# FRANKLY INC.

# Management's Discussion & Analysis

***For the Three and Six Month Periods Ended June 30, 2016 and 2015***

## INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS

## Date

This management's discussion and analysis ("MD&A") relates to the financial condition and results of operations of Frankly Inc., together with its owned subsidiaries, as of August 26, 2016 and is intended to supplement and complement the Company's unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015 and the notes thereto. Readers are encouraged to read the cautionary Forward-Looking Statements included with this MD&A and to consult the Company's audited annual consolidated financial statements for the 2015 financial year and corresponding notes to the financial statements which are available on SEDAR website at www.sedar.com. The June 30, 2016 unaudited interim condensed consolidated financial statements and MD&A are presented in U.S. dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Where we say "we", "us", "our", the "Company" or "Frankly", we mean Frankly Inc. or Frankly Inc. and/or one or more or all of its subsidiaries, as it may apply.

## Forward-Looking Statements

*This document contains forward-looking statements relating to the Company's operations or to the environment in which it operates, which are based on the Company's operations, estimates, forecasts and projections. Forward-looking statements include, but are not limited to, statements with respect to the nature of the usage of the Company's software-as-a-service platform, the post-acquisition strategy and capabilities of the Company, 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 the Company's market and business opportunities, the expansion of the Company's 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 the Company's control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.*

*Forward-looking information reflects the Company's current beliefs and is based on information currently available to the Company and on assumptions it believes to be not unreasonable in light of all of the circumstances.*

*Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, activities, performance or achievements of the Company to be materially different from that expressed or implied by such forward-looking statements. Such material factors and assumptions include, but are not limited to: Frankly's ability to successfully integrate any acquired businesses; Frankly's overall ability to effectively respond to technology affecting the industry and increasing competition from other technology providers; Frankly's ability to retain existing customers or add new ones, and maintain the level of customer engagement and usage; Frankly's user growth and engagement on mobile devices which will depend upon effective integration with mobile operating systems, networks, and standards which Frankly does not control; Frankly's ability to effectively compete with other content management, social engagement and monetization platform providers serving in the same markets; the recent consolidation and vertical integration within the local news broadcasting industry; the business conditions of Frankly's customers particularly in the local news broadcasting and adjacent industries; Frankly's ability to expand its customer base to global markets; Frankly's ability to protect its intellectual property; Frankly's ability to access capital markets, as well as the additional risks identified in this MD&A under the heading "Risk Factors".*

*Management believes that cash on hand, cash to be generated from future operations and cash available under existing and future credit facilities will be sufficient to meet the Company's needs. However, circumstances such as the Company's ability to achieve sustainable profitable operations, ability to raise additional financing, the loss of significant customers or deterioration in the economy, particularly in the media and advertising industries, could cause these sources of cash and liquidity to be insufficient. There can be no assurances that the Company will be successful in achieving profitable operations or that it will be able to raise additional cash needed to finance operations, if required.*

*Although the Company has 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. Forward-looking information contained herein is made as of the date of this MD&A and, other than as required by law, the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.*

## Business Background and Overall Performance

***2014 Merger***

Frankly, formerly named WB III Acquisition Corp. ("WB III"), was incorporated under the laws of the Province of Ontario on June 7, 2013. WB III was initially classified as a Capital Pool Company, as defined in Policy 2.4 of the TSX Venture Exchange Inc. (the "TSX-V") Corporate Finance Manual.

On December 23, 2014, WB III Subco Inc., a wholly owned subsidiary of WB III, merged with TicToc Planet Inc. ("TicToc") which was incorporated in the state of Delaware on September 10, 2012 and is located in San Francisco, California. The transaction was structured as a reverse triangular merger under the Delaware General Corporation Law, as a result of which TicToc became a wholly owned subsidiary of WB III. Subsequent to the transaction, WB III changed its name to Frankly Inc. and TicToc's name was changed to Frankly Co. (the "Subsidiary").

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

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

**Net assets acquired:**

| | | CAD | | USD |
|---|---|---|---|---|
| **Cash** | $ | **131,086** | $ | **112,742** |

**Consideration paid:**

| | | CAD | | USD |
|---|---|---|---|---|
| 737,715 Shares in WBIII exchanged into Frankly Inc. | $ | 2,250,031 | $ | 1,935,177 |
| 98,360 Agent and directors and officers of WBIII Options | | 114,363 | | 98,360 |
| Total consideration | | 2,364,394 | | 2,033,537 |
| Listing cost | | (2,233,308) | | (1,920,795) |
| | $ | **131,086** | $ | **112,742** |

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

***Acquisition of Gannaway Web Holdings, LLC***

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

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

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

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

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

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

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

***Description of the Business***

Frankly is headquartered in San Francisco, California, with offices in New York City. Frankly provides a white-labeled, integrated software platform to media companies and brands which use its technology to get their content onto multiscreen devices, increase social interaction on those multiscreen experiences, and enable digital advertising. The platform consists of a content management system, native application and responsive web framework, and digital advertising solutions. It is used by around 140 US local news stations covering approximately 60 million monthly users. The Company also offers digital advertising services for approximately 200 U.S. digital properties. The Company plans to enhance the platform by providing data analytics, proprietary chatting features and cutting-edge infrastructure technology.

