

IOU Financial Inc.
Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2015 and 2014

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

**The accompanying condensed interim consolidated financial statements of
IOU Financial Inc for the nine months ended September 30, 2015 and 2014
have not been reviewed or audited by the Company's auditors.**

IOU FINANCIAL INC.

Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2015 and 2014

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IOU Financial INC.

Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2015 and December 31, 2014

| | Note | September 30, 2015 \$ | December 31, 2014 \$ |
|---|------|--------------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 3,474,443 | 1,800,619 |
| Restricted cash | | 1,490,170 | 940,635 |
| Sales taxes receivable | | 129,175 | 15,335 |
| Commercial loans receivable – net | 4 | 20,252,688 | 14,195,377 |
| Servicing asset | 4 | 1,991,166 | 1,376,172 |
| Other assets | | 445,954 | 236,935 |
| Prepays and deposits | | 78,310 | 108,238 |
| Total current assets | | 27,861,906 | 18,673,311 |
| Property and equipment | 5 | 281,767 | 104,900 |
| Intangible asset | 6 | 347,389 | 12,419 |
| Total non-current assets | | 629,156 | 117,319 |
| Total assets | | 28,491,062 | 18,790,630 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 7 | 1,568,096 | 624,166 |
| Financing credit facility | 8 | 13,177,479 | 6,987,237 |
| Total current and total liabilities | | 14,745,575 | 7,611,403 |
| Shareholders' Equity | | | |
| Share capital | 9 | 21,598,398 | 18,886,654 |
| Contributed surplus | | 2,636,343 | 2,339,665 |
| Accumulated other comprehensive income | | 2,357,156 | 958,924 |
| Deficit | | (12,846,410) | (11,006,016) |
| Total Shareholders' Equity | | 13,475,487 | 11,179,227 |
| Total liabilities and Shareholders' Equity | | 28,491,062 | 18,790,630 |

Commitments (Note 16)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board:
Phil Marleau (*signed*), Director
Mayco Quiroz (*signed*), Officer

IOU Financial INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
For the Three and Nine Month Period Ended September 30, 2015 and 2014

| | Note | For the three months ended September 30, 2015 \$ | For the three months ended September 30, 2014 \$ | For the nine months ended September 30, 2015 \$ | For the nine months ended September 30, 2014 \$ |
|---|------|--|--|---|---|
| Financial Revenue | | | | | |
| Financing revenue | 11 | 2,036,877 | 581,854 | 4,595,393 | 1,980,633 |
| Other fees and servicing income | 11 | 277,438 | 271,696 | 1,065,911 | 726,609 |
| Net gain recognized on sale of loans | 4 | 1,518,133 | 628,036 | 3,675,524 | 1,612,551 |
| Total Financial Revenue | | 3,832,448 | 1,481,586 | 9,336,828 | 4,319,793 |
| Financial expenses | | | | | |
| Interest expense | | 438,067 | 91,789 | 1,158,003 | 461,898 |
| Provision for loan losses – net of recoveries | 4 | 691,673 | 110,525 | 1,678,112 | 389,349 |
| Total Financial expenses | | 1,129,740 | 202,323 | 2,836,115 | 851,247 |
| Net financial income before operating and other expenses | | | | | |
| | | 2,702,708 | 1,279,263 | 6,500,713 | 3,468,546 |
| Operating expenses | 12 | 3,631,808 | 1,450,088 | 8,341,107 | 4,478,684 |
| Operating loss | | (929,100) | (170,825) | (1,840,394) | (1,010,138) |
| Loss before income taxes | | (929,100) | (170,825) | (1,840,394) | (1,010,138) |
| Income taxes | | - | - | - | - |
| Total net loss for the period | | (929,100) | (170,825) | (1,840,394) | (1,010,138) |
| Other comprehensive loss: | | | | | |
| Items that may be reclassified subsequently to net loss: | | | | | |
| Currency translation differences | | 699,569 | 293,455 | 1,398,232 | 338,274 |
| Total comprehensive loss for the period | | (229,531) | 122,630 | (442,162) | (671,864) |
| Comprehensive loss attributable to: | | | | | |
| Common shareholders | | (229,531) | 122,630 | (442,162) | (671,864) |
| Net loss attributable to: | | | | | |
| Common shareholders | | (929,100) | (170,825) | (1,840,394) | (1,010,138) |
| Loss per share: | | | | | |
| Basic and diluted loss per share | | (0.02) | (0.01) | (0.05) | (0.02) |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

