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

FRANKLY INC.

(INCORPORATED UNDER THE LAWS OF BRITISH COLUMBIA)

For the three and nine month periods ended September 30, 2016 and 2015

FRANKLY INC.

Interim Condensed Consolidated Statements of Financial Position
As at

(Expressed in U.S. dollars)

	Note	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets			
Current assets			
Cash		$ 2,803,013	$ 7,554,128
Accounts receivable, net	6	2,814,896	3,114,146
Prepaid expenses and other current assets		731,049	1,467,934
Total current assets		**6,348,958**	**12,136,208**
Property & equipment, net	7	1,635,445	2,133,372
Software development costs, net	8	6,495,704	4,366,338
Intangible assets, net	9	7,853,886	8,508,888
Goodwill	9	9,906,581	22,756,581
Other assets		352,005	364,985
Total assets		**$ 32,592,579**	**$ 50,266,372**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued expenses		$ 4,672,450	$ 4,167,326
Deferred revenue		48,470	161,999
Promissory notes	10	-	15,000,000
Revolving credit facility	10	-	1,950,000
Capital leases, current portion	17	175,942	195,940
Total current liabilities		**4,896,862**	**21,475,265**
Capital leases, non-current portion	17	80,461	208,083
Deferred rent		44,563	32,410
Non-revolving credit facility, net of discount	10	11,407,796	-
Other liabilities		75,104	49,566
Total liabilities		**16,504,786**	**21,765,324**
Shareholders' equity			
Share capital	12 (a)	61,370,298	60,376,338
Contributed surplus	12 (b,c,d)	6,713,095	2,729,726
Accumulated other comprehensive income		15,751	20,076
Accumulated deficit		(52,011,351)	(34,625,092)
Total shareholders' equity		**16,087,793**	**28,501,048**
Total liabilities and shareholders' equity		**$ 32,592,579**	**$ 50,266,372**

Going concern (Note 1)
Commitments and contingencies (Note 18)
Subsequent events (Note 20)

Approved by the Board of Directors on November 28, 2016: *Choong Sik Hyun* *Steve Zenz*

See accompanying notes to the interim condensed consolidated financial statements.

FRANKLY INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

(Expressed in U.S. dollars)

	Three month period ended		Nine month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue				
License fees	$ 2,873,055	$ 757,507	$ 8,106,932	$ 757,507
Video usage fees	503,331	149,337	1,533,816	149,337
National advertising	1,878,706	335,885	4,017,130	335,885
Local advertising	537,172	144,222	1,506,644	144,222
Local ad serving	220,616	70,271	655,977	70,271
Other revenue	183,811	54,708	844,080	122,862
Total revenue	**6,196,691**	**1,511,930**	**16,664,579**	**1,580,084**
Expenses				
Salaries and benefits, net of capitalized software	2,462,016	2,364,615	8,060,013	4,736,106
Technology related costs	1,424,577	577,050	3,896,913	1,077,203
Professional fees	159,929	269,229	539,764	948,981
Consulting fees, net of capitalized software	85,589	381,773	452,345	828,727
Advertising and marketing	30,829	108,492	236,831	454,257
Office and administration	699,950	496,018	2,148,783	1,043,633
Other	7,244	37,276	20,891	97,440
Revenue sharing expense	946,834	-	1,030,012	-
Business acquisition related costs	-	968,838	(3,011)	968,838
Impairment expense	12,850,000	-	12,850,000	-
Integration expenses	-	-	163,065	-
Sales tax settlement	(135,531)	-	42,616	-
Stock based compensation	276,230	306,681	859,799	777,383
Depreciation and amortization	848,246	305,704	2,447,265	343,458
Loss on disposal of assets	-	-	1,093	-
Loss on extinguishment of debt	90,573	-	90,573	-
Nasdaq uplisting fees	410,225	-	410,225	-
Finance costs:				
Foreign exchange loss (gain)	(5,716)	(8,637)	(3,061)	(15,484)
Interest expense, net	310,834	76,475	752,608	76,477
Total expenses	**20,461,829**	**5,883,514**	**33,996,724**	**11,337,019**
Loss before income taxes	**(14,265,138)**	**(4,371,584)**	**(17,332,145)**	**(9,756,935)**
Income taxes	50,324	27,465	54,114	28,265
Net loss for the period	$ **(14,315,462)**	$ **(4,399,049)**	$ **(17,386,259)**	$ **(9,785,200)**
Other comprehensive income (loss)				
Foreign currency translation of foreign operations	(6,612)	(9,688)	(4,325)	(22,020)
Comprehensive loss for the period	$ **(14,322,074)**	$ **(4,408,737)**	$ **(17,390,584)**	$ **(9,807,220)**
Basic and diluted loss per share (Note 15)	$ **(0.44)**	$ **(0.17)**	$ **(0.54)**	$ **(0.42)**
Weighted average number of common shares outstanding				
Basic and diluted	32,898,207	25,996,085	32,363,581	23,386,683