Since its inception, Frankly built its chat offerings and related technology. Until 2014, the Company developed and marketed its legacy instant messaging apps, Frankly Chat and TicToc Plus, both of which are no longer a material part of its business but became the foundation for its chat platform. Since the second quarter of 2014, the Company has increasingly focused its efforts on the marketing and development of its chat platform for brands and businesses to enhance their interaction with fans and customers. It was launched in October 2014 and has served several customers including United Nations Foundation, the Sacramento Kings and Victoria’s Secret.

Through the acquisition of Frankly Media during the 3rd quarter of 2015, Frankly became a software-as-a-service provider of content management and digital publishing software, also offering related digital advertising services for local media sites on the web and mobile. The SaaS platform enables site owners to design, build, and host content publishing sites, to manage media assets on all digital platforms and to interact with end users. The Company's advertising teams source national and local advertising for its customers to distribute over multiple consumer devices. The chat platform became a meaningful part of the product roadmap for the integrated content platform.

As a combined business, post acquisition, Frankly is now positioned to offer an integrated white-labeled platform for media customers to create, distribute, analyze and monetize their content across all of their digital properties on the web, mobile and TV.

***Market***

Prior to the acquisition of Frankly Media, the Company primarily operated in the instant messaging application and platform market. The market consists of myriad brands and businesses that are in need of instant messaging solutions for their Internet and mobile properties, as well as end users who used primarily smart phones to communicate over instant messaging apps.

After the acquisition, the Company's market opportunity shifted and expanded to the broader market of integrated technology platforms where content management and over-the-top ("OTT") publishing solutions, instant messaging-based engagement/monetization platforms, and digital advertising converge. In the near term, the primary customers of the Company in this market are local news broadcasters and media groups in the US. In addition, the Company sees opportunity in adjacent verticals such as other local media as well as global customers for future growth.

The US local news and media market has been rapidly adopting OTT publishing and native mobile platforms for reaching end users on new generations of devices. The increasing number of consumers who have abandoned cable and over the air access to television programming in favor of online access may create further opportunities for the Company's products and services.

Especially, the local news and media audience of new, younger generations demand social networking and multiscreen experiences with the content. The Company's capability to provide one-stop shop to meet those needs for media companies and brands will become more valuable.

Digital advertising over local content and mobile devices is the sector to be developed further in terms of both technology and market size. The local media companies are looking for a better solution to run their digital advertising business, and the overall mobile advertising sector is being quickly developed, especially with capabilities to hyper-target local advertising based on data and mobility. The Company believes its broad reach among local media and technology can be benefited from the future development of the digital advertising markets.

In all, the Company believes there are significant opportunities to increase the distribution of its products and services.

***Factors Concerning the Company's Financial Performance and Results of Operations***

The Company believes that the most significant factors and trends that affect its financial performance and results of operations are as follows:

*Retention and acquisition of the content platform customers*

The Company is currently serving a large number of customers with its content platform, and competing for the new customers with the other technology providers in the market. While a typical customer contract runs for multiple years, the retention and ongoing acquisition of new customers will have a material impact on the Company's financial performance. Increasing competition may affect the Company's ability to retain existing customers, and acquire new customers.

*Development of new products and services*

The Company continues to upgrade the quality and improve the features of its products and services. Given the high level of competition in the market, and ever changing technology needs of the customers, the Company's successful development of new products and services will affect its financial outcome in the mid and long term. The complexity of developing new technology in a rapidly changing marketplace may increase the Company's development costs.

*Demand for national and local advertising*

The Company generates a portion of its revenue from the sale of national and local online advertising inventory. Therefore, the Company's available supply of advertising inventory, general demand for the Company's advertising inventory and other marketplace factors have the potential to impact the Company's financial performance.

*The Company's ability to improve and optimize advertising technology*

The Company strives to employ the latest technology to monetize its advertising inventory. The success of the Company's efforts to optimize the process by which it sells its advertising inventory may impact the Company's financial performance.

*Customer's adoption of native mobile technology and platform*

The local news and general media industries are expected to adopt native mobile technology and platforms to better serve their audience. The Company's ability to provide compelling native mobile offerings to its existing and potential customers and their adoption of mobile platforms will have an impact on Company's financial performance. Mobile software technology is rapidly changing which has the potential to adversely affect the Company's mobile development expenses.

