalized software costs were reduced to a more normalized level in the first nine months of 2017.

### ***Financing Activities***

Net cash used in financing activities for the nine months ended September 30, 2017 was \$1.6 million compared to \$2.3 million for the comparable period of 2016, a decrease of \$0.7 million. The decrease was primarily due to a decrease of \$0.6 million in the change in restricted cash along with a decrease of \$0.6 million in revolving credit facility payments, partially offset by \$0.5 million decrease in net proceeds from issuance of debt relating to the August 2016 Refinancing described below.

#### ***Unit Purchase Agreement and Worldnow Promissory Notes***

On July 28, 2015, we signed an agreement (the “Unit Purchase Agreement”) to purchase the outstanding units of Gannaway Web Holdings, LLC, operating as Worldnow, pursuant to which we issued the Worldnow Promissory Notes to Gannaway Entertainment Inc. (“GEI”) and Raycom Media, Inc. (“Raycom”) in the aggregate principal amounts of \$11 million and \$4 million, respectively, as partial consideration for their respective membership interests in Gannaway Web Holdings, LLC. The Worldnow Promissory Notes bore simple interest at a rate of 5% per year.

#### ***The August 2016 Refinancing***

On August 31, 2016, we entered into a \$14.5 million credit facility (the “Credit Facility”) under a credit agreement, as amended on December 20, 2016, March 30, 2017 and June 26, 2017 (the “Credit Agreement”) with Raycom. The proceeds of the Credit Facility were used to pay in full the \$11 million promissory note (the “GEI Promissory Note”) issued to GEI and \$3 million of the \$4 million promissory note issued to Raycom (the “Original Raycom Note” and together with the GEI Promissory Note, the “Worldnow Promissory Notes”), each issued in connection with the acquisition of Gannaway Web Holdings, LLC, now Frankly Media. In addition, we issued to Raycom warrants to purchase 871,160 common shares (the “Raycom Warrants”) at a price per share of CDN\$8.50 (\$6.63 based on the exchange rate at August 18, 2016) and repaid in full our \$2.0 million outstanding revolving credit facility with Bridge Bank (the “Bridge Bank Loan”). Subject to Raycom’s discretion, we also have an additional \$1.5 million available for borrowing under the Credit Facility. We also entered into a share purchase agreement, as amended on December 20, 2016 and March 30, 2017 (the “Raycom SPA”) pursuant to which we converted \$1 million of the Original Raycom Note into 150,200 common shares. We refer to these transactions as the “August 2016 Refinancing”.

### ***Securities Purchase Agreement***

Pursuant to the Raycom SPA, we issued to Raycom an aggregate of 150,200 common shares for a purchase price of CDN\$1,276,700 (or \$1 million based on the exchange rate at August 18, 2016) in repayment of \$1 million of the Original Raycom Note. Raycom's 397,125 Class A restricted shares were also converted into our common shares on a one-for-one basis. Under the Raycom SPA, we agreed to enlarge our Board of Directors to seven (7) directors, subject to shareholder approval, within 90 days of August 31, 2016. In addition, so long as Raycom held not less than 20% of our issued and outstanding common shares calculated on a fully diluted basis, it had (i) the designation rights to two (2) directors as management's nominees for election to our Board, one of whom is our current Board member, Joseph G. Fiveash, III and one of which must be an independent director as defined in Rule 5605(a)(2) of the Nasdaq Rules, and (ii) approval rights to one of the independent directors named as management's nominees for election to our Board outside of the two Raycom designated directors. Pursuant to the SPA, Raycom had designated Joseph Fiveash as one of its director designees. On December 20, 2016, we entered into an amendment to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to extend the time period for enlargement of the Board to seven members from 90 days following August 31, 2016, to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of the Form S-1 registration statement for our U.S. IPO, or (b) April 15, 2017. On March 30, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to further extend the time period for enlargement of the Board to seven members to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of our Form S-1 registration statement for our U.S. IPO, or (b) May 31, 2017. On May 25, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to further extend the time period for the successful listing of our common shares on Nasdaq from May 31, 2017 to June 30, 2017 and the enlargement of the Board to seven members to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of the Form S-1 registration statement for our U.S. IPO, or (b) July 31, 2017.