IOU Financial INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2015 and 2014

| | Commons Shares (#) | Capital Stock (\$) | Contributed Surplus (\$) | Deficit (\$) | Accumulated other comprehensive income (\$) | Total shareholders' equity(\$) |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------------|---------------------|--|---|
| Balance as at December 31, 2013 | 46,787,997 | 14,022,542 | 2,623,132 | (9,687,360) | 274,637 | 7,232,951 |
| Net loss and comprehensive loss | - | - | - | (1,010,138) | 338,274 | (671,864) |
| Warrants exercised | 6,640,295 | 4,747,712 | (840,250) | - | - | 3,907,462 |
| Options exercised | 250,000 | 116,400 | (3,900) | - | - | 112,500 |
| Stock based compensation | - | - | 440,397 | - | - | 440,397 |
| Balance as at September 30, 2014 | 53,678,292 | 18,886,654 | 2,219,919 | (10,697,498) | 612,911 | 11,021,986 |

| | Commons Shares (#) | Capital Stock (\$) | Contributed Surplus (\$) | Deficit (\$) | Accumulated other comprehensive income (\$) | Total shareholders' equity(\$) |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------------|---------------------|--|---|
| Balance as at December 31, 2014 | 53,678,292 | 18,886,654 | 2,339,665 | (11,006,016) | 958,924 | 11,179,227 |
| Net loss and comprehensive loss | - | - | - | (1,840,394) | 1,398,232 | (442,162) |
| Private placement (Note 9) | 7,795,000 | 2,711,744 | - | - | - | 2,711,744 |
| Stock based compensation (Note 9) | - | - | 296,678 | - | - | 296,678 |
| Balance as at September 30, 2015 | 61,473,292 | 21,598,398 | 2,636,343 | (12,846,410) | 2,357,156 | 13,745,487 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

IOU Financial INC.

Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2015 and 2014

| | Note | 2015 \$ | 2014 \$ |
|---|------|------------------|------------------|
| Operating Activities | | | |
| Net loss for the year | | (1,840,394) | (1,010,138) |
| Non-cash items included in net loss | 13 | (4,846,950) | (1,573,493) |
| Net change in non-cash working capital items | 13 | (110,714,621) | (60,685,038) |
| Sale of commercial loans | | 106,060,855 | 60,360,331 |
| Interest received | | 4,595,393 | 1,980,633 |
| Interest expense | | 1,158,003 | 461,898 |
| Cash used in operating activities | | (5,587,714) | (465,807) |
| Financing Activities | | | |
| Interest expense | | (1,158,003) | (461,898) |
| Issuance of equity, net of transaction costs | | 2,711,744 | - |
| Warrants exercised | | - | 3,907,462 |
| Options exercised | | - | 112,500 |
| Issuance/(repayment) of financing credit facility | | 6,190,242 | (2,254,632) |
| Cash generated from financing activities | | 7,743,983 | 1,303,432 |
| Investing Activities | | | |
| Additions to intangible asset | | (352,648) | - |
| Additions to equipment | | (223,301) | (40,406) |
| Cash used in investing activities | | (575,949) | (40,406) |
| Increase/(decrease) in cash | | 1,580,320 | 797,219 |
| Exchange rate difference on cash and restricted cash | | 643,039 | 106,647 |
| Cash and restricted cash – beginning of period | | 2,741,254 | 1,827,373 |
| Cash and restricted cash – end of period | | 4,964,613 | 2,731,239 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

IOU Financial Inc.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2015 and 2014

1. General information

IOU Financial Inc. (“IOUF”, “IOU Financial”, the “Company”) (formerly MCO Capital Inc.) (“MCO”) is incorporated under Part 1A of the Business Corporations Act (Quebec). The registered office of IOU Financial Inc. is located at 1 Place Ville-Marie, Suite 1670, Montreal, Quebec, Canada. Until February 28, 2011, the business of IOU Financial Inc. was to identify and evaluate business assets with a view to a potential acquisition.

On February 28, 2011, IOU Central Inc. (“IOUC”, “IOU Central”) entered into a share exchange agreement with IOU Financial for the acquisition by IOUF of all the issued and outstanding shares of IOUC.

IOUC was incorporated under the laws of the Canada Business Corporations Act on August 10, 2006 and presently operates an internet-based commercial lending business in the United States of America, through its subsidiary, IOU Central Inc. (USA) (“IOU USA”, together with IOUC and IOUF, the “group”), located in the state of Georgia in the United States of America (incorporated in Delaware on August 16, 2006).

IOU Financial is a public company listed on the TSX Venture Exchange (TSX-V) as at March 17, 2014 (previously listed on the Canadian National Stock Exchange (CNSX)).

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 23, 2015.

2. Basis of preparation

The condensed interim consolidated financial statements of IOU Financial have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets. Other measurement bases used are described in the applicable notes.

3. Significant accounting policies

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied in the previous financial year, except as described below.

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**Notes to the Condensed Interim Consolidated Financial
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Use of estimates and judgements

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2014.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these condensed interim consolidated financial statements. None of these is expected to have a significant effect on the condensed interim consolidated financial statements of the Company, except the following set out below:

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those within the scope of other standards, such as insurance contracts and financial instruments. IFRS 15 therefore supersedes the two main revenue recognition standards, IAS 18, Revenue, and IAS 11, Construction Contracts, as well as related interpretations. The core principle of this new standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue.

The Company is currently assessing the impact of adopting IFRS 15, which is effective for annual periods beginning on or after January 1, 2017.

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**Notes to the Condensed Interim Consolidated Financial
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IFRS 9, Financial Instruments

In July 2014, the IASB issued the complete and final version of IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 covers requirements concerning the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. IFRS 9 establishes a new classification and measurement model for financial assets to determine whether a financial asset must be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the characteristics of the contractual cash flows of the financial asset and on the business model under which it is held. For the classification and measurement of financial liabilities, the new standard essentially follows the current requirements under IAS 39.