*The demand for mobile advertising*

The native mobile digital advertising is still at a developing stage, and therefore the future demand and actual adoption of advertisers are hard to forecast. The volatility in mobile advertising demand may have an adverse impact on the Company's financial performance.

*Consolidation and vertical integration of the US local media industry*

The local news and media industry in the United States has been going through industry-wide consolidation led by a handful of large media groups. This consolidation may change the purchasing power of the Company's customers as well as the number of customers. In addition, the consolidation may lead to more vertical integration of technology providers in the market, with the potential to alter the market landscape.

*Enhancing user engagement*

The size of Frankly offerings' user base and the users' level of engagement are integral to the Company's success. The Company's financial performance is impacted by its success in adding, retaining, and engaging active users of Frankly's offerings. The Company aims to ensure that Frankly's platform and application offerings are perceived as useful, reliable, and trustworthy in order to attract or retain users and increase the frequency and duration of their engagement.

*General supply and demand for integrated technology platform of content management, user engagement and advertising solutions*

The Company plans to offer an integrated platform of content management system ("CMS"), web and mobile publishing, social engagement and monetization. The market for the offering is in flux and is served by a diverse array of technology providers. Therefore, not only customer needs but also competition among suppliers may have a material impact on the mid and long term financial outcome of the Company.

*Uncertain competitive conditions*

The Company faces competition in the local news and media market with other technology and SaaS providers, as the market has been adapting to OTT publishing and native mobile platforms for the new generation of audience. Due to the recent industry consolidation and the rapidly changing technology, the future competitive landscape is uncertain. Moreover, many large media companies have the potential to build such technologies in-house given significant growth of digital and multi-screen media services to their audiences.

*International expansion*

The Company's primary focus is on the North American market. Also, the content platform would have potential customers outside of the current local market. The Company's ability to successfully expand beyond North America and differentiate itself from its competitors overseas will impact its growth prospects.

*Regulatory oversight*

The content platform's primary market is a heavily regulated broadcasting industry. Therefore, regulatory actions and policy changes will have great impact on Frankly's business.

*Security and Stability of Platform*

Given the sensitive nature of American news outlets to reach a massive user base, the Company's technology and content platform can be targets of hostile attempts to breach security and integrity of the platform. A coordinated attack on the Company's infrastructure is a risk to the stability of the platform and can be subjected to hostile action by politically or terror motivated foreign and domestic actors.

*Hiring and maintaining highly skilled workforce*

The Company intends to hire a significant number of personnel in the coming years, and it expects to face significant competition from other companies in hiring such personnel, particularly in San Francisco Bay Area. As the Company matures, it will need to continue to offer competitive incentives to attract, retain, and motivate employees. The Company's success in attracting, hiring, and integrating excellent personnel, or retaining and motivating existing personnel, will impact its ability to expand effectively. The need for the Company to pay competitive wages and offer competitive incentives may impact its profitability.

## Discussion of Operations

The Company was in the early stage of its business development cycle and had not recorded significant revenues from its operations until it completed the acquisition of Frankly Media on August 25, 2015.

### *Selected Financial Information*

A summary of selected financial information for the three and six month periods ended June 30, 2016 and 2015 is as follows:

| | Three month period ended | | Six month period ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Total revenue | $ 5,247,618 | $ 8,893 | $ 10,467,888 | $ 68,154 |
| Total expenses | (6,689,988) | (2,959,604) | (13,534,895) | (5,453,505) |
| Net loss before tax | (1,442,370) | (2,950,711) | (3,067,007) | (5,385,351) |
| Net loss after tax | (1,442,950) | (2,951,511) | (3,070,797) | (5,386,151) |
| Cash and cash equivalents | 4,332,214 | 21,812,044 | 4,332,214 | 21,812,044 |
| Total assets | 47,252,211 | 22,768,143 | 47,252,211 | 22,768,143 |
| Total liabilities | 21,236,104 | 532,924 | 21,236,104 | 532,924 |
| Shareholders' equity | 26,016,107 | 22,235,219 | 26,016,107 | 22,235,219 |
| Net cash used in operating activities | (820,425) | (3,213,783) | (718,424) | (7,028,712) |
| Net change in cash | (1,979,506) | (3,147,630) | (3,221,914) | (7,027,920) |
| Loss per share (basic and diluted) | $ (0.04) | $ (0.13) | $ (0.10) | $ (0.24) |

### *Non-IFRS Measures*

The Company reports earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA, which are not financial measures calculated and presented in accordance with IFRS and therefore may not be comparable to similar measures presented by other issuers. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute to net income (loss) or any other financial measures of performance or liquidity calculated and presented in accordance with IFRS. The Company defines Adjusted EBITDA as EDITDA, adjusted to exclude certain non-cash charges and other items that we do not believe are reflective of our ongoing operating results. The Company utilizes Adjusted EBITDA internally for purposes of forecasting, determining compensation, and assessing the performance of our business, therefore, we believe this measure provides useful supplemental information that may assist investors in assessing an investment in the Company.