### ***Credit Agreement***

Pursuant to the Credit Agreement, we entered into the Credit Facility with Raycom in the principal amount of \$14.5 million and issued to Raycom Warrants to purchase 871,160 common shares at a price per share of CDN\$8.50 (\$6.63 based on the exchange rate at August 18, 2016). The Credit Facility terminates on August 31, 2021. The warrants have a 5-year term but upon a repayment of principal under the Credit Agreement, a pro-rata portion thereof will expire on the date which is later of (a) August 31, 2017 or (b) 30 days from the date of each principal repayment. Upon each payment of principal, the number of warrants that will expire will equal the product of the (i) then outstanding number of warrants and (ii) the principal repayment divided by the then outstanding principal balance of the loan. The exercise price and the number of shares underlying the warrants will be subject to adjustment as set forth in the Credit Agreement.

Subject to approval of Raycom, at its sole discretion, we may require further loans up to an aggregate amount of \$1.5 million. We will pay interest on each loan outstanding at any time at a rate per annum of 10%. Interest will accrue and be calculated, but not compounded, daily on the principal amount of each loan on the basis of the actual number of days each loan is outstanding and will be compounded and payable monthly in arrears on each interest payment date. To the maximum extent permitted by applicable law, we will pay interest on all overdue amounts, including any overdue interest payments, from the date each of those amounts is due until the date each of those amounts is paid in full. That interest will be calculated daily, compounded monthly and payable on demand of Raycom at a rate per annum of 12%. We have the option to repay all or a portion of loans outstanding under the Credit Facility without premium, penalty or bonus upon prior notice to Raycom and repayment of all interest, fees and other amounts accrued and unpaid under the Credit Facility.

We also agreed to make the following mandatory repayments:

- (a) \$2 million prior to August 31, 2019;
- (b) commencing on November 30, 2019 and on the last day of the month of each three month period thereafter, an amount of \$687,500 per three month period;
- (c) proceeds (less actual costs paid and income taxes) on any asset sales or issuances of debt or equity;
- (d) upon a successful listing of our common shares on Nasdaq with a capital raise of between \$8 million to \$11 million, mandatory repayment in the amount of \$2 million, which will be applied toward the repayment obligation required by (a) above if completed by June 30, 2017;

(e) upon a successful listing of our common shares on Nasdaq with a capital raise of more than \$12 million, a mandatory repayment in the amount of \$3 million which will be applied toward the \$2 million repayment obligation required by (a) above if completed by June 30, 2017 and any amounts raised in excess of \$2 million will be applied pro rata to repayment obligations required by (b) above commencing November 30, 2019; and

(f) commencing on the financial year ending December 31, 2017, and each financial year ending thereafter, 100% of the current year excess cash flow amount in excess of \$2 million must be paid to Raycom as a mandatory repayment amount no later than May 1 of the following year until a total leverage ratio of not more than 3:1 has been met for such fiscal year, at which point 50% of the current year excess cash amount in excess of \$2 million will be paid to Raycom as mandatory repayment amounts. Such excess cash flow payments will be applied pro rata to reduce other mandatory payments due thereunder.

The mandatory prepayment provision described in subsection (c) above is not applicable to the December Private Placement (as described below), the SVB Line of Credit (as described below) or a U.S. public offering of equity resulting in proceeds to us of less than \$8 million.

In addition, we must maintain certain leverage ratios and interest coverage ratios beginning the fiscal quarter ending December 31, 2017. The leverage ratios range from 4:1 to 2.5:1 and 2:1 to 3.5:1 for the interest coverage ratio. We are also subject to certain covenants relating to, among others, indebtedness, fundamental corporate changes, dispositions, acquisitions and distributions.