See accompanying notes to the interim condensed consolidated financial statements.

FRANKLY INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(Expressed in U.S. dollars)

	Share Capital						
	Common Shares	Class A Restricted Voting Shares	Amount	Contributed Surplus	Translation Reserve	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2016	**21,998,304**	**10,095,027**	**$ 60,376,338**	**$ 2,729,726**	**$ 20,076**	**$ (34,625,092)**	**$ 28,501,048**
Issuance of common shares	2,553,400	-	1,000,000	-	-	-	1,000,000
Issuance of warrants	-	-	-	3,140,252	-	-	3,140,252
Share issuance costs	-	-	(6,040)	(16,682)	-	-	(22,722)
Exchange of restriced voting shares for common shares	8,342,093	(8,342,093)	-	-	-	-	-
Stock based compensation	-	-	-	859,799	-	-	859,799
Loss for the period	-	-	-	-	(4,325)	(17,386,259)	(17,390,584)
Balance, September 30, 2016	**32,893,797**	**1,752,934**	**$ 61,370,298**	**$ 6,713,095**	**$ 15,751**	**$ (52,011,351)**	**$ 16,087,793**

	Share Capital						
	Common Shares	Class A Restricted Voting Shares	Amount	Contributed Surplus	Translation Reserve	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2015	**21,695,321**	**362,401**	**47,025,501**	**1,762,706**	**53,592**	**(21,722,504)**	**27,119,295**
Shares issued in acqusition of Worldnow	195,446	9,772,204	17,250,000	-	-	-	17,250,000
Share issuance costs	-	-	(466,355)	-	-	-	(466,355)
Refund of cost of issuance of common shares	-	-	234	-	-	-	234
Exercise of options	39,690	-	71,874	(25,995)	-	-	45,879
Stock based compensation	-	-	-	777,383	-	-	777,383
Loss for the period	-	-	-	-	(22,020)	(9,785,200)	(9,807,220)
Balance, September 30, 2015	**21,930,457**	**10,134,605**	**$ 63,881,254**	**$ 2,514,094**	**$ 31,572**	**$ (31,507,704)**	**$ 34,919,216**

See accompanying notes to the interim condensed consolidated financial statements.

FRANKLY INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Expressed in U.S. dollars)

	Nine month period ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities:		
Loss for the period	**$ (17,386,259)**	**$ (9,785,200)**
Adjustment for non-cash items:		
Depreciation and amortization	2,447,265	343,458
Impairment expense	12,850,000	-
Loss on disposal of assets	1,093	-
Other non-cash asset writeoff	178,147	-
Amortization of debt discount	48,048	-
Stock-based compensation expense	859,799	777,383
Changes in non-cash working capital and other items:		
Accounts receivable	299,249	980,074
Due from related parties	-	4,620
Prepaid expenses and other current assets	567,949	31,821
Other assets	12,980	(32,962)
Accounts payable and accrued expenses	501,089	(1,499,293)
Due to related parties	-	82,140
Deferred revenue	(113,528)	(260,899)
Deferred rent and other liabilities	37,692	47,756
Severance liability	-	(1,000,000)
Net cash provided by (used in) operating activities	**303,524**	**(10,311,102)**
Cash flows from investing activities:		
Purchases of property & equipment	(42,275)	(386,748)
Capitalized software costs	(3,384,631)	(158,269)
Purchases of intangible assets	-	(278,275)
Acquisition of Worldnow, net of cash acquired	-	(4,512,698)
Proceeds from disposal of equipment	2,111	-
Net cash (used in) investing activities	**(3,424,795)**	**(5,335,990)**
Cash flows from financing activities:		
Revolving credit facility payments	(1,950,000)	(600,000)
Capital lease payments	(147,619)	(17,176)
Proceeds from issuance of common stock	-	45,879
Payments for share issuance costs	(22,723)	(177,972)
Proceeds from non-revolving credit facility	500,000	-
Net cash (used in) financing activities	**(1,620,342)**	**(749,269)**
Effect of exchange rate changes on cash	(9,502)	(31,500)
Net change in cash	**(4,751,115)**	**(16,427,861)**
Cash at beginning of period	**7,554,128**	**28,839,964**
Cash at end of period	**$ 2,803,013**	**$ 12,412,103**
Cash paid for interest	$ 714,554	$ 15,811
Cash paid for income taxes	54,114	28,265
Non-cash activities:		
Shares issued in acqusition of Worldnow	-	17,250,000
Promissory notes issued in acquisition of Worldnow	-	15,000,000
Exchange of promissory notes for common shares (Note 10)	$ 1,000,000	$ -