A summary of Net Loss and Adjusted EBITDA for the three and six month periods ended June 30, 2016 and 2015 is as follows:

| | Three month period ended | | Six month period ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| **Revenue** | $ **5,247,618** | $ **8,893** | **10,467,888** | **68,154** |
| **Expenses** | | | | |
| Salaries and benefits, net of capitalized software | 2,710,645 | 1,296,573 | 5,597,997 | 2,371,491 |
| Technology related costs | 1,269,698 | 310,068 | 2,472,336 | 500,153 |
| Professional fees | 182,374 | 407,829 | 379,835 | 679,752 |
| Consulting fees, net of capitalized software | 177,934 | 223,386 | 366,756 | 446,954 |
| Advertising and marketing | 176,166 | 112,998 | 206,002 | 345,765 |
| Office and administration | 748,530 | 277,572 | 1,448,833 | 547,615 |
| Other | 9,169 | 30,944 | 13,647 | 60,164 |
| Revenue sharing expense | 83,178 | - | 83,178 | - |
| **Total operating expenses, excluding depreciation and amortization** | **5,357,694** | **2,659,370** | **10,568,584** | **4,951,894** |
| **Adjusted EBITDA** | $ **(110,076)** | $ **(2,650,477)** | **(100,696)** | **(4,883,740)** |
| Business acquisition related costs | (3,011) | - | (3,011) | - |
| Integration expenses | - | - | 163,065 | - |
| Sales tax settlement | - | - | 178,147 | - |
| Loss on disposal of assets | - | - | 1,093 | - |
| Stock based compensation | 311,571 | 285,150 | 583,569 | 470,702 |
| Foreign exchange (gain) / loss | (867) | (9,636) | 2,655 | (6,847) |
| **EBITDA** | **(417,769)** | **(2,925,991)** | **(1,026,214)** | **(5,347,595)** |
| Depreciation and amortization | 803,763 | 24,720 | 1,599,019 | 37,754 |
| Interest expense, net | 220,838 | - | 441,774 | 2 |
| Income taxes | 580 | 800 | 3,790 | 800 |
| **Net loss** | $ **(1,442,950)** | $ **(2,951,511)** | **(3,070,797)** | **(5,386,151)** |

***Results of Operations for the three month periods ended June 30, 2016 and 2015***

The Company incurred a net loss of $1,442,950 for the three month period ended June 30, 2016 compared to a net loss of $2,951,511 in the comparable prior year period. Explanations for the material components of this improvement of approximately $1.5 million are explained below:

The Company had Adjusted EBITDA of $(110,076) for the three month period ended June 30, 2016 compared to $(2,650,477) in the comparable prior year period. Explanations for the material components of this improvement of approximately $2.5 million are explained below:

- Total revenue for the three month period ended June 30, 2016 as compared to the comparable prior year period increased by $5.2 million. On August 25, 2015, Frankly completed its acquisition of Frankly Media, which accounted for the increase in total revenue between the periods noted above.

- Total operating expenses, excluding depreciation and amortization for the three month period ended June 30, 2016 as compared to the comparable prior year period increased by approximately $2.7 million due to the following:

    - Increase in salaries and benefits of $1.4 million, of which $2.1 million related to Frankly Media salaries and benefits post-acquisition for the three month period ended June 30, 2016, offset by a decrease of $638,000 primarily attributed to capitalization of $491,000 of salaries and benefits of Frankly Co. for the three month period ended June 30, 2016 compared to $Nil in the comparable prior year period. Beginning in 2016, Frankly Co. employees began to work on capitalized software projects of the Company which met the capitalization criteria as defined by IAS 38 – Intangible Assets;

- Increase in technology related costs of $1.0 million, of which $1.2 million related to Frankly Media post-acquisition for the three month period ended June 30, 2016;

- Increase in office and administration costs of $471,000, of which $425,000 related to Frankly Media post-acquisition for the three month period ended June 30, 2016.

The above increases in expenses were offset by decreases to the following:

- Decrease in professional fees of $225,000, adjusted to decrease of $334,000 after excluding $108,000 related to Frankly Media post-acquisition for the three month period ended June 30, 2016. The decrease of $334,000 primarily related to legal fees incurred in Q2 2015 for the acquisition of Frankly Media.

Other items (below Adjusted EBITDA):

- Increase in depreciation and amortization of $779,000, of which $765,000 related to Frankly Media post-acquisition for the three month period ended June 30, 2016;

- Increase in interest expense, net of $221,000, of which $34,000 related to Frankly Media post-acquisition for the three month period ended June 30, 2016, with the remaining increase of $187,000 related primarily to the $15 million promissory notes issued in connection with the acquisition of Frankly Media.