The standard also introduces a single impairment model for financial assets that requires recognizing expected credit losses instead of incurred losses, which is the requirement under the current impairment model. The model provides for a multi-phase approach based on changes in credit quality since initial recognition.

Lastly, IFRS 9 includes a new hedge accounting model to align hedge accounting more closely with risk management activities.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard.

4. Commercial loans receivable

As at September 30, 2015 and December 31, 2014, the Company held commercial loans receivable as part of its regular operations.

| | September 30, 2015 | December 31, 2014 |
|--|---------------------------|-------------------|
| | \$ | \$ |
| Principal balance of commercial loans receivable | 21,087,167 | 14,255,422 |
| Unamortized fees and transactions costs | 308,570 | 289,483 |
| Commercial loans receivable | 21,395,737 | 14,544,905 |
| Less allowance for loan losses | (1,143,049) | (349,528) |
| Commercial loans receivable – net | 20,252,688 | 14,195,377 |

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The loans bear fixed interest at rates ranging between 12.64% - 14.99% (December 31, 2014: 12% - 14.99%) and mature no later than 12 months after each statement of financial position date. Guarantee fees charged on each loan range between 5.0% - 16.0% (December 31, 2014: 5.5% - 16.00%) of the original loan amount. The loans are all short term with an average date to maturity of 11.8 months (December 31, 2014: 11.7 months). The loans are being repaid daily over their terms. Loans are not collateralized but are backed by a general security agreement against all of the assets of the business and are personally guaranteed by the owner(s) of the business. The commercial loans receivable are denominated in U.S. dollars. Transaction costs and unamortized fees comprise broker commissions and loan closing fees and are deferred over the term of the loan in accordance with the Company's accounting policy.

Impaired loans and allowances for loan losses:

At period-end, the Company performed a comprehensive review of its loan portfolio for the purposes of determining any specific allowances for each loan.

If it is determined that no objective evidence of impairment exists for an individually assessed loan, this loan will be included in a group of loans with similar credit risk characteristics and the group is then collectively assessed for impairment in accordance with the Company's accounting policy.

The fair value of the loans (net of allowance), as at September 30, 2015 and December 31, 2014 was \$19,944,118 and \$13,905,894 respectively. The fair value of these loans is deemed to be equivalent to the carrying amount, due to the short-term nature of these loans.

Movements in the allowance for loan losses are as follows:

| | September 30, 2015 \$ | December 31, 2014 \$ |
|--|--|----------------------------|
| Allowance at the beginning of the period | 349,528 | 1,019,545 |
| Provision for receivables impairment | 1,875,284 | 702,460 |
| Receivables written off during the year as uncollectible | (1,333,145) | (1,421,458) |
| Foreign exchange | 251,382 | 48,981 |
| Allowance at the end of the period | 1,143,049 | 349,528 |
| Recoveries of loans previously written off | 197,171 | 270,192 |

Amounts charged to the allowance are written off, when there is no expectation of recovering additional cash.

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A summary of the collective and individual components of the allowance for loan losses is as follows:

| | September 30, 2015 | December 31, 2014 |
|--|--------------------|-------------------|
| | \$ | \$ |
| Allowance for loan losses – collective | 366,428 | 109,706 |
| Allowance for credit losses – individual | 776,621 | 239,822 |
| | 1,143,049 | 349,528 |

Age and Credit Quality:

An analysis of the age of the remaining loans receivable in each period presented is as follows:

| Age | September 30, 2015 | | December 31, 2014 | |
|----------------------|--------------------|--------|-------------------|--------|
| | \$ | % | \$ | % |
| Current | 19,169,753 | 89.59% | 13,784,814 | 94.78% |
| Payments in arrears: | | | | |
| 1 to 21 payments | 1,101,180 | 5.15% | 310,395 | 2.13% |
| 22- 63 payments | 659,123 | 3.08% | 248,998 | 1.71% |
| 64 + payments | 465,681 | 2.18% | 200,698 | 1.38% |
| Total | 21,395,737 | 100% | 14,544,905 | 100% |

An analysis of the credit quality of the loans receivable in each period presented is as follows:

| Credit Quality | September 30, 2015 | | December 31, 2014 | |
|-------------------------------|--------------------|--------|-------------------|--------|
| | \$ | % | \$ | % |
| Neither past due nor impaired | 19,169,753 | 89.59% | 13,784,814 | 94.77% |
| Past due but not impaired: | | | | |
| 1 to 21 payments | 613,964 | 2.87% | 297,708 | 2.05% |
| 22 + payments | 290,237 | 1.36% | 160,118 | 1.10% |
| Impaired | 1,321,783 | 6.18% | 302,265 | 2.08% |
| Total | 21,395,737 | 100% | 14,544,905 | 100% |

Past due but not impaired balances relate to financial assets which are contractually overdue but are not deemed to be impaired. Based on historical information on borrower default rates, management considers the credit quality of loan receivables that are neither past due nor impaired to be satisfactory.

