INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE TO READER

Under National Instrument 51-102, if an auditor has not performed a review of interim financial statements, they must be accompanied by a note indicating that the unaudited interim condensed financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of the management. The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	$ 2,237,145	$ 3,542,079
Cash from private placement in attorney trust	1,058,458	-
Restricted cash	-	524,115
Accounts receivable, net	1,657,341	2,238,331
Prepaid expenses and other current assets	403,757	274,923
Total Current Assets	**5,356,701**	**6,579,448**
Property & equipment, net	65,523	63,245
Software, net	676,667	-
Intangible assets, net	1,714,400	-
Goodwill	106,666	-
Other assets	205,228	194,869
Total Assets	**$ 8,125,185**	**$ 6,837,562**

Liabilities and Shareholders' Equity (Deficit)				
Current Liabilities				
Accounts payable	$	3,698,362	$	5,977,424
Accrued expenses		1,238,235		1,948,748
Deferred revenue		7,898		14,109
Deferred purchase price and contingent consideration		881,000		-
Due to related parties		-		320,125
Total Current Liabilities		**5,825,495**		**8,260,406**
Non-revolving credit facility, net		-		13,000,000
Other liabilities		279,995		577,790
Total Liabilities		**6,105,490**		**21,838,196**
Commitments and Contingencies (Note 10)				
Shareholders' Equity (Deficit)				
Common shares, no par value, unlimited shares authorized, 28,518,239 and 2,660,155 shares outstanding as of June 30, 2019 and December 31, 2018, respectively		-		-
Class A restricted voting shares, no par value, unlimited shares authorized, 0 shares outstanding as of June 30, 2019 and December 31, 2018		-		-
Additional paid-in capital		73,248,558		67,120,643
Accumulated deficit		(71,204,941)		(82,064,183)
Accumulated other comprehensive loss		(23,922)		(57,094)
Total Shareholders' Equity (Deficit)		**2,019,695**		**(15,000,634)**
Total Liabilities and Shareholders' Equity (Deficit)	**$**	**8,125,185**	**$**	**6,837,562**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Income (Loss) and Comprehensive Income (Loss) – Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Total Revenue	**$ 3,432,404**	**$ 5,767,613**	**$ 5,303,097**	**$ 11,529,471**
Costs and operating expenses:				
Cost of revenue (excluding depreciation and amortization)	2,439,411	2,588,573	3,748,173	5,313,852
General and administrative (excluding depreciation and amortization)	930,404	1,413,797	1,792,220	3,889,495
Selling and marketing	374,725	459,490	718,624	921,510
Research and development (excluding depreciation and amortization)	1,236,547	751,021	2,318,952	1,830,793
Depreciation and amortization	136,343	1,265,999	161,051	2,413,244
Loss on disposal of assets	-	12,823	-	12,823
Gain on extinguishment of debt	(14,651,644)	-	(14,651,644)	-
Transaction costs	147,455	54,019	147,455	78,692
Restructuring expense	-	81,250	-	542,210
Retention expense	-	-	205,632	588,099
Other expense	-	-	1,273	-
Income (Loss) from operations	**12,819,163**	**(859,359)**	**10,861,361**	**(4,061,247)**
Foreign exchange loss	1,841	1,159	2,119	11,668
Interest expense, net	-	599,003	-	1,196,099
Income (Loss) before income tax expense	**12,817,322**	**(1,459,521)**	**10,859,242**	**(5,269,014)**
Income tax expense	-	-	-	-
Net Income (Loss)	**$ 12,817,322**	**$ (1,459,521)**	**$ 10,859,242**	**$ (5,269,014)**
Other Comprehensive Income (Loss)				
Foreign currency translation	33,371	(1,036)	33,172	5,675
Comprehensive Income (Loss)	**$ 12,850,693**	**$ (1,460,557)**	**$ 10,892,414**	**$ (5,263,339)**
Basic Net Income (Loss) Per Share	**$ 0.83**	**$ (0.60)**	**$ 1.20**	**$ (2.26)**
Basic Weighted-Average Common Shares Outstanding	**15,428,023**	**2,422,543**	**9,080,242**	**2,329,891**
Diluted Net Income (Loss) Per Share	**$ 0.42**	**$ (0.60)**	**$ 0.45**	**$ (2.26)**
Diluted Weighted-Average Common Shares Outstanding	**30,409,438**	**2,422,543**	**24,061,657**	**2,329,891**

See accompanying notes to the condensed consolidated financial statements.