Cash flows:

- Net change in cash for the three month period ended June 30, 2016 as compared to the comparable prior year period increased by approximately $1.2 million due to the following: increase in net cash from operating activities of $2.4 million primarily due to decrease in net loss (adjusted for non-cash items) of $2.3 million; offset by decrease in cash from investing activities of $864,000 primarily due to increase of $1.1 million in capitalized software costs in Q2 2016.

***Results of Operations for the six month periods ended June 30, 2016 and 2015***

The Company incurred a net loss of $3,070,797 for the six month period ended June 30, 2016 compared to a net loss of $5,386,151 in the comparable prior year period. Explanations for the material components of this improvement of approximately $2.3 million are explained below:

The Company had Adjusted EBITDA of $(100,696) for the six month period ended June 30, 2016 compared to $(4,883,740) in the comparable prior year period. Explanations for the material components of this improvement of approximately $4.8 million are explained below:

- Total revenue for the six month period ended June 30, 2016 as compared to the comparable prior year period increased by $10.4 million. On August 25, 2015, Frankly completed its acquisition of Frankly Media, which accounted for the increase in total revenue between the periods noted above.

- Total operating expenses, excluding depreciation and amortization for the six month period ended June 30, 2016 as compared to the comparable prior year period increased by approximately $5.6 million due to the following:

- Increase in salaries and benefits of $3.2 million, of which $4.2 million related to Frankly Media salaries and benefits post-acquisition for the six month period ended June 30, 2016, offset by a decrease of $1.0 million primarily attributed to capitalization of $1.0 million of salaries and benefits of Frankly Co. for the six month period ended June 30, 2016 compared to $Nil in the comparable prior year period. Beginning in 2016, Frankly Co. employees began to work on capitalized software projects of the Company which met the capitalization criteria as defined by IAS 38 – Intangible Assets;

- Increase in technology related costs of $2.0 million, of which $2.3 million related to Frankly Media post-acquisition for the six month period ended June 30, 2016;

- Increase in office and administration costs of $901,000, of which $840,000 related to Frankly Media post-acquisition for the six month period ended June 30, 2016.

The above increases in expenses were offset by decreases to the following:

- Decrease in professional fees of $300,000, adjusted to decrease of $557,000 after excluding $257,000 related to Frankly Media post-acquisition for the six month period ended June 30, 2016. The decrease of $557,000 primarily related to legal, audit and accounting fees associated with the Company becoming public in the end of 2014 and the post-closing matters, as well as legal fees incurred in Q2 2015 for the acquisition of Frankly Media.

Other items (below Adjusted EBITDA):

- Increase in integration expenses of $163,000 related to the integration of the Company's two operating subsidiaries, Frankly Co. and Frankly Media, subsequent to the acquisition of Frankly Media. No such expenses were incurred in 2015.

- Increase in sales tax settlement of $178,000 due to non-cash write-off of a sales tax receivable during the six month period ended June 30, 2016.

- Increase in depreciation and amortization of $1.6 million, of which $1.5 million related to Frankly Media post-acquisition for the six month period ended June 30, 2016;

- Increase in stock based compensation of $113,000 was primarily related to the 2,858,500 options granted during the six month period ended June 30, 2016 with a weighted-average grant date fair value of $0.27 per option.

- Increase in interest expense, net of $442,000, of which $69,000 related to Frankly Media post-acquisition for the six month period ended June 30, 2016, with the remaining increase of $372,000 related primarily to the $15 million promissory notes issued in connection with the acquisition of Frankly Media.

Cash flows:

- Net change in cash for the six month period ended June 30, 2016 as compared to the comparable prior year period increased by approximately $3.8 million due to the following: increase in net cash from operating activities of $6.3 million primarily due to decrease in net loss (adjusted for non-cash items) of $4.2 million and increase in cash flows for changes in working capital of $2.1 million; offset by decrease in cash from investing activities of $2.1 million primarily due to increase of $2.4 million in capitalized software costs.

## Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the last eight quarters:

| | 2014 | | 2015 | | | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Revenue | $ 137,754 | $ 34,565 | $ 59,261 | $ 8,893 | $ 1,511,930 | $ 5,413,249 | $ 5,220,270 | $ 5,247,618 |
| Net loss for the period | (5,640,059) | (6,542,035) | (2,434,640) | (2,951,511) | (4,399,049) | (3,117,388) | (1,627,847) | (1,442,950) |
| Basic and diluted loss per share | $ (0.86) | $ (0.46) | $ (0.11) | $ (0.13) | $ (0.17) | $ (0.10) | $ (0.05) | $ (0.04) |
| **Weighted average number of common shares outstanding** | | | | | | | | |
| Basic and diluted | 6,531,830 | 14,202,192 | 22,057,722 | 22,062,949 | 25,996,085 | 32,067,294 | 32,093,331 | 32,093,331 |