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Loan sales and servicing asset:

During the nine-month period ended September 30, 2015, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of \$106,060,855 (September 30, 2014: \$60,360,331). At the time of the sale, the Company transferred to the purchaser of such loans all rights and risks associated with the loans sold, and the Company determined that the criteria for derecognition contained in IAS 39 had been met. However, as per the debt assignment agreements, the Company retained the servicing rights (payment collections) to the loans and the purchaser agreed to be charged a servicing fee over the term of the loans. In accordance with the Company's accounting policy, the Company recognized a net gain on sale of the commercial loans of \$3,675,524 for the nine-month period ended September 30, 2015 (September 30, 2014: 1,612,551), along with a servicing asset that will be amortized to the statement of comprehensive income over the term of the servicing asset. At September 30, 2015, the carrying amount of this asset amounted to \$1,991,166 (December 31, 2014: \$1,376,172). The servicing asset is determined by comparing the actual expected cash flows to be received to the fair value of providing such services. The fair value of the servicing was determined by using readily available third-party pricing for a similar type of service.

5. Equipment

| | Office Equipment | Computer Equipment | Leasehold Improvements | Total |
|----------------------------------|-----------------------------|-------------------------------|-----------------------------------|--------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance at January 1, 2014 | 44,411 | 36,155 | - | 80,566 |
| Additions | 51,681 | 38,002 | - | 89,683 |
| Balance at December 31, 2014 | 96,092 | 74,157 | - | 170,249 |
| Additions | 79,198 | 36,777 | 107,326 | 223,301 |
| Balance at September 30, 2015 | 175,290 | 110,934 | 107,326 | 393,550 |
| Accumulated depreciation | | | | |
| Balance at January 1, 2014 | 27,331 | 14,359 | - | 41,690 |
| Depreciation charge for the year | 7,909 | 15,750 | - | 23,659 |
| Balance at December 31, 2014 | 35,240 | 30,109 | - | 65,349 |
| Depreciation charge for the year | 19,436 | 20,982 | 6,016 | 46,434 |
| Balance at September 30, 2015 | 54,676 | 51,091 | 6,016 | 111,783 |
| Carrying amounts | | | | |
| At December 31, 2014 | 60,852 | 44,048 | - | 104,900 |
| At September 30, 2015 | 120,614 | 59,843 | 101,310 | 281,767 |

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6. Intangible asset

Intangible assets are comprised of internal use software.

| | September 30, 2015 | December 31, 2014 |
|-------------------------------------|---------------------------|-------------------|
| | \$ | \$ |
| Cost | | |
| Beginning of Year | 1,174,682 | 1,174,682 |
| Acquisitions – Internally developed | 352,648 | - |
| Balance – End of Year | 1,527,330 | 1,174,682 |
| Accumulated amortization | | |
| Balance – Beginning of Year | 1,162,263 | 1,112,145 |
| Amortization charge for the year | 17,678 | 50,118 |
| Balance – End of Year | 1,179,941 | 1,162,263 |
| Carrying amount | 347,389 | 12,419 |

7. Accounts payable and accrued liabilities

| | September 30, 2015 | December 31, 2014 |
|-----------------------------|---------------------------|-------------------|
| | \$ | \$ |
| Trade Payables | 999,385 | 429,392 |
| Other payables and accruals | 568,711 | 194,774 |
| Total | 1,568,096 | 624,166 |

8. Financing credit facility

As at September 30, 2015 and December 31, 2014, the carrying value of the liability amounted to:

| | September 30, 2015 | December 31, 2014 |
|---------------------------|---------------------------|-------------------|
| | \$ | \$ |
| Financing credit facility | 13,177,479 | 6,987,237 |

On April 30, 2012, the Company and its subsidiary entered into a financing credit facility agreement with a third party lender. In terms of this agreement, the lender had agreed to provide a one year, secured credit facility to the Company's subsidiary. The facility automatically renews for one year periods unless either party gives termination notice. The facility is denominated in US dollars and was arranged to help finance the Company's lending activities.

The fair value of current borrowings equals the carrying amount as the impact of discounting is not significant.

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As at September 30, 2015, the Company has undrawn borrowing facilities of \$167,521 (as at December 31, 2014: \$4,613,648).

In accordance with IAS 39, transaction costs directly attributable to the acquisition of the above financial liability have been included in the initial measurement of the liability and are being amortized over the term of the agreement. Amortization of \$Nil (September 30, 2014: \$73,775) has been included in "Operating expenses" (Note 12).

In terms of this agreement, all assets held by the Company's subsidiary and IOUF are collateralized against the facility, up to a maximum amount of US \$10 million.

| Asset | Carrying Amount | |
|-----------------------------------|-----------------------------------|----------------------------------|
| | At September 30, 2015 (\$) | At December 31, 2014 (\$) |
| Equipment | 281,767 | 104,900 |
| Commercial loans receivable – net | 20,252,688 | 14,195,377 |
| Intangible asset | 347,389 | 12,419 |
| Cash | 4,531,115 | 2,692,510 |
| Other | 653,439 | 360,508 |

As part of the covenants, the Company shall either cause IOUC to file articles of dissolution and to distribute all of the assets thereof to IOUF or the Company will cause IOUC to be named a party to the Agreement as a solidary co-borrower and to grant additional security agreements acceptable to the Lender.