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

	Common Shares	Class A Restricted Voting Shares	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
Balance, December 31, 2018	**2,660,155**	**-**	**$67,120,643**	**$ (82,064,183)**	**$ (57,094)**	**$ (15,000,634)**
Vesting of restricted share units	36,413	-	40,438	-	-	40,438
Issuance of private placement units	26,914,285	-	7,014,010	-	-	7,014,010
Unit issuance costs	-	-	(649,882)	-	-	(649,882)
Repurchase of common shares	(1,092,614)	-	(300,514)	-	-	(300,514)
Stock-based compensation	-	-	23,863	-	-	23,863
Net income	-	-	-	10,859,242	-	10,859,242
Other comprehensive income	-	-	-	-	33,172	33,172
Balance, June 30, 2019	**28,518,239**	**-**	**$73,248,558**	**$ (71,204,941)**	**$ (23,922)**	**$ 2,019,695**
Balance, December 31, 2017	**2,226,861**	**-**	**$66,127,485**	**$ (70,836,330)**	**$ (65,704)**	**$ (4,774,549)**
Vesting of restricted share units	109,695	-	-	-	-	-
Issuance of common shares	288,642	-	597,524	-	-	597,524
Stock-based compensation	-	-	331,888	-	-	331,888
Net loss	-	-	-	(5,269,014)	-	(5,269,014)
Other comprehensive income	-	-	-	-	5,675	5,675
Balance, June 30, 2018	**2,625,198**	**-**	**$67,056,897**	**$ (76,105,344)**	**$ (60,029)**	**$ (9,108,476)**

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, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities		
Net income (loss)	**$ 10,859,242**	**$ (5,269,014)**
Adjustments to reconcile net income (loss) to net cash flows used in operating activities:		
Depreciation and amortization	161,051	2,413,244
Amortization of debt discount	-	255,677
Amortization of deferred financing costs	-	22,404
Stock-based compensation expense	23,863	331,888
Deferred interest	-	785,186
Loss on disposal of assets	-	12,823
Gain on extinguishment of debt	(14,651,644)	-
Provision for bad debt expense	-	687,806
Changes in assets and liabilities:		
Cash from private placement in attorney trust	(1,008,914)	-
Accounts receivable	580,989	578,906
Prepaid expenses and other current assets	(126,442)	144,802
Other assets	(40,421)	9,494
Accounts payable	582,178	(1,058,224)
Accrued expenses	(668,791)	(328,634)
Deferred revenue	(6,211)	(26,724)
Due to related parties	(320,125)	(1,585,821)
Other liabilities	(297,795)	(130,649)
Net cash used in operating activities	**(4,913,020)**	**(3,156,836)**
Cash flows from investing activities		
Acquisition of AMP assets	(1,750,000)	-
Capitalized software costs	-	(1,226,808)
Purchases of property & equipment	-	(7,063)
Proceeds from sale of equipment	-	9,635
Net cash used in investing activities	**(1,750,000)**	**(1,224,236)**
Cash flows from financing activities		
Capital lease payments	-	(40,449)
Proceeds from issuance of private placement units	7,014,010	-
Unit issuance costs	(649,882)	-
Repurchase of common shares	(300,514)	-
Payments to extinguish non-revolving credit facility and amounts due to related parties	(1,209,486)	-
Proceeds from issuance of debt	-	4,100,000
Net cash provided by financing activities	**4,854,128**	**4,059,551**
Effect of exchange rate changes on cash	(20,157)	5,095
Net change in cash and cash equivalents	**(1,829,049)**	**(316,426)**
Cash and cash equivalents and restricted cash at beginning of period	4,066,194	1,889,001

Cash and cash equivalents and restricted cash at end of period	**$ 2,237,145**	**$ 1,572,575**
Supplemental cash flow disclosure		
Cash paid for interest	-	123,418
Cash paid for income taxes	-	-
Issuance of common shares to settle retention plan	-	597,524
Deferred purchase price and contingent consideration	881,000	-

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 condensed 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 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 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.

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 May 10, 2019, the Company’s subsidiary, Frankly Media LLC, completed the acquisition of certain assets of Triton Digital, Inc. and certain affiliated entities (collectively, “Triton”), including the AMP content management and contesting platforms for radio broadcasters, customer agreements to supply AMP services to approximately 800 radio stations and all employees of the AMP business (collectively the “AMP Assets”)(Note 3).

Business and Reportable Segment

The Company operates under one reportable segment. The Company provides an integrated software platform for brands and media companies primarily in the United States of America (“U.S.”) to create, distribute, analyze and monetize their content across all of their digital properties on web, mobile and television. The Company also sources national and local advertising for its customers to distribute over multiple consumer devices.

Going Concern

These condensed 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, 2019, the Company has an accumulated deficit of $71.2 million, representative of recurring losses since inception. The Company has not generated annual positive cash flow from operations since inception when excluding changes in working capital. In the latter part of 2018, the Company had several customers provide notice that they would terminate their customer agreements with the Company on or about December 31, 2018. Raycom Media, Inc. (“Raycom”) and Gray Television, Inc. (“Gray”), who both were individually significant customers of the Company accounting for 18% and 26%, respectively, of the Company’s revenue for year ended December 31, 2018, finalized their merger on January 2, 2019. Raycom and Gray’s customer agreements with the Company were terminated on December 31, 2018. Separately, five other of the Company’s larger, but not individually significant customers, terminated their agreements with the Company on or before December 31, 2018 (together with Raycom and Gray, the “Customer Terminations”). In the aggregate, these terminations represented a significant percentage of the Company’s 2018 revenue and had a material negative impact on the Company’s revenues and related net loss for the six months ended June 30, 2019, as well as future revenues and related net loss. These conditions raise substantial doubt about the Company’s ability to continue as a going concern within one year after the issuance of its financial statements.

