IOU Financial Inc.
Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016 and 2015 (unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying interim condensed consolidated financial statements of IOU Financial Inc. for the three months ended March 31, 2016 and 2015 have not been reviewed or audited by the Company's auditors.

IOU Financial Inc.

Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016 and 2015

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IOU Financial INC.

Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2016 and December 31, 2015

(in Canadian dollars)	Note	March 31, 2016 $	December 31, 2015 $
Assets			
Cash		**1,213,737**	3,861,105
Restricted cash		**298,480**	1,016,227
Sales taxes receivable		**24,162**	60,693
Commercial loans receivable – net	**4**	**24,720,215**	26,954,958
Servicing asset	**4**	**857,681**	938,015
Other assets		**637,744**	540,075
Prepaid expenses and deposits		**106,418**	22,100
Equipment and leasehold improvements	**5**	**306,619**	287,265
Intangible assets	**6**	**331,621**	360,652
Total assets		**28,496,677**	34,041,090
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities	**7**	**805,249**	1,657,083
Financing credit facility	**8**	**5,868,199**	8,851,238
Convertible debentures	**9**	**10,137,167**	10,138,177
Total liabilities		**16,810,615**	20,646,498
Shareholders' Equity			
Share capital	**10**	**21,866,794**	21,688,794
Contributed surplus		**3,659,288**	3,600,320
Accumulated other comprehensive income		**2,132,698**	2,769,967
Deficit		**(15,972,718)**	(14,664,489)
Total Shareholders' Equity		**11,686,062**	13,394,592
Total liabilities and Shareholders' Equity		**28,496,677**	34,041,090

Commitments and Contingency (Note 17)

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

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

IOU Financial INC.

Condensed Interim Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2016 and 2015

(in Canadian dollars)		For the three months ended	
		March 31, 2016	March 31, 2015
	Note	**$**	$
Revenue			
Interest revenue	**12**	**2,193,327**	1,336,888
Other fees and servicing income	**12**	**300,746**	366,017
Net gain recognized on sale of loans	**4**	**818,782**	934,934
Gross revenue		**3,312,855**	2,637,839
Cost of revenue			
Interest expense		**625,851**	326,832
Provision for loan losses – net of recoveries	**4**	**828,177**	301,375
Total cost of revenue		**1,454,028**	628,207
Net revenue		**1,858,827**	2,009,632
Operating expenses	**13**	**2,927,963**	2,224,629
Operating loss		**(1,069,136)**	(214,997)
Loss before income taxes		**(1,069,136)**	(214,997)
Income tax expense		**239,093**	-
Net loss for the period		**(1,308,229)**	(214,997)
Other comprehensive loss:			
Items that may be reclassified subsequently to net loss:			
Currency translation differences		**(637,269)**	**865,281**
Comprehensive loss for the period		**(1,945,498)**	**650,284**
Loss per share:			
Basic and diluted loss per share		**(0.02)**	(0.00)

Net loss and comprehensive loss is entirely attributable to the shareholders of IOU Financial Inc.

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 Three Months Ended March 31, 2016 and 2015

(in Canadian dollars)

	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Accumulated other comprehensive income (loss) ($)	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 income	-	-	-	(214,997)	865,281	650,284
Stock-based compensation	-	-	79,241	-	-	79,241
Balance as at March 31, 2015	53,678,292	18,886,654	2,418,906	(11,221,013)	1,824,205	11,908,752

	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Accumulated other comprehensive income ($)	Shareholders' equity($)
Balance as at December 31, 2015	61,628,783	21,688,794	3,600,320	(14,664,489)	2,769,967	13,394,592
Net loss and comprehensive loss	-	-	-	(1,308,229)	(637,269)	(1,945,498)
Warrants exercised (Note 10)	298,561	169,806	(50,382)	-	-	119,424
Options exercised (Note 10)	12,500	8,194	(3,194)	-	-	5,000
Convertible debenture – equity component (Note 9)	-	-	14,639	-	-	14,639
Stock-based compensation (Note 10)	-	-	97,905	-	-	97,905
Balance as at March 31, 2016	61,939,844	21,866,794	3,659,288	(15,972,718)	2,132,698	11,686,062

Shareholders' equity is entirely attributable to the shareholders of IOU Financial Inc.