See accompanying notes to the interim condensed consolidated financial statements.

1. Description of business and going concern:

Frankly Inc. ("Frankly"), formerly named WB III Acquisition Corp. ("WB III"), was incorporated under the laws of the Province of Ontario on June 7, 2013. On July 11, 2016, the Company continued as a British Columbia corporation. The address of the registered office in British Columbia is 2900-550 Burrard Street, Vancouver, British Columbia, Canada V6C 0A3. These interim condensed consolidated financial statements include Frankly and its subsidiaries (Frankly Co. and Frankly Media LLC), together referred to as the "Company". The Company provides an integrated software platform for brands and media companies to create, distribute, analyze and monetize their content across all of their digital properties on web, mobile, and TV.

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

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

On August 25, 2015, the Company completed the purchase of the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow (“Worldnow”). Subsequent to the acquisition, Worldnow changed its name to Frankly Media LLC (“Frankly Media”).

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

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

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

These interim condensed consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. Since its incorporation, the Company has had recurring losses and has negative cash flows from operating activities. For the nine month period ended September 30, 2016, the Company incurred losses of $17,386,259 (2015 – $ 9,785,200), cash provided by (used in) operating activities of $303,524 (2015 – $(10,311,102)) and as at September 30, 2016 had an accumulated deficit of $52,011,351 (December 31, 2015 – $34,625,092). These conditions have resulted in material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern into the foreseeable future.

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

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

2. Basis of presentation:

These unaudited interim condensed consolidated financial statements (“interim financial statements”) have been prepared in accordance with IAS 34 “Interim Financial Reporting” (“IAS 34”). These interim financial statements do not include all disclosures required by International Financial Reporting Standards (“IFRS”) for annual audited consolidated financial statements and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015 prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The accounting policies applied in these interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2015. There have been no changes to the accounting policies applied in those consolidated financial statements.

2. Basis of presentation: (continued)

These interim financial statements include the accounts of Frankly and its subsidiaries. A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A subsidiary is included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated upon consolidation. Frankly and its subsidiaries have a reporting date of December 31.

The following companies have been consolidated within these interim condensed consolidated financial statements:

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

These interim financial statements were approved for issue by the Board of Directors of the Company on November 28, 2016.

3. Future changes in accounting policies:

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory at certain future dates. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company:

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

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

(ii) IFRS 7, Financial Instruments: Disclosures (“IFRS 7”):

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

3. Future changes in accounting policies: (continued)

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

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

(iv) IFRS 16, Leases (“IFRS 16”):

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

4. Significant judgments, estimates, and assumptions:

The preparation of these interim financial statements requires the use of certain significant accounting estimates and judgment by management in applying the Company’s accounting policies. The areas involving significant judgment and estimates have been set out in Note 5 of the Company’s annual audited consolidated financial statements for the year ended December 31, 2015. Actual results could differ from the estimates made by management.

5. Operating segment information:

The Company has one operating segment which provides white-labeled content and chat platforms to media companies and brands that use the Company’s technology to get their content onto multi-screen devices, and the Company’s chat platforms to increase social interaction on those multi-screen experiences. As at September 30, 2016 and December 31, 2015, all of the Company's long-term assets were located in the United States of America.

All of the Company’s revenues for the three and nine month periods ended September 30, 2016 and 2015 were earned in the United States of America.