To reduce its operating cash needs, in February 2018, the Company executed a reduction-in-force that removed approximately 20 full-time employees from its headcount. In addition, the Company subleased its remaining office space in San Francisco, California and finalized its move out of its Long Island City, New York headquarters into a smaller space in New York City, New York. In the first quarter of 2019, as a partial response to the Customer Terminations, the Company reduced its headcount by approximately 8 full-time employees as well as reduced operating expenses in a number of other areas, but primarily in outsourced research and development. In addition, in August 2019, in connection with the acquisition of certain assets of Vemba Corporation (“Vemba”)(Note 11), the Company further reduced its headcount by approximately 18 full-time employees. With the Customer Terminations described above, the Company will continue efforts to reduce costs and increase revenue through 2019 and beyond.

In May 2019, the Company completed a Private Placement, issuing an aggregate of 26,914,285 units at a price of CDN$0.35 per unit, raising gross proceeds of $7.0 million. After share issuance costs of $0.6 million, the Company's net proceeds were $6.4 million (Note 8).

In connection with the Private Placement the Company (i) repurchased all of the outstanding common shares and warrants held by Gray for cancellation (Notes 7 and 8), (ii) extinguished the remaining principal debt held by Gray of $10.0 million as well as accounts payable due to Gray and Raycom amounting to approximately $2.9 million relating to unpaid national advertising revenue share payables, for a total cash payment by the Company of $1.0 million (Note 7), and (iii) repurchased all of the outstanding common shares held by SKP America LLC ("SKP America") for cancellation for a cash payment of $150,000 (Note 8).

In addition, in connection with the Private Placement, Frankly Media under an agreement with Triton (the "AMP Agreement") acquired the AMP Assets for a cash payment of $1,750,000 and deferred payments of up to $1,250,000 due within one year (Note 3).

The Company believes the above transactions substantially improve the Company's ability to attract additional debt or equity financing. The Private Placement provided the Company with needed working capital due to shortfalls resulting from the Customer Terminations described above. The AMP acquisition was an extension of the Company's business into the radio broadcast vertical and replaces some of the lost revenue resulting from the Customer Terminations. The Company will continue efforts to reduce costs and increase revenue through 2019 and beyond. There can be no assurance that the Company will attract additional financing needed or achieve any other actions necessary to sustain the Company's operations and execute its business plan through the next 12 months from the date of this filing.

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, 2018 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 for the year ended December 31, 2018, included within the Company's Annual Financial Statements ("AFS") as filed on April 30, 2019 on SEDAR.

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 condensed consolidated 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 condensed consolidated financial statements. Accordingly, actual results may differ from estimated amounts.

Accounts Receivable and Concentrations of Risk

Accounts receivable are subject to credit risk and as of June 30, 2019 and December 31, 2018, two customers each accounted for greater than 10% of the Company's accounts receivable balance. In total, these two customers accounted for 51% and 49% of the Company's accounts receivable balance, respectively. Additionally, approximately 22% and 53% of the Company's revenue for the six months ended June 30, 2019 and 2018, respectively, was generated from customers that accounted for greater than 10% of the Company's total revenue. The allowance for doubtful accounts was $799,800 as of June 30, 2019 and December 31, 2018.

Net Income (Loss) Per Share

Basic net income (loss) per share is calculated in accordance with ASC 260, *Earnings per Share*, using the weighted-average number of common shares outstanding during each period. Diluted net income (loss) per share assumes the conversion, exercise or issuance of all potential common share equivalents unless the effect is to reduce the loss or increase the income per share. For purposes of this calculation, stock options, warrants and restricted stock units ("RSU"s) are considered to be potential common shares and are only included in the calculation of diluted net income (loss) per share when their effect is dilutive.

Due to the net loss incurred during the three and six months ended June 30, 2018, all outstanding options, RSU's and warrants were excluded from diluted weighted-average common shares outstanding as their effect was anti-dilutive.

Weighted average common shares outstanding for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Basic Weighted-Average Common Shares Outstanding	**15,428,023**	**2,422,543**	**9,080,242**	**2,329,891**
Effect of Dilutive Securities:				
Stock options	55,161	-	55,161	-
RSU's	10,062	-	10,062	-
Warrants	14,916,192	-	14,916,192	-
Diluted Weighted-Average Common Shares Outstanding	**30,409,438**	**2,422,543**	**24,061,657**	**2,329,891**

Recently Issued Accounting Pronouncements

The Company is an "emerging growth company" ("EGC") 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. The Company has elected to avail itself of this exemption and, as a result, its 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 the Company can elect to opt out of the extended transition period at any time, which election is irrevocable.