*This summary of quarterly results should be read in conjunction with the consolidated financial statements and notes included in the Company's annual report.*

## Related Parties Transactions

The following table summarizes related party balances in the statement of financial position as at June 30, 2016 and December 31, 2015:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Statement of financial position** | | |
| Accounts receivable (ii) | $ 60,386 | $ 86,112 |
| Unbilled revenue (ii) | 111,224 | - |
| Accounts payable (ii) | 220,309 | 92,089 |
| Deferred revenue (ii) | 39,780 | 79,560 |
| Promissory notes (iii) | $ 15,000,000 | $ 15,000,000 |

The following table summarizes related party transactions for the three and six month periods ended June 30, 2016 and 2015:

| | Three month period ended | | Six month period ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| **Statement of loss and comprehensive loss** | | | | |
| Revenue - Raycom Media (ii) | $ 1,082,674 | $ - | $ 2,190,517 | $ - |
| Interest expense, net (iii) | 187,500 | - | 375,000 | - |
| Consulting fees, net of capitalized software (i) | $ - | $ 33,354 | $ - | $ 75,846 |

(i) The Company had services agreements with its then ultimate parent company, SK Planet Co. Ltd. ("SK Planet") Korean and U.S. subsidiaries, whereby the affiliated companies provide market research, mobile application development, and support for the Company's back office operations as requested. The agreements provide that all intellectual property interest in all works completed by the affiliated company will be transferred to the Company. Pursuant to the agreements, the Company incurred consulting fees of $33,354 and $75,846 for the three and six month periods ended June 30, 2015, respectively.

(ii) The Company recorded revenues from Raycom Media, Inc. of approximately $1,082,674 and $2,190,517 for the three and six month periods ended June 30, 2016, respectively.

Related party balances with this affiliate in the accompanying statement of financial position as at June 30, 2016 include accounts receivable of $60,386, unbilled revenue of $111,224, accounts payable of $220,309 and deferred revenue of $39,780. Related party balances with this affiliate in the accompanying statement of financial position as at December 31, 2015 include accounts receivable of $86,112, accounts payable of $92,089 and deferred revenue of $79,560. Raycom Media, Inc. is considered a significant shareholder of the Company.

(iii) In connection with the acquisition of Worldnow, the Company executed promissory notes, bearing simple interest at a rate of 5 percent per year, to pay an additional $15 million in cash on August 31, 2016. The holders of the promissory notes also hold equity in the Company. Interest expense on the promissory notes amounted to $187,500 and $375,000 for the three and six month periods ended June 30, 2016, respectively, and is presented within interest expense, net on the interim condensed consolidated statement of loss and comprehensive loss.

(iv) Compensation to key management is as follows:

Key management personnel include the directors and corporate officers of the Company who are responsible for planning, directing and controlling business activities. Their compensation for the three and six month periods ended June 30, 2016 and 2015 is as follows:

| | Three month period ended | | Six month period ended | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Salaries, bonuses and employee benefits | $ 589,907 | $ 292,738 | $ 1,015,921 | $ 599,998 |
| Stock based compensation (at full fair value) | - | 1,003,768 | 440,333 | 2,065,744 |
| | $ 589,907 | $ 1,296,506 | $ 1,456,254 | $ 2,665,742 |

## Disclosure of Outstanding Share Data

As at June 30, 2016, and as of the date of this discussion, the following is a description of the outstanding voting shares (common shares and restricted voting shares), stock options and restricted share units issued by the Company:

***Common shares and restricted voting shares***

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

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

The following table reflects the continuity of voting shares (both common shares and restricted voting shares) for the six month period ended June 30, 2016 and the period from June 30, 2016 to August 26, 2016:

| | Common Shares | Class A Restricted Voting Shares | | Amount |
|---|---|---|---|---|
| **Balance, January 1, 2015** | **21,695,321** | **362,401** | $ | **47,025,501** |
| Exercise of options | 37,959 | - | $ | 70,261 |
| Vesting of restricted share units | 30,000 | - | | 58,442 |
| Refund of cost of issued shares in Private Placement | - | - | | 3,494 |
| Exchange of restricted voting shares for common shares | 39,578 | (39,578) | | - |
| Shares issued in acqusition of Worldnow | 195,446 | 9,772,204 | | 13,388,640 |
| Transaction costs on issuance of shares | - | - | | (170,000) |
| **Balance, December 31, 2015, June 30, 2016 and August 26, 2016** | **21,998,304** | **10,095,027** | $ | **60,376,338** |

***Stock options***

Under the terms of the Company's Equity Incentive Plan (the "Plan"), the maximum number of shares reserved for issuance under the Plan was 10% of the issued common shares on a rolling basis. On January 22, 2016, the Company and its Board of Directors amended the Plan to have a fixed 5,715,105 shares reserved for issuance of both stock options and restricted share units.