9. Capital stock

On May 23, 2014, the shareholders of the Company approved a special resolution whereby the Company's Articles of Incorporation were amended in order to restate its share capital by creating a new class of shares designated as Common Shares with no par value. Each Class B Common Share issued and outstanding immediately prior to this amendment, was changed into one Common Share for every Class B Common Share held. Each Class B share reserved for issuance was also changed into one Common Share reserved for issuance. It was further resolved to cancel the authorized but unissued Class A subordinate shares, Class A preferred shares and Class B preferred shares. Each Common Share will entitle the holder thereof to one vote at all meetings of the shareholders of the Company.

Issued

| | September 30, 2015 | December 31, 2014 |
|--|---------------------------|-------------------|
| | \$ | \$ |
| 61,473,292 (December 31, 2014: 53,678,292) | | |
| Common Shares | 21,598,398 | 18,886,654 |

IOU Financial Inc.
Notes to the Condensed Interim Consolidated Financial
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Warrants

A continuity schedule of outstanding common share purchase warrants for the periods presented are as follows:

| | |
|-------------------------------|-------------|
| Balance at January 1, 2014 | 12,753,270 |
| Expired | (5,131,653) |
| Exercised | (6,640,295) |
| Balance at December 31, 2014 | 981,322 |
| Granted | - |
| Expired | - |
| Forfeited | - |
| Exercised | - |
| Balance at September 30, 2015 | 981,322 |

During the period ended September 30, 2015, no warrants (December 31, 2014: 6,640,295) were exercised for an equivalent number of Common Shares.

As at September 30, 2015 outstanding share purchase warrants are:

| Exercise Price | Expiry Date | Quantity | Note |
|----------------|-------------|----------------|------|
| \$0.40 | 30-May-17 | 60,000 | |
| \$0.40 | 21-Dec-17 | 388,238 | (i) |
| \$0.40 | 28-Dec-17 | 114,281 | (i) |
| \$0.40 | 19-Feb-18 | 215,027 | (ii) |
| \$0.40 | 14-Mar-18 | 178,432 | (ii) |
| \$0.40 | 26-Mar-18 | 25,344 | (ii) |
| TOTAL | | 981,322 | |

- (i) In connection with the private placement that closed in December of 2012, 585,905 warrants were issued to exempt market dealers as compensation. Each broker warrant entitles the holder to acquire one Class B Common Share at a price of \$0.40 for a period of three years from the date of its issuance and at a price of \$0.50 and \$0.60 respectively for the fourth and fifth years from the date of its issuance.

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- (ii) In connection with the \$5 million private placement that closed in February and March of 2013, 509,241 warrants were issued to exempt market dealers as compensation. Each broker warrant entitles the holder to acquire one Class B Common Share at a price of \$0.40 for a period of three years from the date of its issuance and at a price of \$0.50 and \$0.60 respectively for the fourth and fifth years from the date of its issuance.

Stock-Based Compensation

Employee Stock Option Plan:

Share options are granted to directors, officers, selected employees and consultants. The exercise price of the granted options is determined by the Board of Directors at a price which shall not be lower than the greater of the closing market price of the shares on the Stock Exchange on: a) the trading day prior to the grant of the options and b) the date of the grant of the options.

The employee options granted in 2012, 2013 and 2014 vest over a three year period, with one-third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

Movements in options for the periods presented are as follows:

| | Options outstanding | Average exercise price per share option (\$) |
|-------------------------------|--------------------------------|---|
| Balance on January 1, 2014 | 3,034,000 | 0.40 |
| Exercised | (250,000) | 0.45 |
| Granted | 1,944,500 | 0.59 |
| Balance on December 31, 2014 | 4,728,500 | 0.48 |
| Forfeited | (341,000) | 0.47 |
| Granted | 590,650 | 0.42 |
| Balance on September 30, 2015 | 4,978,150 | 0.49 |

The following summarizes information about share options outstanding at September 30, 2015:

| Exercise price | Number of options | Number exercisable | Expiry Date |
|-----------------------|------------------------------|-------------------------------|--------------------|
| 0.60 | 100,000 | 100,000 | May-2016 |
| 0.40 | 1,205,000 | 1,205,000 | Apr-2017 |
| 0.49 | 200,000 | 150,000 | Mar-2018 |
| 0.40 | 1,254,000 | 1,254,000 | Apr-2018 |
| 0.41 | 105,000 | 105,000 | May-2018 |
| 0.60 | 1,418,500 | 985,999 | Apr-2019 |
| 0.60 | 105,000 | 70,000 | May-2019 |
| 0.60 | 45,000 | 15,000 | Jul-2019 |
| 0.40 | 545,650 | 545,650 | Jun-2017 |
| | 4,978,150 | 4,430,649 | |

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Out of the 4,978,150 outstanding options (December 31, 2014: 4,728,500), 4,430,649 options (December 31, 2014: 2,935,833) were exercisable.