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) — In May 2014, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." The new topic will replace Topic 605, "Revenue Recognition," and creates modifications to various other revenue accounting standards for specialized transactions and industries. The topic is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards to reconcile previously differing treatment between U.S. practices and those of the rest of the world and to enhance disclosures related to disaggregated revenue information. The effective date is the Company's annual fiscal year 2019 and interim periods thereafter, using one of two retrospective application methods: the full retrospective method or the modified retrospective method. The Company plans to adopt the standard using the modified retrospective method. This effective date is applicable for the Company due to the JOBS Act exemption described above. While this assessment is still in progress, the Company does not believe there will be a significant impact to the timing and recognition of revenue. In conjunction with its continuing assessment of the impact of the new guidance, the Company is also reviewing and updating its internal controls over financial reporting to ensure that information required to implement the new standard is appropriately captured and recorded.

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 U.S. 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 as an EGC for its annual fiscal 2020 period and interim periods thereafter and requires the modified retrospective method of adoption. 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 on the balance sheet as operating lease liabilities and right-of-use assets upon adoption.

Recently Adopted

ASU 2016-18: Statement of Cash Flows (Topic 230), Restricted Cash — In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted the standard retrospectively on January 1, 2019. As of June 30, 2019, the Company no longer has any restricted cash balances. Historically, the Company had restricted cash balances and changes in restricted cash due to security interests from certain lenders, with changes in restricted cash presented as financing activities in the consolidated statements of cash flows. In accordance with ASU 2016-18, such balances are now included in the beginning and ending balances of Cash and cash equivalents and restricted cash for all periods presented. As the Company separately presents Restricted cash on its consolidated balance sheets, reconciliation to the beginning and ending Cash and cash equivalents and restricted cash on the consolidated statements of cash flows was not deemed necessary.

3. Acquisition of AMP

Description of Transaction

On May 10, 2019, the Company's subsidiary, Frankly Media LLC, completed the acquisition of the AMP Assets from Triton, including the AMP content management and contesting platforms for radio broadcasters, customer agreements to supply AMP services to approximately 800 radio stations and all employees of the business. The acquisition was completed pursuant to the AMP Agreement between the Company and Triton dated May 1, 2019. The total maximum purchase price to be paid under the AMP Agreement is $3.0 million, with $1.75 million paid on closing, $250,000 payable on the six-month anniversary of the closing date and $1.0 million contingent upon the renewal of a key customer contract and payable upon such renewal.

The contingent consideration due to Triton of up to $1.0 million is contingent upon the renewal of a key customer contract and payable upon such renewal. The contingent consideration will be computed as the amount equal to the lesser of (i) $1.0 million and (ii) $1.0 million multiplied by a fraction, the numerator of which is the total minimum AMP service fees to be paid to the Company during 2020 pursuant to the renewal agreement and the denominator of which is the total amount of actual AMP service fees paid in 2019.

Purchase Price Allocation

The net assets acquired were recorded in the condensed consolidated financial statements at their estimated fair values as of the acquisition date. Under the purchase method of accounting, the total acquisition price of approximately $2.6 million was allocated to the net tangible assets and identifiable intangible assets based on their fair values as of the date of acquisition, with the amount paid in excess of such fair value recorded as goodwill.

The estimated fair values are preliminary and based on the information that was available as of that date. The Company believes that the information provides a reasonable basis for estimating the fair values, but the Company is waiting for additional information necessary to finalize these amounts, particularly with respect to the estimated fair value of intangible assets. The preliminary measurements of fair value reflected are subject to changes and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

The following summarizes the preliminary purchase price allocation relating to the acquisition of the AMP Assets:

		Amount
Purchase Consideration		
Cash	$	1,750,000
Deferred purchase price and contingent consideration		881,000
	$	**2,631,000**
Purchase Price Allocation		
Property and equipment		24,334
Software		700,000
Intangible assets - customer relationships		1,800,000
Goodwill		106,666
Net assets acquired	**$**	**2,631,000**

Significant judgments and assumptions related to the valuation and useful lives of certain classes of assets acquired are as follows:

- Intangible Assets, Software – AMP had certain proprietary technology used in its products, which the Company expects will contribute to future cash flow. The fair value of the software intangible asset was determined based on the relief from royalty method under the income approach. The software intangible asset was valued using Level 3 inputs which consisted of the following key inputs: (i) cash flow projections; (ii) royalty rate; (iii) technology replacement rate; and (iv) present value factor. This asset is amortized on a straight-line basis over the estimated useful life of five years.

- Intangible Assets, Customer Relationships – AMP had established relationships with local radio broadcasters which are expected to result in future sales. The fair value of the customer relationships intangible asset was determined based on the excess earnings method under the income approach. The customer relationships intangible asset was valued using Level 3 inputs which consisted of the following key inputs: (i) cash flow projections; (ii) customer attrition rate / probability of renewal rate; (iii) charges for use of assets; and (iv) present value factor. This asset is amortized on an accelerated basis over the estimated useful life of eight years.