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 Three Months Ended March 31, 2016 and 2015

		For the three months ended	
(in Canadian dollars)		**March 31, 2016**	March 31, 2015
	Note	**$**	$
Operating Activities			
Net loss for the period		**(1,308,229)**	(214,997)
Non-cash items included in net loss	**14**	**(1,496,065)**	(1,311,039)
Net change in non-cash working capital items	**14**	**(20,441,593)**	(32,034,559)
Sale of commercial loans		**20,657,944**	27,307,238
Interest received		**2,193,327**	1,336,888
Interest expense		**625,851**	326,832
Cash generated (used) in operating activities		**231,235**	(4,589,637)
Financing Activities			
Interest paid		**(612,222)**	(326,832)
Warrants exercised		**119,424**	-
Options exercised		**5,000**	-
Issuance (repayment) of financing credit facility		**(2,983,039)**	4,610,438
Cash generated (used) from financing activities		**(3,470,837)**	4,283,606
Investing Activities			
Additions to intangible assets		**(5,022)**	(192,173)
Additions to equipment and leasehold improvements		**(23,179)**	(86,419)
Cash used in investing activities		**(28,201)**	(278,592)
Increase/(Decrease) in cash		**(3,267,803)**	(584,623)
Exchange rate difference on cash and restricted cash		**(97,312)**	249,929
Cash and restricted cash beginning of period		**4,877,332**	2,741,254
Cash and restricted cash end of period		**1,512,217**	2,406,560

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

1. General information

IOU Financial Inc. ("IOUF", "IOU Financial", the "Company") was incorporated under Part 1A of the *Companies Act* (Quebec) and is governed by the *Business Corporations Act* (Quebec). The registered office of IOU Financial Inc. is located at 1 Place Ville-Marie, Suite 1670, Montreal, Quebec, Canada.

The Company's wholly-owned subsidiary, IOU Central Inc. ("IOUC", "IOU Central"), was incorporated under 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"), based in the state of Georgia in the United States of America (incorporated in Delaware on August 16, 2006).

The Company incorporated a new wholly-owned subsidiary, IOU Financial Canada Inc. ("IOUF Canada"), under the *Canada Business Corporations Act* on December 1, 2015. Currently, IOUF Canada does not have any operations.

IOU Financial is a public company listed on the TSX Venture Exchange (TSX-V).

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 25, 2016.

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, 2015, 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. 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.

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, 2015.

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, 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the 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, 2018.

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.

IFRS 16, Leases
In January 2016, the IASB released IFRS 16, which supersedes IAS 17, Leases and the related interpretations on leases: IFRS Interpretations Committee (IFRIC) 4, Determining Whether an Arrangement Contains a Lease; Standard Interpretations Committee (SIC) 15, Operating Leases – Incentives; and SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the standard on its financial statements.

4. Commercial loans receivable

As at March 31, 2016 and December 31, 2015, the Company held commercial loans receivable as part of its regular operations

	March 31, 2016	December 31, 2015
	$	$
Principal balance of commercial loans receivable	**25,473,467**	27,488,253
Unamortized fees and transactions costs	**370,111**	463,167
Commercial loans receivable	**25,843,578**	27,951,420
Less allowance for loan losses	**(1,123,363)**	(996,462)
Commercial loans receivable – net	**24,720,215**	26,954,958

The loans bear fixed interest at rates ranging between 12.99% - 16.99% (December 31, 2015: 12.64% - 14.99%) and mature no later than 18 months after each statement of financial position date. Guarantee fees charged on each loan range between 7.00% - 16.00% (December 31, 2015: 5.00% - 16.00%) of the original loan amount. At inception, the loans have an average date to maturity of 11.9 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 March 31, 2016 and December 31, 2015 was $24,350,104 and $26,491,791 respectively. The fair value of these loans is estimated to be equivalent to the carrying amount.