For the nine months ended September 30, 2015, the Company recognized a stock-based compensation cost relating to the above employee stock option plan of \$128,728 (September 30, 2014: \$424,500).

Third Party Stock Based Compensation:

On May 28, 2014, the Company granted options to its strategic investor relations consultant, entitling them to acquire 100,000 Class B Common Shares of the Company at an exercise price of \$0.60; these options have a term of two years and vest over a period of 12 months, at a rate of 25% at the end of each three-month period. The Company recognized a stock-based compensation cost relating to the above of \$3,195.

On September 26, 2014, the Company granted options to a strategic business partner, entitling them to acquire 200,000 Class B Common Shares of the Company at an exercise price of \$0.49; these options have a term of three and a half years and vest over a period of 12 months, at a rate of 25% at the end of each three-month period. The Company recognized a stock-based compensation cost relating to the above of \$25,341.

In connection with the \$2.7 million private placement that closed in June of 2015, 545,650 options were issued to the brokers as compensation. Each broker option entitles the holder to acquire one Class B Common Share at an exercise price of \$0.40; these options have a term of two years and vest immediately. The Company recognized a stock-based compensation cost relating to the above of \$139,414.

During the period ended September 30, 2015, no options (December 31, 2014: 250,000 options) were exercised for an equivalent number of Class B Common Shares.

10. Financial risk management

The Company is exposed to a variety of financial risks including credit risk, liquidity risk, and market risk (including foreign exchange and interest rate). The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2014. There have been no changes in the Company's risk management policies since year end.

a) Credit Risk

Credit risk is managed on a Company-wide basis and results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

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The Company's maximum credit risk is the carrying value of the cash, restricted cash, other assets and commercial loans receivable. As at September 30, 2015, \$1,321,783 (December 31, 2014: \$302,265) of the commercial loans receivable were impaired and an allowance for expected losses of \$1,143,049 (December 31, 2014: \$349,528) has been established (Refer to Note 4).

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The following are the contractual maturities of financial liabilities, as at December 31, 2014:

| | Carrying amount | 0 to 1 month | 1 to 12 months |
|--|-----------------|-----------------|-------------------|
| | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 624,166 | 624,166 | - |
| Financing credit facility | 6,987,237 | - | 6,987,237 |
| Loan commitment | - | 911,692 | - |

The following are the contractual maturities of financial liabilities, as at September 30, 2015:

| | Carrying amount | 0 to 1 month | 1 to 12 months |
|--|-------------------|------------------|-------------------|
| | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 1,568,096 | 1,568,096 | - |
| Financing credit facility | 13,177,479 | - | 13,177,479 |
| Loan commitment | - | 2,149,038 | - |

c) Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposure with respect to the U.S. dollar. Foreign exchange risk arises from foreign denominated future commercial transactions and recognized assets and liabilities.

The Company does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

The Company's foreign exchange exposure as at September 30, 2015 and December 31, 2014 relates to U.S. dollar cash, commercial loans receivable, accounts payable and accrued liabilities and financing credit facility. The exchange rate applied as at September 30, 2015 was 1.3345 (December 31, 2014: 1.1601).

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Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a one (1) percent strengthening of the Canadian dollar would have increased the net comprehensive income by approximately \$118,856 (September 30, 2014: \$92,456), assuming that all other variables remained constant. An assumed one (1) percent weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

d) Interest Rate Risk

The Company is subject to interest rate risk on its cash and restricted cash. Sensitivity to a 1% change in interest rates would not have a significant effect.

None of the Company's current commercial lending is based on variable interest rates. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. The Company mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to one year.

The Company is exposed to cash flow interest rate risk on its finance credit facility issued at a variable rate. During 2015 and 2014, the borrowings at a variable rate were denominated in USD. The Company mitigates this risk by borrowing for a 12 month term and therefore the Company does not believe that its exposure to interest rate risk is significant.

Financing revenue presented in the condensed interim consolidated statement of comprehensive income represents interest income on financial assets that are classified as loans and receivables.

11. Revenue by category

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-----------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Analysis of revenue by category: | | | | |
| - Financing revenue ⁽¹⁾ | 2,036,877 | 581,854 | 4,595,393 | 1,980,633 |
| Total financing revenue | 2,036,877 | 581,854 | 4,595,393 | 1,980,633 |
| Other fees and servicing income: | | | | |
| - Other fees | 72,614 | 23,796 | 187,821 | 84,026 |
| - Servicing fees | 1,473,772 | 884,192 | 3,980,745 | 2,099,418 |
| - Amortization of servicing asset | (1,268,948) | (636,292) | (3,102,655) | (1,456,835) |
| Total other fees and servicing income | 277,438 | 271,696 | 1,065,911 | 726,609 |

⁽¹⁾ The calculation of financing revenue takes into account all contractual terms of the financial instrument including fee income charged to the borrower on the origination of the loan net of any transactions costs that are directly attributable to the financial instrument. These fees are amortized over the period of the loan.