- Contingent consideration – The fair value of the contingent consideration due to Triton of up to $1.0 million was determined using a multiple-scenario probability-weighted analysis. The contingent consideration was valued using Level 3 inputs which consisted of the probabilities of each scenario as determined by the Company and the present value factor.

The difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed represents goodwill of $0.1 million. All of the goodwill is expected to be deductible for tax purposes as the acquisition was considered an asset deal for tax purposes. The goodwill recorded represents the following:

- Cost savings and operating synergies expected to result from combining the operations of AMP with those of the Company

- Intangible assets that do not qualify for separate recognition such as the assembled workforce

The Company incurred fees of $147,455 which were recognized separately from the acquisition and included as transaction costs on the condensed consolidated statement of income (loss) and comprehensive income (loss). The condensed consolidated statement of income (loss) and comprehensive income (loss) for the three and six months ended June 30, 2019 included total revenues from the AMP business of approximately $526,000, which represented revenue for the period from May 10, 2019 to June 30, 2019.

4. Restructuring Expense

In an effort to reduce its operating cash needs, in February 2018, the Company executed a reduction-in-force that removed approximately 20 full-time employees from its headcount. In addition, the Company subleased its remaining office space in San Francisco, CA and finalized its move out of its Long Island City, New York headquarters into a smaller space in New York City, New York. The restructuring also included a reorganization of the senior management team. Effective April 12, 2018, the Company's CEO resigned and was succeeded by the Company's former COO and CFO. A number of other senior management changes were implemented on the same date. The Company accounted for the one-time termination benefits and certain contract costs in accordance with ASC 420 – *Exit or Disposal Cost Obligations*.

Termination of Long Island City, NY Lease

On December 21, 2018, the Company entered into a termination agreement of its sublease agreement with MetLife for its Long Island City, NY headquarters, effective December 31, 2018. The sublease expiration date was March 1, 2023, therefore, this was an early termination of the sublease. In connection with this early termination, the Company agreed to pay an early termination fee of approximately $499,158, which represented the amount of the Company's security deposit with MetLife through a standby letter of credit with Western Alliance Bank (Note 7). Subsequent to the funding of the termination fee by Western Alliance Bank in January 2019, the standby letter of credit was also terminated. The Company recorded a lease abandonment expense of $477,896 as of December 31, 2018, which was comprised of the lease termination fee to MetLife of $499,158 and write-off of prepaid standby letter of credit fees with Western Alliance Bank of $7,675, partially offset by write-off of deferred rent liability of $28,937.

The following table summarizes the changes in the restructuring liability (included in accrued expenses) for the periods presented, by each major type of cost associated with the restructuring activity:

	One-time Termination Benefits	Contract Costs	Lease Termination	Total
Balance, December 31, 2018	$ -	$ 99,076	$ 499,158	598,234
Restructuring expense	-	-	-	-
Payments	-	-	(499,158)	(499,158)
Adjustments	-	-	-	-
Balance, June 30, 2019	$ -	$ 99,076	$ -	$ 99,076

5. Related Party Transactions and Balances

The Company had several significant shareholders as follows: Gray (beginning January 2, 2019 and Raycom prior to that date) and SKP America LLC ("SKP America") which each owned approximately 20.6% and 20.5%, respectively, as of December 31, 2018 of the aggregate common shares. Following the transactions described in Note 1, Gray and SKP America are no longer shareholders of the Company. As of June 30, 2019, the Company no longer has any balances or ongoing service relationship with Gray and SKP America (Notes 7 and 8).

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

Amounts Due (to) from Related Parties	**June 30, 2019**	**December 31, 2018**
	(Unaudited)	
Non-revolving credit facility, net		
Gray / Raycom	$ -	$ 13,000,000
Due (to) from Gray / Raycom:		
Accounts receivable, net	$ -	$ 12,424
Accounts payable	-	(332,549)
Total due to related parties	$ -	$ (320,125)

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Transactions with Related Parties	**2019**	**2018**	**2019**	**2018**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gray / Raycom:				
Revenue	$ -	$ 1,196,556	$ -	$ 2,418,621
Interest on non-revolving credit facility	-	(546,363)	-	(1,063,267)
Interest on the Advance Agreement	-	(52,648)	-	(132,561)
Gain on extinguishment of debt	(14,651,644)	-	(14,651,644)	-
	(14,651,644)	597,545	(14,651,644)	1,222,793
Mobdub:				
License fees	-	(29,166)	-	(58,333)
	-	(29,166)	-	(58,333)
	$ (14,651,644)	$ 568,379	$ (14,651,644)	$ 1,164,460