Upon an event of default, Raycom may by written notice terminate the facility immediately and declare all obligations under the Credit Agreement and the related loan documents, whether matured or not, to be immediately due and payable. Raycom may also as and by way of collateral security, deposit and retain in an interest bearing account, amounts received by Raycom from us under the Credit Agreement and the related loan documents and realize upon the Security Interest Agreements, Guaranty Agreements and Pledge Agreement as described below. If we fail to perform any of our obligations under the Credit Agreement and the related loan documents, Raycom may upon 10 days' notice, perform such covenant or agreement if capable. Any amount paid by Raycom under such covenant or agreement will be repaid by us on demand and will bear interest at 12% per annum.

#### ***Guaranty Agreements, Security Interest Agreements and Pledge Agreement***

In connection with the Credit Agreement, our subsidiaries Frankly Co. and Frankly Media LLC have entered into Guaranty Agreements whereby Frankly Co. and Frankly Media LLC have guaranteed our obligations under the Credit Agreement. In addition, each of Frankly Inc., Frankly Co. and Frankly Media LLC have entered into security interest agreements (the "Security Interest Agreements") pursuant to which Raycom has first priority security interests in substantially all of our assets. Under the Security Interest Agreements, we do not have a right to sell or otherwise dispose of all or part of the collateral except in the ordinary course of business that are not material. Frankly Media LLC has also entered into an Intellectual Property Pledge Agreement pursuant to which it has granted a security interest in all of its intellectual property to Raycom. We have also (i) deposited our intellectual property in escrow accounts for the benefit of Raycom, (ii) in furtherance of the security interest granted to Raycom in our equity interest in Frankly Media LLC, entered into a pledge agreement and a control agreement pursuant to which we granted Raycom control of the equity interest of Frankly Media LLC and (iii) entered into an insurance transfer and consent assigning our rights and payments under insurance policies covering our operations and business naming Raycom as mortgagee, first loss payee and additional named insured.

In addition, we have entered into a Pledge Agreement pursuant to which we granted Raycom a security interest on substantially all the assets and securities of our current and future subsidiaries.

Upon an event of default, we will be required to deposit all interests, income, dividends, distributions and other amounts payable in cash in respect of the pledged interests into a collateral account over which Raycom has the sole control and may apply such amounts in its sole discretion to the secured obligations under the Credit Agreement. Upon the cure or waiver of a default, Raycom will repay to us all cash interest, income, dividends, distributions and other amounts that remain in such collateral account. In addition, upon an event of default, Raycom has the right to (i) transfer in its name or the name of any of its agents or nominees the pledged interests, (ii) to exercise all voting, consensual and other rights and power and any and all rights of conversion, exchange, subscription and other rights, privileges or options pertaining to the pledged interests whether or not transferred into the name of Raycom, and (iii) to sell, resell, assign and deliver all or any of the pledged interests. We have also agreed to use our best efforts to cause a registration under the Securities Act and applicable state securities laws of the pledged interests upon the written request from Raycom.

Raycom may transfer or assign, syndicate, grant a participation interest in or grant a security interest in, all or any part of its rights, remedies and obligations under the Credit Agreement and the related loan documents, without notice or our consent.

#### ***Repayment of Bridge Bank Loan***

As a condition to entering into the Credit Agreement, on August 31, 2016, we fully repaid the Bridge Bank Loan.

#### ***Western Alliance Bank Letter of Credit***

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, we entered into a standby Letter of Credit with Western Alliance Bank for an amount of \$500,000. For each advance, interest will accrue at a rate equal to the sum of (i) the Base Rate, plus (ii) 3.50%, provided that such interest rate will change from time to time as the Base Rate changes. Interest will accrue from the date of the advance until such advance is paid in full. We have granted Western Alliance Bank a security interest in a \$524,115 restricted 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.