(in Canadian dollars)

Movements in the allowance for loan losses are as follows:

	March 31, 2016	December 31, 2015
	$	$
Allowance at the beginning of the period	**996,462**	349,528
Provision for receivables impairment	**912,116**	2,746,951
Receivables written off during the period as uncollectible	**(785,215)**	(2,100,017)
Allowance at the end of the period	**1,123,363**	996,462
Recoveries of loans previously written off	**83,939**	223,994

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

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

	March 31, 2016	December 31, 2015
	$	$
Allowance for loan losses - collective	**282,652**	349,400
Allowance for credit losses - individual	**840,711**	647,062
	1,123,363	996,462

Age and credit quality:

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

	March 31, 2016		December 31, 2015	
Age	**$**		$	
Current	**22,760,280**	**88.07%**	25,782,425	92.24%
Payments in arrears:				
1 to 21 payments	**981,269**	**3.80%**	910,708	3.26%
22-63 payments	**1,520,564**	**5.88%**	947,191	3.39%
64 + payments	**581,474**	**2.25%**	311,096	1.11%
Total	**25,843,578**	**100.00%**	27,951,420	100.00%

(in Canadian dollars)

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

	March 31, 2016		December 31, 2015	
Credit quality	**$**		$	
Neither past due nor impaired	**22,760,280**	**88.07%**	25,782,425	92.24%
Past due but not impaired:				
1 to 21 payments	**796,215**	**3.08%**	725,034	2.59%
22 + payments	**466,848**	**1.81%**	218,179	0.78%
Impaired	**1,820,235**	**7.04%**	1,225,782	4.39%
Total	**25,843,578**	**100.00%**	27,951,420	100.00%

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.

Loan sales and servicing asset:

During the period ended March 31, 2016, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $20,657,944 (March 31, 2015: $27,307,238). 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 $818,782 for the period ended March 31, 2016 (March 31, 2015: 934,934), along with a servicing asset that is amortized to the statement of comprehensive loss over the term of the servicing asset. At March 31, 2016, the carrying amount of this asset amounted to $857,681 (December 31, 2015 – $938,015). 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, which is around 1% of the total principal and interest collected over the term of the servicing period.

(in Canadian dollars)

5. Equipment and leasehold improvements

Cost	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
Balance at January1, 2015	96,092	74,157	-	170,249
Additions	83,140	50,233	115,703	249,076
Balance at December 31, 2015	179,232	124,390	115,703	419,325
Additions	663	3,491	19,025	23,179
Translation differences	14,305	12,130	-	26,435
Balance at March 31, 2016	194,200	140,011	134,728	468,939
Accumulated depreciation				
Balance at January 1, 2015	35,240	30,109	-	65,349
Depreciation charge for the period	27,988	28,854	9,869	66,711
Balance at December 31, 2015	63,228	58,963	9,869	132,060
Depreciation charge for the period	9,009	9,303	4,611	22,923
Translation differences	3,098	4,239	-	7,337
Balance at March 31, 2016	75,335	72,505	14,480	162,320
Carrying amounts				
At December 31, 2015	116,004	65,427	105,834	287,265
At March 31, 2016	118,865	67,506	120,248	306,619

6. Intangible asset

Intangible asset comprises internal use software.

	March 31, 2016 $	December 31, 2015 $
Cost		
Beginning of period	**1,567,626**	1,174,682
Acquisitions	**5,022**	392,944
Translation differences	**291,316**	-
Balance – End of period	**1,863,964**	1,567,626
Accumulated amortization		
Balance – Beginning of period	**1,206,974**	1,162,263
Amortization charge for the period	**33,537**	44,711
Translation differences	**291,832**	-
Balance – End of period	**1,532,343**	1,206,974
Carrying amount	**331,621**	360,652

7. Accounts payable and accrued liabilities

	March 31, 2016 $	December 31, 2015 $
Trade payables	**483,209**	908,059
Other payables and accruals	**322,040**	749,024
Total	**805,249**	1,657,083

8. Financing credit facility

At March 31, 2016 and December 31, 2015, the carrying value of the liability amounted to:

	March 31, 2016 $	December 31, 2015 $
Financing credit facility	**5,868,199**	8,851,238

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. In March 2016, the Company provided a termination notice and the loan is to be repaid in full on June 13, 2016. The facility is denominated in US dollars, bears interest at a variable rate 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.

At March 31, 2016, the Company has undrawn borrowing facilities of $7,118,801 (as at December 31, 2015: $4,988,762).