6. 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,**	
	2019	**2018**	**2019**	**2018**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation of property and equipment	$ 27,410	$ 124,056	$ 52,118	$ 258,027
Amortization of software	23,333	923,609	23,333	1,718,549
Amortization of intangibles	85,600	218,334	85,600	436,668
Total depreciation and amortization	$ 136,343	$ 1,265,999	$ 161,051	$ 2,413,244

Property and Equipment, Net

The following table summarizes property and equipment, net:

	June 30, 2019 (Unaudited)	December 31, 2018
Cost:		
Office and computer equipment and software	$ 1,800,495	$ 1,776,161
Leasehold improvements	603,978	603,978
	2,404,473	2,380,139
Accumulated depreciation and amortization:		
Office and computer equipment and software	(1,416,731)	(1,394,675)
Leasehold improvements	(354,831)	(354,831)
	(1,771,562)	(1,749,506)
Accumulated impairment:		
Office and computer equipment and software	(318,241)	(318,241)
Leasehold improvements	(249,147)	(249,147)
	(567,388)	(567,388)
	$ 65,523	$ 63,245

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Customer Terminations discussed in Note 1 were a strong indicator that the carrying amount of the Company's long-lived assets would not be recoverable. The Company performed a recoverability test as of September 30, 2018 and concluded the carrying amounts of its long-lived assets were not recoverable. Considering the impact of the Customer Terminations, as of September 30, 2018 the Company was forecasting negative cash flows in 2019 and beyond which did not support the carrying value of its long-lived assets. As a result of applying ASC 360-10-35-36 - Measuring an impairment – Step 3, the Company recorded impairment expense of approximately $12.8 million in the third quarter of 2018, which was comprised of a full impairment of its capitalized software and customer relationship intangible assets, which each had carrying values prior to impairment of approximately $6.1 million as of September 30, 2018, as well as impairment expense of approximately $567,000 to property and equipment.

In connection with the acquisition of the AMP Assets (Note 3), the Company determined the acquired property and equipment had a fair value of $24,334.

Software, Net

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

	June 30,2019 (Unaudited)	December 31, 2018
Cost	$ 14,677,003	$ 13,977,003
Accumulated amortization	(7,885,595)	(7,862,262)
Accumulated impairment	(6,114,741)	(6,114,741)
	$ 676,667	$ -

During the six months ended June 30, 2019 and 2018, the Company capitalized software development costs of $0 and $1,226,808, respectively. In addition, in the third quarter of 2018, the Company recorded a full impairment of the remaining carrying value of its software development costs assets, as discussed above.

In connection with the acquisition of the AMP Assets (Note 3), the Company determined the acquired software had a fair value of $700,000.

Intangible Assets, Net

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

	June 30, 2019	December 31, 2018
	(Unaudited)	
Cost:		
Broadcast relationships	$ 7,600,000	$ 7,600,000
Advertiser relationships	1,200,000	1,200,000
Customer relationships - AMP	1,800,000	-
	10,600,000	8,800,000
Accumulated amortization:		
Broadcast relationships	(1,952,786)	(1,952,786)
Advertiser relationships	(740,000)	(740,000)
Customer relationships - AMP	(85,600)	-
	(2,778,386)	(2,692,786)
Accumulated impairment:		
Broadcast relationships	(5,647,214)	(5,647,214)
Advertiser relationships	(460,000)	(460,000)
	(6,107,214)	(6,107,214)
	$ 1,714,400	$ -

In the third quarter of 2018, the Company recorded a full impairment of the remaining carrying value of its customer relationship intangible assets, related to prior business combinations, as discussed above.

In connection with the acquisition of the AMP Assets (Note 3), the Company determined the acquired customer relationship intangible assets had a fair value of $1.8 million.

7. Debt

Non-revolving Credit Facility

On April 1, 2019, the Company entered into an agreement with Gray (the “Raycom Agreement”) to (i) repurchase all of the 547,325 outstanding common shares and warrants to purchase 817,160 common shares at a price per share of CDN$8.50 Gray owned for cancellation, and (ii) extinguish the remaining principal debt held by Raycom of $10.0 million ($13.0 million carrying value on the consolidated balance sheet as of December 31, 2018) as well as accounts payable due to Gray and Raycom amounting to approximately $2.9 million relating to unpaid national advertising revenue share payables, for a total cash payment by Company of $1.0 million. The Raycom Agreement was contingent upon the Company closing a financing transaction on or before June 13, 2019, with an aggregate investment of at least $4.0 million and the Company making the one-time cash payment of $1.0 million to Gray. On May 30, 2019, after closing of the Private Placement, the Company made the closing cash payment to Gray.

The Company determined the Raycom Agreement qualified as a debt extinguishment in accordance with ASC 405-20, *Liabilities—Extinguishments of Liabilities.* As the Raycom Agreement included extinguishment of liabilities and cancellation of Company common shares and warrants held by Gray, the $1 million cash consideration paid by the Company was allocated to the common shares using the purchase price in the SKP America repurchase which closed on the same day as the Raycom Agreement. On May 30, 2019, the Company repurchased for cancellation 545,289 common shares held by SKP America for $150,000 or $0.275 per common share. The Company allocated $150,514

($0.275 per common share) of the $1.0 million consideration paid to Gray to the 547,325 common shares repurchased for cancellation (Note 8), leaving $849,486 allocated to extinguishment of liabilities. The warrants to purchase 817,160 common shares that were held by Gray were determined to have insignificant value given the exercise price of CDN$8.50.

