IOU Financial Inc.

Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended
March 31, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW

The accompanying condensed interim consolidated financial statements of IOU Financial Inc. for the three-month period ended March 31, 2017 and 2016 have not been reviewed or audited by the Company's auditors.

IOU FINANCIAL INC.

Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended
March 31, 2017 and 2016

IOU FINANCIAL INC.

Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2017 and December 31, 2016
(in Canadian dollars)

	Note	**March 31, 2017 $**	December 31, 2016 $
Assets			
Cash		**1,861,274**	5,673,288
Restricted cash		**1,677,624**	872,520
Sales taxes receivable		**125,613**	226,448
Commercial loans receivable, net	**4**	**42,131,451**	39,420,217
Servicing asset	**4**	**785,096**	891,652
Other receivables		**278,230**	154,574
Prepaid expenses and deposits		**115,500**	74,646
Equipment and leasehold improvements	**5**	**245,986**	261,905
Intangible assets	**6**	**220,325**	319,241
Total Assets		**47,441,099**	47,894,491
Liabilities			
Accounts payable and accrued liabilities	**7**	**2,009,529**	1,468,935
Financing credit facility	**8**	**25,805,524**	25,800,542
Convertible debentures	**9**	**10,224,991**	10,202,019
Total Liabilities		**38,040,044**	37,471,496
Shareholders' Equity			
Share capital	**10**	**24,032,349**	24,032,349
Contributed surplus		**3,836,410**	3,818,416
Accumulated other comprehensive income		**1,999,985**	2,044,834
Deficit		**(20,467,689)**	(19,472,604)
Total Shareholders' Equity		**9,401,055**	10,422,995
Total Liabilities and Shareholders' Equity		**47,441,099**	47,894,491

Commitments and Contingency (Note 17)

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

Approved by the Board on May 29, 2017:

Phil Marleau (*signed*), Director

Condensed Interim Consolidated Statements of Comprehensive Loss
For the Three-Month Period Ended March 31
(in Canadian dollars)

	Note	**2017** **$**	2016 $
Revenue			
Interest revenue	**12**	**3,711,044**	2,193,327
Other fees and servicing income	**12**	**288,578**	300,746
Net gain recognized on sale of loans	**4**	**293,595**	818,782
Gross Revenue		**4,293,217**	3,312,855
Cost of Revenue			
Interest expense		**918,658**	625,851
Provision for loan losses, net of recoveries	**4**	**1,931,899**	828,177
Total Cost of Revenue		**2,850,557**	1,454,028
Net Revenue		**1,442,660**	1,858,827
Operating expenses	**13**	**2,436,057**	2,927,963
Loss Before Income Taxes		**(993,397)**	(1,069,136)
Income tax expense		**1,688**	239,093
Net Loss for the Period		**(995,085)**	(1,308,229)
Other Comprehensive Loss:			
Items that May be Reclassified Subsequently to Net Loss:			
Currency translation differences, net of income tax of $1,688 in 2017, $239,093 in 2016		**(44,849)**	(637,269)
Comprehensive Loss for the Period		**(1,039,934)**	(1,945,498)
Loss per Share:			
Basic and diluted loss per share		**(0.01)**	(0.02)

Net loss and comprehensive loss are 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-Month Period Ended March 31
(in Canadian dollars, except as otherwise noted)

	Common Shares (#)	**Share Capital ($)**	**Contributed Surplus ($)**	**Deficit ($)**	**Accumulated OCI [1] ($)**	**Shareholders' equity ($)**
Balance as at December 31, 2016	**70,452,909**	**24,032,349**	**3,818,416**	**(19,472,604)**	**2,044,834**	**10,422,995**
Comprehensive loss	**-**	**-**	**-**	**(995,085)**	**(44,849)**	**(1,039,934)**
Stock-based compensation (Note 10)	**-**	**-**	**17,994**	**-**	**-**	**17,994**
Balance as at March 31, 2017	**70,452,909**	**24,032,349**	**3,836,410**	**(20,467,689)**	**1,999,985**	**9,401,055**

	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Accumulated OCI [1] ($)	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
Comprehensive loss	-	-	-	(1,308,229)	(637,269)	(1,945,498)
Warrants exercised (Note 10)	311,061	178,000	(53,576)	-	-	124,424
Equity component of convertible debenture (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

[1] OCI: Other comprehensive income

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

Condensed Interim Consolidated Statements of Cash Flows
For the Three-Month Period Ended March 31
(in Canadian dollars)