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12. Operating expenses

| | For the Three months ended September 30, | | For the nine months ended September 30, | |
|---|---|------------------|--|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Operating expenses: | | | | |
| Wages and Salaries | 1,376,331 | 883,497 | 3,877,929 | 2,321,491 |
| Credit on qualifying wages | (30,230) | (33,438) | (94,510) | (92,501) |
| Stock based compensation | 26,048 | 96,841 | 296,678 | 440,937 |
| Consulting fees | 31,662 | 24,636 | 89,276 | 77,042 |
| Rental Expense | 132,251 | 48,832 | 329,395 | 135,759 |
| Insurance | 19,949 | 13,103 | 61,443 | 39,174 |
| Amortization of transactions costs – credit facility | - | - | - | 73,775 |
| Interest and bank charges | 12,173 | 20,197 | 76,108 | 58,736 |
| Professional Fees | 650,977 | 20,056 | 712,110 | 90,241 |
| Legal and accounting fees | 552,135 | 150,024 | 915,931 | 524,361 |
| Business Fees and Licenses | 45,163 | 4,424 | 100,652 | 83,307 |
| Travel and Entertainment | 41,830 | 29,686 | 131,747 | 127,776 |
| Telecommunications | 19,829 | 15,011 | 55,521 | 34,815 |
| Data services, IT costs and other | 284,615 | 161,364 | 677,589 | 314,928 |
| Filing fees | 6,769 | 24,443 | 66,218 | 56,328 |
| Other | 108,641 | 33,528 | 315,127 | 114,204 |
| Advertising and Promotion | 329,528 | 43,954 | 665,781 | 127,721 |
| Depreciation and amortization | 24,137 | 18,286 | 64,112 | 54,946 |
| Realized foreign exchange gain | - | (104,356) | - | (104,356) |
| Total Operating Expenses | 3,631,808 | 1,450,088 | 8,341,107 | 4,478,684 |

13. Supplemental cash flow information

Cash flow from operations include interest paid of \$1,158,003 (September 30, 2014: \$461,898).

Non-cash items included in net loss for the nine months ended September 30, are as follows:

| | 2015 | 2014 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Depreciation of equipment | 46,434 | 15,498 |
| Amortization of intangible asset | 17,678 | 39,449 |
| Amortization of servicing asset | 3,102,655 | 1,456,835 |
| Stock-based compensation | 296,678 | 440,937 |
| Interest revenue | (4,595,393) | (1,980,633) |
| Gain on servicing asset | (3,675,524) | (1,612,551) |
| Unrealized foreign exchange loss | (39,478) | (6,803) |
| Amortization of transactions costs- financing credit facility | - | 73,775 |
| | (4,846,950) | (1,573,493) |

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Net change in non-cash working capital items is comprised of the following:

| | 2015 | 2014 |
|--|----------------------|---------------------|
| | \$ | \$ |
| Sales taxes receivable | (113,840) | 17,878 |
| Other assets | (209,019) | (93,014) |
| Commercial loans receivable | (111,365,620) | (60,640,522) |
| Prepaid and deposits | 29,928 | 30,022 |
| Accounts payable and accrued liabilities | 943,930 | 598 |
| | (110,714,621) | (60,685,038) |

14. Related party transactions

Except as disclosed elsewhere, the Company had the following transactions with related parties:

- a) The CEO and director of IOUF is a shareholder in a company that owns a significant stake in Palos Capital Corporation, the parent company of Palos Management Inc (“Palos”). During the nine months ended September 30, 2015, a fund managed by Palos purchased \$21,920,598 (September 30, 2014: \$12,183,963) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to \$1,071,164 have been earned by the Company on these loans during the nine months ended September 30, 2015 (September 30, 2014: \$354,565). Palos also received agency fees of \$57,453 (September 30, 2014: \$34,113) relating to \$10,158,011 (September 30, 2014: \$8,137,148) of loans sold to a third party purchaser during the period.
- b) In May 2011, the Company began renting its Canadian office space from Palos. This lease is renewable every 12 months under similar terms and may be cancelled by IOU Financial by giving notice 6 months prior to the end of the lease term. The amount expensed as rent for the period relating to this lease amounts to \$142,509 excluding applicable taxes (September 30, 2014: \$68,775). The terms of this operating lease are similar to those that would have been present for an arm’s length transaction. In October 2014, IOUF entered into a new leasing agreement with Palos for its Canadian office space. The lease may be cancelled after 7 years upon the payment of a termination fee. The terms of this operating lease are similar to those that would have been present for an arm’s length transaction. Future non-cancellable lease commitments under this agreement amount to \$1,772,707.

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c) Key Management Compensation

Key management includes directors (executive and non-executive) and officers. The compensation paid or payable to key management for employee services for the three and nine months ended September 30, 2015 and 2014 is shown below:

| | For the three month period ended September 30, 2015 | For the three month period ended September 30, 2014 | For the nine month period ended September 30, 2015 | For the nine month period ended September 30, 2014 |
|---|--|--|---|---|
| | \$ | \$ | \$ | \$ |
| Salaries and other short-term employee benefits | 197,670 | 188,347 | 564,415 | 483,279 |
| Share-based payments | 19,049 | 60,097 | 131,000 | 334,827 |
| | 216,719 | 248,444 | 695,415 | 818,106 |

15. Segment information

During the period, the Company reviewed its reportable operating segments according to the manner in which the information is used by the chief operating decision maker and determined that it operates in one reportable operating segment with two main activities: Lending and Servicing. These activities have been identified on the basis of services provided.