The Company recognized a gain on extinguishment of debt in the amount of $14,651,644. The gain was comprised of $13,000,000 carrying value of the non-revolving credit facility, $2,861,130 of accounts payable, partially offset by $849,486 of consideration allocated to extinguishment of liabilities (explained above) and $360,000 in transaction costs, representing a bonus to the CEO for closing the Raycom Agreement.

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 ("MetLife"), 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. In January 2019, the Company terminated its standby letter of credit with Western Alliance Bank (Note 4).

8. Shareholders' Equity (Deficit)

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.

Shares Issued During the Six Months Ended June 30, 2019

May 2019 Private Placement

In May 2019 the Company completed a non-brokered private placement (the "Private Placement") for gross proceeds of $7.0 million through the issuance of 26,914,285 units (the "Units") of the Company at an issue price of CDN$0.35 per Unit. Each Unit consisted of one common share of the Company and one-half of one share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to acquire one common share of the Company at CDN$0.65 per share until the date that is 24 months from the closing date. All securities issued pursuant to the Private Placement are subject to a statutory hold period of four months and one day from the date of issuance, as well as contractual "lock-up" restrictions. The contractual lock-up restrictions provide that subscribers in the Private Placement agree not to dispose or otherwise transfer the economic consequences of securities composing the Units or securities of the Company held prior to the completion of the Private Placement (collectively, the "Locked-up Securities") for 11 months from the closing date of the Private Placement, with 30% of the Locked-up Securities being released from lock-up four months and one day from the closing date, and the remainder of the Locked-up Securities being released on a schedule of 10% of the Locked-up Securities each month thereafter.

In connection with the Private Placement, the Company paid a finder's fee to a third-party finder who is a current shareholder of the Company consisting of (i) 6.5% of the gross proceeds of the Private Placement raised in cash, and (ii) that number of finder's warrants as is equal to 6.5% of the securities sold in the Private Placement. Each finder's warrant is exercisable to purchase one Unit at the offering price of CDN$0.35 for a period of two years from the closing date of any applicable tranche of the Private Placement.

On May 10, 2019, the Company completed closing on the first tranche of the Private Placement, issuing an aggregate of 7,772,676 Units at a price of CDN$0.35 per unit, raising gross proceeds of CDN$2,720,437. On May 16, 2019, the Company completed closing on the second tranche of the Private Placement, issuing an aggregate of 8,250,709 Units at a price of CDN$0.35 per unit, for gross proceeds of CDN$2,887,748. On May 22, 2019, the Company completed closing on the third and final tranche of the Private Placement, issuing an aggregate of 10,890,900 Units at a price of CDN$0.35 per unit, for gross proceeds of CDN$3,811,815. The total gross proceeds of the three tranches amounted to $7,014,010. As of June 30, 2019, proceeds from the Private Placement of $1,058,458 were held in a trust fund of the Company's law firm in Canada, and separately presented on the condensed consolidated balance sheet as of June 30, 2019. The Company received this amount subsequent to June 30, 2019.

In connection with the Private Placement, the Company incurred $649,882 in issuance costs, which consisted of cash finder's fee of $380,698, transaction bonus to the CEO of $130,000 and legal and regulatory fees of $139,184.

Vesting of restricted share units

During the six months ended June 30, 2019, the Company issued a total of 36,413 common shares for employee and director restricted stock units ("RSUs") that vested.

Repurchase of common shares

On May 30, 2019, the Company repurchased for cancellation 547,325 common shares held by Gray and 545,289 common shares held by SKP America. The common shares were repurchased from SKP America for $150,000 or $0.275 per common share. The common shares repurchased for cancellation from Gray were part of the Raycom Agreement to extinguish the non-revolving credit facility and accounts payable due to Raycom and Gray (Note 7). The Company allocated $150,514 ($0.275 per common share) of the $1.0 million consideration paid to Gray to the common shares repurchased for cancellation (Note 7).

Shares Issued During the Six Months Ended June 30, 2018

During the six months ended June 30, 2018, the Company issued a total of 109,695 common shares for employee and director RSUs that vested. In addition, on May 24, 2018, the Company issued 288,642 common shares to employees to settle a portion of the liability associated with an employee retention plan.

Stock-Based Compensation

Description of the Plan

On November 27, 2018, the Company adopted an amended and restated equity incentive plan (the "Restated Plan"). The Restated Plan amends the equity incentive plan, effective as of November 16, 2018, by replacing the compensation plan limit with a fixed total limit of 532,031 common shares that may be granted under option and RSU awards.