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

6. Accounts receivable, net:

The following table summarizes the balance of accounts receivable, net as at September 30, 2016 and December 31, 2015:

		September 30, 2016		December 31, 2015
Accounts receivable	$	2,844,870	$	3,171,869
Allowance for doubtful accounts		(29,974)		(57,723)
	$	2,814,896	$	3,114,146

Bad debt write-offs of $27,749 were recorded during the nine month period ended September 30, 2016 (2015 - $Nil).

7. Property and equipment:

The following table summarizes the changes in property and equipment, net, including assets held under capital lease, for the nine month period ended September 30, 2016:

		Leasehold improvements		Office equipment & software		Total
Cost:						
Balance at Jan 1, 2016	$	578,782		1,933,615		2,512,397
Additions		-		42,275		42,275
Write-off of assets		-		(4,610)		(4,610)
Balance before depreciation		**578,782**		**1,971,280**		**2,550,062**
Accumulated depreciation:						
Balance at Jan 1, 2016		(43,988)		(335,037)		(379,025)
Depreciation		(81,339)		(455,659)		(536,998)
Write-off of assets		-		1,406		1,406
Total accumulated depreciation		**(125,327)**		**(789,290)**		**(914,617)**
Net book value as at September 30, 2016	$	**453,455**	$	**1,181,990**	$	**1,635,445**

7. Property and equipment: (continued)

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

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

Depreciation expense for assets held under capital lease was $123,186 for the nine month period ended September 30, 2016 (2015 – $13,687).

The net carrying value of assets held under capital lease was $445,408 and $568,594 as at September 30, 2016 and December 31, 2015, respectively.

8. Software development costs, net:

The following table summarizes the changes in software development costs, net for the nine month period ended September 30, 2016:

	Total
Cost:	
Balance at Jan 1, 2016	$ 4,834,073
Additions - internally generated	3,384,631
Balance before amortization	**8,218,704**
Accumulated amortization:	
Balance at Jan 1, 2016	(467,735)
Amortization	(1,255,265)
Total accumulated amortization	**(1,723,000)**
Net book value as at September 30, 2016	**$ 6,495,704**

8. Software development costs, net: (continued)

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

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

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

9. Intangible assets, net and goodwill:

The following table summarizes the changes in intangible assets, net for the nine month period ended September 30, 2016:

		Broadcast Relationships		Advertiser Relationships		Total
Cost:						
Balance at Jan 1, 2016	$	7,600,000	$	1,200,000	$	8,800,000
Additions		-		-		-
Balance before amortization		**7,600,000**		**1,200,000**		**8,800,000**
Accumulated amortization:						
Balance at Jan 1, 2016		(211,112)		(80,000)		(291,112)
Amortization		(475,002)		(180,000)		(655,002)
Total accumulated amortization		**(686,114)**		**(260,000)**		**(946,114)**
Net book value as at September 30, 2016	$	**6,913,886**	$	**940,000**	$	**7,853,886**

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

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

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

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

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

	Carrying Value
Balance at January 1, 2015	$ -
Acquisition of Worldnow	22,756,581
Balance at December 31, 2015	22,756,581
Impairment	(12,850,000)
Balance at September 30, 2016	$ 9,906,581

Due to the continued decline in the Company's share price, the Company tested Goodwill for impairment as at September 30, 2016.

The Company determined the recoverable amount of its cash-generating unit by considering the average market price of the Company's common shares during the third quarter of 2016 and applying a 20 percent control premium over the market price. The goodwill impairment analysis performed by the Company as at September 30, 2016 concluded there was impairment to goodwill of $12,850,000, being the excess of the carrying value over the recoverable amount.

10. Debt:

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

On September 1, 2016, the Company completed the closing of its financing with Raycom Media Inc., (Raycom) a related party (Note 11).

The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit (collectively, the Loan). In addition, Raycom converted $1.0 million of its existing $4.0 million promissory note from the Company into 2,553,400 common shares of the Company and the Company issued 14,809,720 warrants to Raycom entitling the holder of each warrant to acquire one common share of the Company upon exercise of each warrant at a price per common share equal to CDN$0.50. The warrants will expire on the earlier of: (i) the repayment of the Loan in accordance with its terms; and (ii) 5 years. To the extent that there is a mandatory repayment of any portion of the principal balance of the Loan within the first year of its term, a proportionate number of the warrants will have their term reduced to the later of one year from issuance and 30 days from the date of such repayment. The common shares and warrants issued to Raycom are subject to a four-month statutory hold period expiring on January 1, 2017.