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

The following table reflects the continuity of stock options for the six month period ended June 30, 2016 and the period from June 30, 2016 to August 26, 2016 (all options are exercisable into one common share):

| | Number of Shares Issuable under Options | Exercise Price per Share (US$) | Expiry Date |
|---|---|---|---|
| **Options outstanding, January 1, 2016** | **2,393,755** * | | |
| Issued | 2,858,500 | | |
| Exercised | - | | |
| Forfeited or expired | (845,049) | | |
| **Options outstanding, June 30, 2016** | **4,407,206** | | |
| Issued - July 11, 2016 | 10,000 | $ 0.76 | July 11, 2026 |
| Issued - July 25, 2016 | 8,000 | $ 0.76 | July 25, 2026 |
| Forfeited or expired | (60,575) | | |
| **Options outstanding, August 26, 2016** | **4,364,631** | | |

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

### *Restricted share units*

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

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

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

On January 22, 2016, the Company and its Board of Directors amended the Plan to have a fixed 5,715,105 shares reserved for issuance of both stock options and restricted share units.

The following table reflects the continuity of RSUs for the six month period ended June 30, 2016 and the period from June 30, 2016 to August 26, 2016:

| | Number of RSUs |
|---|---|
| **Balance, January 1, 2016** | **608,036** |
| Issued | - |
| Cancelled | (247,676) |
| Vested | - |
| **Balance, June 30, 2016 and August 26, 2016** | **360,360** |

## Financial Condition and Liquidity

### Liquidity and Capital Resources

The purpose of liquidity management is to ensure that there is sufficient cash to meet all the financial commitments and obligations of the Company as they come due. Since inception the Company has financed its cash requirements primarily through the issuance of securities and convertible promissory notes, as well as limited income in connection with advertising revenues generated from TicToc Plus, the business that was disposed of in April 2013. Due to its start-up status and limited revenue generated from operations, the Company has had recurring losses and negative cash flows from operating activities. With the acquisition of Frankly Media on August 25, 2015, the Company will now be able to utilize the positive cash flows from operating activities of Frankly Media to help finance and support the operations of the Company.

In managing capital, the Company estimates its future cash requirements by preparing a budget and a multi-year plan annually for review and approval by its board. The budget establishes the approved activities for the upcoming year and estimates the costs associated with those activities. The multi-year plan estimates future activity along with the potential cash requirements and is based upon the Company's assessment of its current progress along with the expected results from the coming years' activity. Budget to actual variances are prepared and reviewed by management and are regularly presented to the board.

The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet purchase commitments and to sustain operations. The Company controls its liquidity risk by managing working capital and cash flows. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2016, the Company had a cash and accounts receivable balance of $7,253,478 (December 31, 2015 - $10,668,274) to settle current financial liabilities of $18,879,635, excluding deferred revenue and revolving credit facility (December 31, 2015 - $19,363,266). All of the Company's financial liabilities, excluding non-current portion of capital leases, have contractual maturities of less than 12 months.

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

*Frankly Media revolving credit facility*

The Company's subsidiary Frankly Media, has a credit facility which provides for a $3,000,000 revolving line of credit and a $500,000 letter of credit (collectively, the "Credit Facility"). Borrowings on the revolving line of credit are limited to the lesser of $3,000,000 or a percentage of eligible accounts receivable (the "advance rate"). The advance rate is 85% of eligible accounts receivable, unless the dilution rate from items such as credits and billing adjustments is 3.5% but less than 5%, in which case it will be reduced to 80%. The lender may reduce the advance rate below 80% in the event the lender determines that dilution as to the Company's receivables exceeds 5.0%. Eligible accounts receivable exclude, among other things, past-due invoices, and customer balances where more than 35% of the amounts owed by the customer are past due. The Credit Facility was renewed in April 2015 for two years. It expires in April 2017 and requires monthly interest payments. The interest rate applicable to the revolving credit facility is the greater of 3.25% or the lender's prime rate, plus 2.50%. As at June 30, 2016 and December 31, 2015, $1,950,000 was outstanding under the revolving line of credit, and the applicable interest rate was 6.00%.

The Credit Facility contains financial covenants for which compliance must be measured monthly and before each advance. These covenants include an asset coverage ratio of not less than 1.05 to 1.0, revised to 1.4 to 1.0 as of November 10, 2015, defined as unrestricted cash maintained at lender plus eligible receivables less contra-accounts, counterclaims, and offsets, which include liabilities of Frankly Media to its customers for their share of advertising revenue, divided by the credit facility balance, including the letter of credit. Beginning November 10, 2015, Frankly Media has an additional covenant to maintain a minimum unrestricted cash balance of at least $1,000,000. All covenants were met as at June 30, 2016.