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

(in Canadian dollars)

	Carrying Amount	
	At March 31, 2016	At December 31, 2015
Asset	**$**	$
Equipment and leasehold improvements	**306,619**	287,265
Commercial loans receivable – net	**24,720,215**	26,954,958
Intangible asset	**331,621**	360,652
Cash	**3,336,621**	4,866,494
Other	**768,324**	622,868

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. Convertible debentures

On November 2, 2015, November 20, 2015 and December 17, 2015, the Company closed an offering for convertible unsecured subordinated debentures (“the debentures”), for aggregate gross proceeds of $11,500,000. The debentures mature on December 31, 2020 and bear interest at a rate of 10% per annum, payable monthly. The debentures are convertible at the holders’ option into Common Shares of the Company at a price of $0.75 per Common Share, representing a conversion rate of 1,333.33 Common Shares for each $1,000 principal amount of debentures. The Company has 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. The issue costs were $621,159, resulting in net proceeds of $10,878,841. The fair value of the liability component at the time of issuances was based on an estimated interest rate of 11.90% for a debt without the conversion feature. The net proceeds were attributed to the liability and equity components amounting to $10,092,467 (net of transaction costs of $576,268) and $786,374 (net of transaction costs of $44,891) respectively. Considering the issuance costs, the effective interest rate on the liability component of the debenture is 12.14%.

The convertible debentures recognized in the statement of financial position are calculated as follows:

	March 31, 2016	December 31, 2015
	$	$
Par value of convertible debentures	**11,500,000**	11,500,000
Unamortized discount and transaction costs	**(1,362,833)**	(1,361,823)
Liability component	**10,137,167**	10,138,177

(in Canadian dollars)

10. Capital stock

Issued

	March 31, 2016 $	December 31, 2015 $
61,939,844 (December 31, 2015: 61,628,783) Common Shares	**21,866,794**	21,688,794

Warrants

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

	Warrants outstanding	Average exercise price per warrant ($)
Balance at January 1, 2015	981,322	0.45
Exercised	(155,491)	0.45
Balance at December 31, 2015	825,831	0.45
Exercised	(298,561)	0.40
Balance at March 31, 2016	527,270	0.45

During the period ended March 31, 2016, 298,561 (December 31, 2015: 155,491) warrants were exercised for an equivalent number of Common Shares.

As at March 31, 2016 outstanding share purchase warrants are:

Exercise Price	**Expiry Date**	**Quantity**	**Note**
$0.40	30-May-17	60,000	
$0.50	21-Dec-17	28,135	**(i)**
$0.50	28-Dec-17	101,812	**(i)**
$0.50	19-Feb-18	174,931	**(ii)**
$0.50	14-Mar-18	144,454	**(ii)**
$0.50	26-Mar-18	17,938	**(ii)**
TOTAL		**527,270**	

(in Canadian dollars)

(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 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.

(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 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, 2014 and 2015 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, 2015	4,728,500	0.48
Forfeited	(341,000)	0.47
Granted	2,304,150	0.52
Balance on December 31, 2015	6,691,650	0.49
Exercised	(12,500)	0.40
Balance on March 31, 2016	6,679,150	0.49

(in Canadian dollars)

The following summarizes information about share options outstanding at March 31, 2016:

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	200,000	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	30,000	Jul-2019
0.40	533,150	533,150	Jun-2017
0.55	150,000	37,500	Nov-2017
0.55	1,563,500	521,167	Nov-2020
	6,679,150	5,041,816	

On November 26, 2015 the Company granted options entitling certain directors and employees of the Company to acquire up to an aggregate of 1,563,500 Common Shares of the Company at an exercise price of $0.55 per share. These options 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.

	Tranche 1	Tranche 2	Tranche 3
Number of options	521,167	521,167	521,166
Exercise price	$0.55	$0.55	$0.55
Expected volatility	64%	62%	60%
Risk free interest rate	0.62%	0.62%	0.62%
Expected life (years)	5	5	5
Dividend yield	0%	0%	0%
Grant-date fair value (per option)	$0.33	$0.32	$0.31

For the period ended March 31, 2016, the Company recognized a stock-based compensation cost relating to the above employee stock option plan of $61,170.

Third Party Stock-Based Compensation:

In connection with the $2.7M private placement that close in June 2015, the Company granted options entitling the brokers to acquire up to an aggregate of 545,650 Common Shares of the Company at an exercise price of $0.40 per share. These options vest immediately. Each option is exercisable for a period of two years from the date of grant.

On November 26, 2015, the Company granted options to its strategic investor relations consultant, entitling them to acquire 150,000 Common Shares of the Company at an exercise price of $0.55; 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 $15,291.

During the period ended March 31, 2016, 12,500 options (December 31, 2015: no options) were exercised for an equivalent number of Common Shares.