The Warrants were recorded within shareholder's equity in accordance with IAS 32 - *Financial Instruments: Presentation.* The amount allocated to the warrants was the residual interest after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The fair value of the instrument as a whole was equal to the total consideration received of $14,500,000. The liability component, Loan with Raycom, was valued at $11,359,748, with the residual value of $3,140,252 allocated to the Warrants.

The debt discount of $3,140,252, equal to the difference between the fair value of the Loan of $11,359,748 and principal amount of $14.5 million, is being amortized to interest expense, net on the interim condensed consolidated statement of loss and comprehensive loss using the effective-interest method. Amortization of debt discount included in interest expense, net for the three and nine month periods ended September 30, 2016 amounted to $48,048.

Prior to the completion of the financing arrangements, Raycom held 6,751,132 voting shares of the Company, which represented approximately 21% of the issued and outstanding voting shares of the Company. Immediately following the completion of the financing arrangement transactions, Raycom held 9,304,532 voting shares of the Company and 14,809,720 warrants, which collectively represents approximately 27% of the issued and outstanding voting shares of the Company on a non-diluted basis.

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

10. Debt: (continued)

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

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

On August 31, 2016, in connection with the above refinancing transaction, the Company utilized cash on hand to extinguish the Revolving Credit Facility.

11. Related party transactions and balances:

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

		September 30, 2016		December 31, 2015
Statement of financial position				
Accounts receivable (ii)	$	244,725	$	86,112
Unbilled revenue (ii)		25,000		-
Accounts payable (ii)		296,406		92,089
Deferred revenue (ii)		19,890		79,560
Promissory notes (iii)		-		15,000,000
Non-revolving credit facility (iv)	$	11,407,796	$	-

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

	Three month period ended				Nine month period ended			
		September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015
Statement of loss and comprehensive loss								
Revenue - Raycom Media (ii)	$	1,071,999	$	231,809	$	3,262,516	$	231,809
Interest expense, net (Promissory notes) (iii)		125,000		62,500		500,000		62,500
Interest expense, net (Non-revolving credit facility) (iv)		165,078		-		165,078		-
Consulting fees, net of capitalized software (i)	$	-	$	32,741	$	-	$	108,587

(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.

11. Related party transactions and balances: (continued)

(i) Pursuant to the agreements, the Company incurred consulting fees of $32,741 and $108,587 for the three and nine month periods ended September 30, 2015, respectively. These agreements were terminated in full in September 2015.

(ii) The Company has various customer service agreements with Raycom Media, Inc., a significant shareholder of the Company.

The Company recorded revenues from Raycom Media, Inc. of $1,071,999, $231,809, $3,262,516 and $231,809 for the three and nine month periods ended September 30, 2016 and 2015, respectively.

Related party balances with this affiliate in the accompanying statement of financial position as at September 30, 2016 include accounts receivable of $244,725, unbilled revenue of $25,000, accounts payable of $296,406 and deferred revenue of $19,890. 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.

(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 $125,000, $62,500, $500,000 and $62,500 for the three and nine month periods ended September 30, 2016 and 2015, respectively, and is presented within interest expense, net on the interim condensed consolidated statement of loss and comprehensive loss.

(iv) On September 1, 2016, the Company completed the closing of its financing with Raycom Media Inc. The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit (collectively, the Loan) (Note 10). The Loan was recorded at fair value of $11,359,748 with the remaining $3,140,252 being allocated to the warrants. The carrying value of the Loan at September 30, 2016, net of debt discount, was $11,407,796. Interest expense on the Loan amounted to $165,078 for the three and nine month periods ended September 30, 2016, and is presented within interest expense, net on the interim condensed consolidated statement of loss and comprehensive loss.