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

## Commitments and contingencies

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Future payments** | | |
| Within one year | $ 1,550,058 | $ 1,668,446 |
| After one year but not more than five years | 4,421,633 | 4,714,683 |
| Thereafter | 1,421,514 | 1,847,968 |
| **Total** | **$ 7,393,205** | **$ 8,231,097** |

## New Standards and Interpretations

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

IFRS 9, 'Financial instruments', published in July 2014, replaces the existing guidance in IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 7, ‘Financial Instruments: Disclosures’ has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018.

IFRS 15, ‘Revenue from Contracts with Customers’ establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, ‘Revenue’, IAS 11, ‘Construction Contracts’, and IFRIC 13, ‘Customer Loyalty Programmers’. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

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

Management is currently in the process of evaluating the potential impact of adopting these pronouncements.

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

## Risk Factors

Due to the nature of the Company’s business, the legal and economic climate in which it operates and its present stage of development Frankly is subject to significant risks. Frankly’s future development and operating results may be very different from those expected as at the date of this Discussion. Risk factors relating to Frankly include, but are not limited to, the following:

- The impact of changes in national and regional economies and credit and capital markets;
- The business conditions of Frankly’s customers particularly in the local news broadcasting and adjacent industries;
- The broadcasting networks and their strategies to distribute their programming via means other than their local television affiliates, such as over-the-top content;
- The recent consolidation and vertical integration within the local news broadcasting industry;
- Frankly’s ability to successfully integrate any acquired businesses;
- Frankly’s ability to service debt obligations and operate the business under restrictions contained in the financing agreements;
- The potential impact of changes in tax law;

- Frankly ability to secure additional financing on reasonable terms when required, or at all;
- The effectiveness of Frankly's management;
- Frankly's ability to continue to grow at a rapid pace;
- Frankly's overall ability to effectively respond to technology affecting the industry and increasing competition from other technology providers;
- Frankly's ability to uncover errors in its highly technical software to avoid an adverse impact to the business;
- Computer malware, viruses, hacking and phishing attacks, and spamming could harm Frankly's business and results of operations;
- Frankly's failure to retain existing customers or add new ones, or maintain the level of customer engagement and usage, may cause significant harm to Frankly's future revenues, financial results, and business;
- Frankly's ability to develop new products, virtual goods and content and make changes to existing products and content to attract or retain users or generate revenue;
- If Frankly's ability to maintain and enhance the Frankly brand is compromised, or if events occur that damage Frankly's reputation and brand, Frankly's ability to expand the base of users, developers, and advertisers may be impaired;
- Frankly's user growth and engagement on mobile devices, depends upon effective operation with mobile operating systems, networks, and standards which Frankly does not control;
- Competition with other content management, social engagement and monetization platform providers serving in the same markets;
- Frankly's ability to expand its customer base to global market;
- Frankly's ability to successfully compete in a highly competitive business;
- Frankly's ability to protect its intellectual property, otherwise the value of its brand and other intangible assets may be diminished, and its business may be adversely affected;
- Frankly's potential liabilities which might arise as a result of information retrieved from or transmitted over the Internet or through Frankly and claims related to Frankly's products;
- Improper access to or disclosure of user information, or violation of Frankly's terms of service or policies, which could negatively affect public confidence and may harm Frankly's reputation and adversely affect Frankly's business and profitability;
- Frankly's current and future involvement as a party to litigation, which can be expensive and time consuming, and, if resolved adversely, could have a significant impact on Frankly's business, financial condition, or results of operations;
- The effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, which have impact on Frankly's customers' business;

- The impact of new FCC rules requiring broadcast stations to publish, among other information, political advertising rates online;

- Frankly's business being a subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to Frankly's business practices, increased cost of operations, or declines in user growth or engagement, or otherwise harm Frankly's business;

- Action by governments to restrict access to Frankly in their countries could substantially harm Frankly's business and financial results;

- Changes in the makeup of the population in the areas where stations are located;

- Trends in the television industry that could adversely affect demand for television advertising as consumers migrate to alternative media for entertainment and information;

- Terrorist acts of violence or war and other geopolitical events; which can adversely affect Frankly's customers and markets;

- Natural disasters that impact Frankly's customers;

- Existing executive officers, directors and holders of 10% or more of the Frankly Shares collectively own more than 50% of the Company Shares and continue to have substantial control over the Company, which can limit an investor's ability to influence the outcome of important transactions, including a change in control;

- The price of the securities of Frankly may fluctuate significantly, which may make it difficult for holders of securities of Frankly to sell their securities at a time or price they find attractive;

- Frankly may issue additional equity securities, or engage in other transactions that could dilute its book value or affect the priority of the Frankly Shares, which may adversely affect the market price of Frankly Shares;

- U.S Tax Risk.

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2015 dated as of April 26, 2016, is available under the Company's profile on SEDAR at www.sedar.com.