11. Financial risk management

11.1 Financial risk factors

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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Even though there has been substantial growth in financial instruments, particularly commercial loans receivable, there has been no change in credit risk in 2015 and 2016 as there has been no significant change in average loan sizes and credit policies for approval of loan applications from the prior year. There have been no changes in the management of risks arising from financial instruments during the current period.

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.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company establishes an allowance for losses that corresponds to the credit risk of its specific customers, historical trends and economic circumstances. The Company does not believe it is exposed to an unusual level of customer credit risk. The Company's maximum credit risk is the carrying value of the cash, restricted cash, other assets and commercial loans receivable. As at March 31, 2016, $1,820,235 (December 31, 2015: $1,225,782) of the commercial loans receivable were impaired and an allowance for expected losses of $1,123,363 (December 31, 2015: $996,462) has been established (Refer to Note 4).

In addition, financial instruments that potentially subject the Company to significant concentrations of credit risk consist of deposits in the form of cash and restricted cash. The Company invests with major North American financial institutions. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and appropriate yields.

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 Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk through the management of its capital structure. The Company has been financed mainly through equity and debt offerings, loan sales, and the use of its credit facility. In order to meet its liabilities when they come due, the Company is dependent on the continued availability of such financing activities.

The following are the contractual maturities of financial liabilities, as at December 31, 2015:

	Carrying amount	0 to 1 month	1 to 12 months	Over 1 year
	$	$	$	$
Accounts payable and accrued liabilities	1,657,083	1,657,083	-	-
Financing credit facility	8,851,238	-	8,851,238	-
Convertible debentures	10,138,177	-	-	10,138,177
Loan commitment	359,673	359,673	-	-

The following are the contractual maturities of financial liabilities, as at March 31, 2016:

	Carrying amount	**0 to 1 month**	**1 to 12 months**	**Over 1 year**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**805,249**	**805,249**	**-**	**-**
Financing credit facility	**5,868,199**	**-**	**5,868,199**	**-**
Convertible debentures	**10,137,167**	**-**	**-**	**10,137,167**
Loan commitment	**323,876**	**323,876**	**-**	**-**

Amounts denominated in U.S. dollars or subject to variable interest rates are determined based on the spot rates at the relevant date.

c) Foreign Exchange Risk

The Company, due to its operations being conducted primarily in the United States, 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 that would affect net income as at March 31, 2016 and December 31, 2015 relates to U.S. dollar cash, commercial loans receivable, accounts payable and accrued liabilities and financing credit facility. The exchange rate applied as at March 31, 2016 was 1.2987 (December 31, 2015: 1.3840).

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 loss by approximately $185,568 (December 31, 2015: $202,668), 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 2016, 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 consolidated statement of comprehensive loss represents interest income on financial assets that are classified as loans and receivables.

(in Canadian dollars)

12. Revenue by category

	For the three months ended March 31,	
	2016	2015
	$	$
Analysis of revenue by category:		
Interest revenue	**2,193,327**	1,336,888
Total interest revenue	**2,193,327**	1,336,888
Other fees and servicing income:		
Other fees	**88,133**	46,472
Servicing fees	**1,335,199**	1,166,410
Amortization of servicing asset	**(1,122,586)**	(846,865)
Total other fees and servicing income	**300,746**	366,017

The calculation of interest 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.

13. Operating expenses

	For the three months ended	
	2016	2015
	$	$
Operating expenses:		
Wages and salaries	**1,651,748**	1,224,817
Credit on qualifying wages	**(32,630)**	(32,450)
Stock-based compensation	**97,905**	79,241
Consulting fees	**17,809**	31,308
Rental expense	**141,942**	76,284
Insurance	**22,007**	20,238
Interest and bank charges	**36,144**	31,008
Professional fees	**85,223**	20,156
Legal and accounting fees	**144,070**	133,196
Business fees and licenses	**26,436**	63,482
Travel and entertainment	**33,584**	47,458
Telecommunications	**23,098**	17,691
Data services, IT costs and other	**198,611**	168,861
Filing fees	**3,964**	32,467
Other	**94,955**	149,506
Advertising and promotion	**326,637**	142,619
Depreciation and amortization	**56,460**	18,747
Total Operating Expenses	**2,927,963**	2,224,629

(in Canadian dollars)

14. Supplemental cash flow information

Non-cash items included in net loss for the three months ended March 31, 2016 and 2015:

	2016 **$**	2015 $
Depreciation of equipment	**22,923**	10,705
Amortization of intangible asset	**33,537**	8,042
Amortization of servicing asset	**1,122,586**	846,865
Stock-based compensation	**97,905**	79,241
Interest revenue	**(2,193,327)**	(1,336,888)
Net gain on sale of loans	**(818,782)**	(934,934)
Unrealized foreign exchange gain	**-**	15,930
Income tax expense	**239,093**	-
	(1,496,065)	(1,311,039)

Net change in non-cash working capital items comprises the following:

	2016 **$**	2015 $
Sales taxes receivable	**36,531**	(11,179)
Other assets	**(97,669)**	(49,287)
Commercial loans receivable	**(19,444,303)**	(32,263,001)
Prepaid and deposits	**(84,318)**	35,387
Accounts payable and accrued liabilities	**(851,834)**	253,521
	(20,441,593)	(32,034,559)

15. Related party transactions

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

i) 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 three months ended March 31, 2016, a fund managed by Palos purchased $6,264,145 (March 31, 2015: $6,363,420) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to $372,593 have been earned by the Company on the outstanding servicing portfolio balance during the period (March 31, 2015: $284,909). Palos also received agency fees of $14,235 (March 31, 2015: $15,316) relating to the outstanding servicing portfolio balance during the period related to the third party purchaser (March 31, 2015: $2,783,579).

(in Canadian dollars)

ii) 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 have been cancelled by IOU Financial by giving notice 6 months prior to the end of the lease term. The terms of this operating lease were 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. The amount expensed as rent for the period relating to this lease amounts to $58,690 excluding applicable taxes (March 31, 2015: $26,428). Future non-cancellable lease commitments under this agreement amount to $1,667,498 and are included in the amounts disclosed in note 17 i).

iii) Key Management Compensation

Key management includes directors (executive and non-executive) and the Chief Financial Officer who is also the Company Secretary. The compensation paid or payable to key management for employee services for the three months ended March 31, 2016 and 2015 is shown below:

	2016 **$**	2015 $
Salaries and other short-term employee benefits	**195,306**	182,219
Share-based payments	**63,627**	66,758
	258,933	248,977

16. Segment information

The Company determined 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.

(in Canadian dollars)

Revenues for the period ended March 31, by activity, are as follows:

			2016			2015
	Lending **$**	**Servicing** **$**	**Total** **$**	Lending $	Servicing $	Total $
Revenue						
Interest revenue	**2,193,327**	**-**	**2,193,327**	1,336,888	-	1,336,888
Fee income	**88,133**	**-**	**88,133**	46,472	-	46,472
Servicing income	**-**	**1,335,199**	**1,335,199**	-	1,166,410	1,166,410
Accelerated recognition of transaction costs on loans sold	**-**	**137,487**	**137,487**	-	(56,080)	(56,080)
Amortization of servicing asset	**-**	**(1,122,586)**	**(1,122,586)**	-	(846,865)	(846,865)
Gain on servicing asset	**-**	**681,295**	**681,295**	-	991,014	991,014
Total segment revenue	**2,281,460**	**1,031,395**	**3,312,855**	1,383,360	1,254,479	2,637,839

17. Commitments and contingency

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:

	March 31, 2016 **$**	December 31, 2015 $
No later than 1 year	**499,192**	543,112
Later than 1 year and no later than 4 years	**882,172**	1,075,947
Later than 5 years	**572,288**	628,789
Total	**1,953,652**	2,247,848

ii) Loan contracts in transit

As at March 31, 2016, the Company has approved $323,876 (as at December 31, 2015: $359,673) of loans that have not yet settled.

18. Events after the reporting date

- During the month of April 2016, 5,400 warrants were exercised and an equivalent number of Common Shares were issued to the holder of these warrants.

- In April 2016, 8,334 employee stock options were forfeited.

- On April 22, 2016, the Company entered into a $50 million credit facility. The facility will have an initial commitment amount of $25 million and will be expandable to $50 million at IOU's request and the lender's acceptance. The interest rate on the facility is LIBOR plus 8.50%, which represents 8.94% at date of closing. If the facility is increased to $37.5 million, the interest rate will be LIBOR plus 8.20%, and if the facility is increased to $50 million, the interest rate will be LIBOR plus 7.75%. The term of the facility is three years.