11. Related party transactions and balances: (continued)

(v) 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 nine month periods ended September 30, 2016 and 2015 is as follows:

	Three month period ended		Nine month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries, bonuses and employee benefits	$ 334,532	$ 477,506	$ 1,350,453	$ 1,077,504
Stock based compensation (at full fair value)	269,969	-	710,302	2,065,744
	$ 604,501	$ 477,506	$ 2,060,755	$ 3,143,248

12. Share capital:

(a) Authorized and issued share capital:

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

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

As at September 30, 2016 and December 31, 2015, the Company had 32,893,797, 1,752,934, 21,998,304 and 10,095,027 Common Shares and Class A restricted voting shares issued and outstanding, respectively.

12. Share capital: (continued)

The movement in the Company's issued and outstanding share capital during the nine month period ended September 30, 2016 and year ended December 31, 2015 is as follows:

	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 (i)	195,446	9,772,204		13,388,640
Transaction costs on issuance of shares	-	-		(170,000)
Balance, December 31, 2015	**21,998,304**	**10,095,027**	$	**60,376,338**
Issuance of common shares	2,553,400	-		1,000,000
Share issuance costs	-	-		(6,040)
Exchange of restriced voting shares for common shares	8,342,093	(8,342,093)		-
Balance, September 30, 2016	**32,893,797**	**1,752,934**	$	**61,370,298**

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

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

12. Share capital: (continued)

(b) Stock options:

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

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 nine month period ended September 30, 2016 and year ended December 31, 2015 (all options are exercisable into one common share):

	Number of options	Weighted average exercise price	Weighted average grant-date fair value	Weighted average remaining contractual term
Options outstanding, January 1, 2015	**996,707**	**1.84**	**0.59**	**4.37**
Issued	1,850,979	2.20	1.27	9.22
Exercised	(37,959)	1.24	0.67	3.10
Forfeited or expired	(415,972)	2.10	1.21	7.86
Options outstanding, December 31, 2015	**2,393,755** *	**2.09**	**1.01**	**7.12**
Issued	2,884,500	0.72	0.27	9.38
Exercised	-	-	-	-
Forfeited or expired	(1,002,548)	2.17	0.77	4.10
Options outstanding, September 30, 2016	**4,275,707**	**1.14**	**0.57**	**8.96**

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

The weighted average share price at the time of the 37,959 options exercised during the year ended December 31, 2015 was $2.50 per common share.

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

During the nine month periods ended September 30, 2016 and 2015, the following stock options were granted to directors, officers and employees of the Company.

12. Share capital: (continued)

The fair value of the options granted were estimated based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	Nine month period ended	
	September 30, 2016	**September 30, 2015**
Number of options granted	2,884,500	1,693,234
Dividend yield	0%	0%
Risk-free interest rate	0.70%~1.00%	0.65%~1.25%
Volatility	68.5%~85.7%	64.0%~68.0%
Expected term in years	6.25	5~6.25

(c) Restricted share units:

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

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

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

12. Share capital: (continued)

(c) Restricted share units: (continued)

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 nine month period ended September 30, 2016 and year ended December 31, 2015:

	Number of RSUs
Balance, January 1, 2015	**-**
Issued	638,036
Cancelled	-
Vested	(30,000)
Balance, December 31, 2015	**608,036**
Issued	962,535
Cancelled	(247,676)
Vested	-
Balance, September 30, 2016	**1,322,895**

(d) Warrants:

Pursuant to the Loan with Raycom (Note 10), the Company issued warrants (the “Warrants”) to purchase 14,809,720 common shares at a price per share of CDN$0.50. The Warrants have a 5-year term but will expire on the date which is later of (a) August 31, 2017 or (b) 30 days from the date of each principal repayment. Upon each payment of principal, the number of warrants that will expire will equal the product of the (i) then outstanding number of Warrants and (ii) the principal repayment divided by the then outstanding principal balance of the term loan by 100.

The Warrants were recorded within shareholder’s equity in accordance with IAS 32 - *Financial Instruments: Presentation.* The amount allocated to the warrants was the residual interest after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The fair value of the instrument as a whole was equal to the total consideration received of $14,500,000. The liability component, Loan with Raycom, was valued at $11,359,748, with the residual value of $3,140,252 allocated to the Warrants.

13. Capital management:

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

13. Capital management: (continued)

As at September 30, 2016 and December 31, 2015, managed capital was $16,087,793 and $28,501,048, respectively. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2016. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

14. Financial risk management:

Risk management framework:

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

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

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

(a) Credit risk:

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

Credit risk relates to cash, cash equivalents and accounts receivable, and arises from the possibility that any counterparty to an instrument fails to perform. The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors. As at September 30, 2016 and December 31, 2015, the Company's maximum exposure to credit risk was the carrying value of cash and accounts receivable.