The Company's Lending activity originates and retains loans as part of its loans receivable portfolio. The Company's Servicing activity services loans that have been sold to third party purchasers on a non-recourse basis in exchange for a servicing fee.

Substantially all of the Company's non-current assets are located in the USA.

Revenues for the three and nine months ended September 30, 2015 and 2014, by activity, are as follows:

| | For the three months ended September 30: | | | 2015 | | | 2014 | | |
|--|---|-------------|-------------|-------------|-----------|-----------|-------------|-----------|-----------|
| | Lending | Servicing | Total | Lending | Servicing | Total | Lending | Servicing | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial revenue | | | | | | | | | |
| Financing revenue | 2,036,877 | - | 2,036,877 | 581,854 | - | 581,854 | 581,854 | - | 581,854 |
| Fee income | 72,614 | - | 72,614 | 23,797 | - | 23,797 | 23,797 | - | 23,797 |
| Servicing income | - | 1,473,772 | 1,473,772 | - | 884,192 | 884,192 | - | 884,192 | 884,192 |
| Accelerated recognition of transaction costs on loans sold | - | 25,738 | 25,738 | - | (119,193) | (119,193) | - | (119,193) | (119,193) |
| Amortization of servicing asset | - | (1,268,948) | (1,268,948) | - | (636,293) | (636,293) | - | (636,293) | (636,293) |
| Gain on servicing asset | - | 1,492,395 | 1,492,395 | - | 747,229 | 747,229 | - | 747,229 | 747,229 |
| Total segment revenue | 2,109,491 | 1,722,957 | 3,832,448 | 605,651 | 875,935 | 1,481,586 | 605,651 | 875,935 | 1,481,586 |

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| <u>For the nine months ended September 30:</u> | 2015 | | | 2014 | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Lending \$ | Servicing \$ | Total \$ | Lending \$ | Servicing \$ | Total \$ |
| Financial revenue | | | | | | |
| Financing revenue | 4,595,393 | - | 4,595,393 | 1,980,633 | - | 1,980,633 |
| Fee income | 187,821 | - | 187,821 | 84,026 | - | 84,026 |
| Servicing income | - | 3,980,745 | 3,980,745 | - | 2,099,418 | 2,099,418 |
| Accelerated recognition of transaction costs on loans sold | - | (2,647) | (2,647) | - | (613,839) | (613,839) |
| Amortization of servicing asset | - | (3,102,655) | (3,102,655) | - | (1,456,835) | (1,456,835) |
| Gain on servicing asset | - | 3,678,171 | 3,678,171 | - | 2,226,390 | 2,226,390 |
| Total segment revenue | 4,783,214 | 4,553,614 | 9,336,828 | 2,064,659 | 2,255,134 | 4,319,793 |

16. Commitments

i) Operating lease commitments

The group leases offices under non-cancellable operating lease agreements. The lease terms are between 3 and 12 years and are renewable at the end of the lease term.

The future aggregate minimum lease payments under the non-cancellable operating lease are as follows:

| | September 30, 2015 \$ | December 31, 2014 \$ |
|---|--------------------------|-------------------------|
| No later than 1 year | 528,064 | 405,924 |
| Later than 1 year and no later than 4 years | 1,146,211 | 1,309,297 |
| Later than 5 years | 685,021 | 853,193 |
| Total | 2,359,296 | 2,568,414 |

ii) Loan contracts in transit

As at September 30, 2015, the Company has approved \$2,149,038 (December 31, 2014: \$911,692) of loans that have not yet settled.

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17. Events after the reporting date

- During the month of October 2015, 155,491 warrants were exercised and an equivalent number of Common Shares were issued to the holders of these warrants.

- On November 2, 2015, IOU Financial closed the first tranche of its private placement of 10% convertible unsecured subordinated debentures for gross proceeds of \$9,208,000, at a price of \$1,000 per debenture. The debentures will mature on December 31, 2020, will bear interest at a rate of 10% per annum, payable monthly and commencing on November 30, 2015, and will be convertible at the holders' option into common shares of IOU Financial at a price of \$0.75 per common share, representing a conversion rate of 1,333 common shares for each \$1,000 principal amount of debentures. The Company will have the right to force the conversion of the debentures into common shares at any time on or after December 31, 2018 should the 20-day volume weighted average price of the common shares on the TSX Venture Exchange exceed 125% of the conversion price. Palos Management Inc. ("Palos"), a related party, acted as the agent in the transaction. In consideration for services rendered in connection with the private placement, agent fees of \$230,200 were paid to Palos. On November 20, 2015, IOU Financial closed the second tranche of its private placement of 10% convertible unsecured subordinated debentures for gross proceeds of \$1,292,000. Agent fees of \$32,300 were paid to Palos in connection with the second tranche.

18. Comparative information

Certain comparative figures have been reclassified to conform to the 2014 annual consolidated financial statements' presentation.