#### ***Intercompany Loan Agreements***

Pursuant to a loan agreement dated February 17, 2015 by and between Frankly Inc. and Frankly Co., Frankly Co. has agreed to transfer to Frankly Inc. up to \$15 million to cover expenditures of the Company. The interest rate of the loan is fixed at 3% annually and installments will be made until 2020. Frankly Co. unilaterally determines the number, the amount and the frequency of each installment. As of December 31, 2016, there was approximately \$13.9 million outstanding.

#### ***Reverse Stock Split***

On February 3, 2017, we effected the one-for-seventeen Reverse Stock Split of our issued and outstanding common shares. Upon effectiveness of the Reverse Stock Split, every 17 common shares outstanding decreased to one common share.

#### ***Raycom Advance***

On December 22, 2016, pursuant to an amendment (the "Advance Agreement"), to the Website Software and Services Agreement (the "Raycom Services Agreement") dated October 1, 2011 by and between the Company and Raycom, Raycom pre-paid \$3 million of future fees for services (the "Original Raycom Advance") to be provided by the Company pursuant to the Raycom Services Agreement. Pursuant to the Advance Agreement, if we had completed an equity raise of at least \$5 million before March 31, 2017, then we could have either (i) refunded the prepayment to Raycom within 30 days of the completion of the equity raise along with an additional \$30,000 for fees in connection with the prepayment by Raycom, or (ii) applied the prepayment to services provided by us for the year ending December 31, 2017 in which case Raycom would have received a discount of \$300,000 (the "Discount") for the services to be provided by us. If we did not complete an equity raise of at least \$5 million by March 31, 2017, then the prepayment would have been applied to the services to be provided for the year ending December 31, 2017 and the Discount will be applied to services to be provided by us for the year ending December 31, 2017.

On March 30, 2017, we entered into an amendment to the Advance Agreement (the “Second Raycom Advance”) pursuant to which Raycom pre-paid an additional \$2 million of future fees for services to be provided by the Company pursuant to the Raycom Services Agreement. The amendment also extended the date for completing the equity raise and if we did not complete an equity raise of at least \$5 million by May 31, 2017, then the prepayment would have been applied to the services to be provided for the period commencing June 1, 2017 and Raycom would have received the Discount for services to be provided by us for the year ending December 31, 2017.

On May 25, 2017, we entered into a further amendment to the Advance Agreement, pursuant to which if we did not complete an equity raise of at least \$5 million by June 30, 2017, then the prepayment would have been applied to the services to be provided for the period commencing July 1, 2017 and Raycom would have received the Discount for services to be provided by us for the year ending December 31, 2017.

On October 6, 2017, we entered into a further amendment to the Advance Agreement, pursuant to which the prepayment will be applied to the services to be provided for the period commencing January 1, 2018. Additionally, Raycom will receive an additional \$180,000 discount (the “Second Discount”) in the amount of their 2018 fees.

#### ***Silicon Valley Bank Line of Credit***

On December 28, 2016, we, Frankly Media and Frankly Co. had entered into the Loan and Security Agreement pursuant to which SVB has provided us with a \$3 million revolving line of credit (the “SVB Line of Credit”). Borrowings under the SVB Line of Credit accrued interest at a floating per annum rate equal to 2.25% above the Prime Rate published in the Wall Street Journal, which interest was payable monthly.

The SVB Line of Credit was secured by substantially all of our and our subsidiaries’ assets. We and our subsidiaries had also entered into Intellectual Property Security Agreements pursuant to which we and our subsidiaries have granted a security interest in all of our respective rights, titles and interests in our intellectual property. Pursuant to an intercreditor agreement dated December 28, 2016 (the “Intercreditor Agreement”) between Raycom, The Teachers’ Retirement Systems of Alabama, as agent for Raycom (“TRS”) and SVB, Raycom had a first priority security interest in substantially all of our assets other than accounts receivable, cash, cash accounts, short and long term investments, all bank accounts including, without limitation, all operating accounts, depository accounts, savings accounts, and investment accounts, and all property contained therein, stock, securities, and investment property, and all proceeds arising out of any of the foregoing (the “SVB Priority Collateral”) while SVB had a first priority security interest in the SVB Priority Collateral.