14. Financial risk management: (continued)

(a) Credit risk: (continued)

Accounts receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The allowance for doubtful accounts was $29,974 and $57,723 as at September 30, 2016 and December 31, 2015, respectively.

The Company’s accounts receivable are concentrated among customers in the media and broadcasting industry, which may be affected by adverse economic factors impacting that industry. The Company performs ongoing credit evaluations of its major customers, maintains reserves for potential credit losses, and does not require any collateral deposits. As at September 30, 2016, two customers each accounted for greater than 10% of the Company’s accounts receivable balance. In total, these two customers accounted for 22% of the Company’s accounts receivable balance as at September 30, 2016.

Financial instruments and cash deposits:

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

(b) Liquidity risk:

The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet purchase commitments and to sustain operations. The Company controls its liquidity risk by managing working capital and cash flows. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2016, the Company had a cash and accounts receivable balance of $5,617,909 (December 31, 2015 - $10,668,274) to settle current financial liabilities of $4,848,392, 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 and the non-revolving credit facility, have contractual maturities of less than 12 months. Reference Note 1 for further discussion on liquidity risk.

14. Financial risk management: (continued)

(b) Liquidity risk: (continued)

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.

(c) Market risk:

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

Foreign exchange rates:

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's transactions with parties located outside the United States of America, which consists of transactions of the Canadian head office. Balances denominated in foreign currencies as at September 30, 2016 are not material to the Company.

Interest rates:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The non-revolving credit facility bears interest at a fixed rate, and as such is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

(d) Operational risk:

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

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

15. Loss per share:

Loss per share has been calculated using the weighted average number of common shares and common share equivalents issued and outstanding during the period. As at September 30, 2016 and 2015, there is no effect of potentially dilutive securities. All options, RSUs and warrants outstanding were excluded from the diluted weighted average number of shares calculated as their effect would have been anti-dilutive.

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

	Three month period ended		Nine month period ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net loss for the period	$ (14,315,462)	$ (4,399,049)	$ (17,386,259)	$ (9,785,200)
Basic weighted average shares outstanding	32,898,207	25,996,085	32,363,581	23,386,683
Diluted weighted average shares outstanding	32,898,207	25,996,085	32,363,581	23,386,683
Basic and diluted loss per share	$ (0.44)	$ (0.17)	$ (0.54)	$ (0.42)

16. Income taxes:

The Company has net operating loss carry forwards. Deferred tax assets have not been recognized given the Company's history of losses.

17. Capital leases:

The Company is party to various computer-related equipment leases that qualify as capital lease obligations. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized asset and a related capital lease obligation in the accompanying statements of financial position. The net carrying value of assets held under capital lease was $445,408 and $568,594 as at September 30, 2016 and December 31, 2015, respectively. Future minimum capital lease payments as at September 30, 2016 and December 31, 2015 are payable as follows:

	September 30, 2016	December 31, 2015
Future payments		
Within one year	$ 183,481	$ 210,084
After one year but not more than five years	81,484	213,966
Thereafter	-	-
Total	**264,965**	**424,050**
Less amount representing interest	8,562	20,027
Present value of minimum lease payments	**256,403**	**404,023**
Less current portion	175,942	195,940
Total noncurrent portion	**$ 80,461**	**$ 208,083**

18. 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:

Payments Due During the Years Ending September 30,		Total
2017	$	1,459,608
2018		1,375,908
2019		1,210,908
2020		852,908
2021		852,908
Thereafter		1,208,287
Total	$	**6,960,527**

19. Employee benefit plan:

The Company’s subsidiaries, Frankly Co. and Frankly Media, each have a 401(k) plan (the “Plans”), which covers all eligible employees. Under the Plans, employees may contribute from their gross salaries on a before tax basis up to annual statutory limitation determined each year. The Company's matching contributions amounted to $Nil and $15,076 for the nine month periods ended September 30, 2016 and 2015, respectively.

20. Subsequent events:

The Company has evaluated subsequent events from the balance sheet date through November 29, 2016, the date at which the interim financial statements were available to be issued, and determined there were no additional items to be disclosed.