Options may be exercised over periods of up to 10 years as determined by the Company's Board of Directors ("Board") and the exercise price shall not be less than the closing price of the shares on the day preceding the award date. Option awards generally vest over four years with one year cliff vesting.

The Restated Plan allows the Company to award RSUs to officers, employees, directors and consultants of Frankly and its subsidiaries upon such conditions as the Board may establish, including the attainment of performance goals recommended by the Company's compensation committee. The purchase price for common shares of the Company issuable under each RSU award, if any, shall be established by the Board at its discretion. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, conditions, restrictions, time periods or performance goals established by the Board.

Based on the number of outstanding options and RSUs as of June 30, 2019 and RSUs vested and options exercised through June 30, 2019, the Company had 241,953 options or RSUs remaining for issuance under the Restated Plan.

Total stock-based compensation expense for the three and six months ended June 30, 2019 and 2018 was $9,701, $23,863, $96,848, $331,888, respectively. The Company did not recognize any tax benefits for stock-based compensation during any of the periods presented.

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, 2017	189,943	$ 5.47	$ 6.58	8.22
Granted	-	-	-	
Exercised	-	-	-	
Forfeited or canceled	(128,645)	5.54	7.77	
Balance, December 31, 2018	61,298	$ 5.33	$ 4.08	7.61
Vested and expected to vest, December 31, 2018	60,048	$ 5.33	$ 4.09	7.61
Exercisable, December 31, 2018	36,294	$ 5.32	$ 4.64	7.43
Unaudited interim activity:				
Balance, December 31, 2018	61,298	$ 5.33	$ 4.08	7.61
Granted	-	-	-	
Exercised	-	-	-	
Forfeited or canceled	(6,137)	5.39	2.69	
Balance, June 30, 2019	55,161	$ 5.32	$ 4.23	7.07
Vested and expected to vest, June 30, 2019	54,072	$ 5.32	$ 4.25	7.06
Exercisable, June 30, 2019	33,386	$ 5.31	$ 4.79	6.90

The aggregate intrinsic value of outstanding and exercisable stock options as of June 30, 2019 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, 2017	179,090	$ 3.84
Granted	-	-
Vested	(144,652)	3.27
Forfeited or canceled	(18,964)	6.80
Balance, December 31, 2018	15,474	$ 5.51
Unaudited interim activity:		
Balance, December 31, 2018	15,474	$ 5.51
Granted	-	-
Vested	(4,823)	4.95
Forfeited or canceled	(589)	5.22
Balance, June 30, 2019	10,062	$ 5.80

There were no RSUs granted in 2019 and 2018. Unrecognized compensation cost related to the Company's non-vested RSUs was $9,155 as of June 30, 2019, which is expected to be recognized from 2019 through 2020.

9. Income Taxes

The Company had $0 income tax expense for all periods presented. Deferred tax assets have been fully reserved given the Company's history of losses. The Company does not expect any income tax expense in 2019 due to sufficient NOLs available to offset any potential taxable income. However, the Company is currently analyzing its historical NOLs for any limitation due to the ownership change in connection with the May 2019 private placement.

10. Commitments and Contingencies

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 U.S. 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.

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. On March 12, 2018, the plaintiffs in the GEI complaint voluntarily terminated their case. On March 15, 2018, the plaintiffs in the GEI complaint re-filed their complaint in the California Superior Court, San Francisco County. By order dated September 18, 2018, the state court granted the defendants' motion to compel arbitration of the matter in New York and staying further proceedings in the state court action. On October 22, 2018, the Gannaway plaintiffs filed a two-count arbitration demand with the American Arbitration Association in New York seeking unspecified damages from the Company, Steve Chung, SKP America, LLC and Louis Schwartz. The Company believes that the claims are without merit and submitted an answer in December 2018. A plenary hearing in the matter is scheduled for mid-December, 2019.

Operating Lease Commitments

As of June 30, 2019, the Company is obligated under multiple non-cancellable operating leases for office space, expiring in 2019 through 2022. The Company has two subleases for its excess office space as of June 30, 2019.

The future aggregate minimum lease payments under these non-cancellable operating leases, without regard to subleases, are payable as follows as of June 30, 2019:

Payments Due During the Years Ending June 30,	Total
2020	$ 323,842
2021	41,693
2022	6,985
Thereafter	-
Total	$ 372,520

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.

11. Subsequent Events

The Company has evaluated subsequent events through August 29, 2019 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 transactions described below.

On August 8, 2019, the Company completed its acquisition of certain assets of Vemba Corporation ("Vemba"). Under the terms of the asset purchase agreement with Vemba, the Company acquired the Vemba video asset management, syndication and monetization platform and related customer contracts, comprising substantially all of the property and assets of Vemba, excluding working capital, for a purchase price consisting of $154,214 cash payment and the issuance to Vemba of 256,410 of Company common shares. The common shares issued pursuant to the acquisition are subject to a 4-month statutory hold period and contractual escrow restrictions for a period of 12-months.