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

#### ***December Private Placement***

In December 2016, we issued a total aggregate of 85,131 units (“Units”), with each Unit consisting of one common share and one-half warrant to acquire a common share (each whole warrant entitled the holder to purchase one common share for CDN\$9.52 for a period of 24 months from the date of issuance, a “Private Placement Warrant”) at a price of CDN\$7.65 per Unit raising gross proceeds of CDN\$651,250 or \$486,116 and net proceeds of approximately CDN\$619,660 or \$462,536, net of 6% finders’ fee discussed below. Each Private Placement Warrant entitles the holder thereof to purchase one additional common share upon payment of the exercise price of CDN\$9.52 for a period of 24 months from issuance. In connection with sale of Units outside of the U.S., we paid finders’ fees of 6% cash totaling CDN\$31,590 or \$23,580 to Canaccord Genuity Corp. and Industrial Alliance Securities Inc. (the “Private Placement Finders”). We also issued the Broker Warrants to purchase 4,129 common shares (the “Broker Warrants” and together with the Private Placement Warrants, the “December Warrants”) to the Private Placement Finders, representing 6% of the total aggregate Units placed by the Private Placement Finders. 70,294 Units issued pursuant to the exemption under Regulation S are subject to a one year distribution compliance period and an offer and sale of such securities cannot be made to a U.S. person or for the account or benefit of a U.S. person until the expiration of the one year distribution compliance period. In connection with the December Private Placement, we incurred \$61,131 in share issuance costs, offset by \$9,319, being the value attributed to the Broker Warrants, for net share issuance costs of \$51,812. The net proceeds from such offering will be used for general working capital and product development. We refer to these transactions as the “December Private Placement”.

## ***Recent Developments***

### ***Legal Proceedings***

On July 21, 2017, a complaint was filed by 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 Frankly, our 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 our acquisition of Gannaway Web Holdings, LLC from GEI and other parties in 2015.

On September 30, 2017, the defendants filed a motion to dismiss the complaint. On October 11, 2017 the plaintiffs filed an amended complaint. On October 31, 2017 the defendants filed a motion to dismiss the amended complaint. The Company and its counsel continue to believe that the claims are without merit. We intend to defend the claims vigorously.

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

### **Critical Accounting Policies**

There have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2017 as compared to those for the year ended December 31, 2016, included within our Form 10 as filed with the SEC on August 7, 2017 (the "Form 10"), aside for the following:

We are an "emerging growth company" as defined by the Jumpstart Our Business Startups ("JOBS") Act of 2012. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7 (a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can selectively delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption and, as a result, our financial statements may not be comparable to the financial statements of issuers that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable.

### **Recent Accounting Pronouncements**

Refer to Note 2, "Summary of Significant Accounting Policies," to the condensed consolidated financial statements for a discussion of recent accounting pronouncements applicable to us.

### **Off-Balance Sheet Financing**

Other than our operating lease obligations, we have no off-balance sheet arrangements such as guarantees, retained or contingent interests in assets transferred to an unconsolidated entity, obligations indexed to our own stock or variable interests in unconsolidated entities. Future obligations under operating leases, capital leases and debt arrangements are detailed in our condensed consolidated financial statements included elsewhere in this report.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Foreign Currency Exchange Rate Risk***

Our 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, which consists of transactions of the Canadian holding company. Balances denominated in foreign currencies as of September 30, 2017 are not material to the Company.

#### ***Interest rate risk***

Our non-revolving credit facility bears interest at a fixed rate, and as such is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were effective.

#### ***Changes in Internal Control over Financial Reporting***

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.