	Note	**2017** **$**	2016 $
Operating Activities			
Net loss for the period		**(995,085)**	(1,308,229)
Non-cash items included in net loss	**14**	**(3,450,449)**	(1,496,065)
Net change in non-cash working capital items	**14**	**(9,005,414)**	(20,441,593)
Sale of commercial loans		**6,776,140**	20,657,944
Interest received		**3,711,044**	2,193,327
Interest expense		**918,658**	625,851
Cash generated (used) in operating activities		**(2,045,106)**	231,235
Financing Activities			
Interest paid		**(895,686)**	(612,222)
Warrants exercised		**-**	124,424
Repayment of financing credit facility		**-**	(2,983,039)
Cash generated (used) from financing activities		**(895,686)**	(3,470,837)
Investing Activities			
Additions to intangible assets		**-**	(5,022)
Additions to equipment and leasehold improvements		**(6,547)**	(23,179)
Cash used in investing activities		**(6,547)**	(28,201)
Decrease in Cash and Restricted Cash		**(2,947,339)**	(3,267,803)
Exchange rate difference on cash and restricted cash		**(59,571)**	(97,312)
Cash and Restricted Cash			
Beginning of period		**6,545,808**	4,877,332
End of period		**3,538,898**	1,512,217

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, Montréal, 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"), 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 significant operations.

IOU Central Inc. incorporated a new wholly-owned subsidiary, IOU Small Business Asset Fund, LLC ("IOU SBAF", together with IOUF, IOUC, IOU USA and IOUF Canada, the "Group") on December 9, 2015.

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

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 29, 2017.

2. Basis of Preparation

The condensed interim consolidated financial statements of the Group 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, 2016, 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 principal 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, 2016.

Current and Future Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

a) New standards adopted during the period

<u>IAS 7, Statement of Cash Flows</u>

In January 2016, the IASB released amendments to IAS 7 Statement of Cash Flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are reflected in note 8.

b) New standards and interpretations relevant to the Company not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 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, 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 2, Share-Based Payment

In June 2016, the IASB released amendments to IFRS 2 Share-based Payment. The amendments provide guidance on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently evaluating the impact of the standard on its financial statements.

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, 2017 and December 31, 2016, the Company held commercial loans receivable as part of its regular operations.

	2017	2016
	$	$
Principal balance of commercial loans receivable	**43,803,726**	42,108,901
Unamortized fees and transactions costs	**1,323,752**	1,078,806
Commercial loans receivable	**45,127,478**	43,187,707
Less allowance for loan losses	**(2,996,027)**	(3,767,490)
Commercial loans receivable, net	**42,131,451**	39,420,217

The loans bear fixed interest at rates ranging between 12.99% and 16.99% (2016: 12.99% and 16.99%) and mature no later than 18 months after each statement of financial position date. Guarantee fees charged on each loan range between 7% and 17% (2016: 7% and 16%) of the original loan amount. At inception, the loans have an average date to maturity of 12.1 months (2016: 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, 2017 and December 31, 2016 was $40,807,699 and $38,341,411, respectively. The fair value of these loans is estimated 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:

	March 31, 2017 $	December 31, 2016 $
Allowance at the beginning of the period	**3,767,490**	996,462
Provision for receivables impairment	**2,028,134**	7,705,968
Receivables written off during the period as uncollectible	**(2,746,369)**	(5,231,723)
Translation differences	**(53,228)**	296,783
Allowance at the end of the period	**2,996,027**	3,767,490
Recoveries of loans previously written off	**96,235**	375,225

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, 2017 $	December 31, 2016 $
Allowance for loan losses - collective	**1,002,387**	1,017,224
Allowance for credit losses - individual	**1,993,640**	2,750,266
	2,996,027	3,767,490

Age and credit quality

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

	March 31, 2017		December 31, 2016	
Age	**$**	**%**	$	%
Current	**36,640,195**	**81.19**	34,404,939	79.66
Payments in arrears:				
1 to 21 payments	**2,561,906**	**5.68**	3,067,443	7.10
22-63 payments	**2,939,298**	**6.51**	3,793,337	8.78
64 + payments	**2,986,079**	**6.62**	1,921,988	4.46
Total	**45,127,478**	**100.00**	43,187,707	100.00

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

Credit quality	March 31, 2017 $	March 31, 2017 %	December 31, 2016 $	December 31, 2016 %
Neither past due nor impaired	**36,640,195**	**81.19**	34,404,938	79.66
Past due but not impaired:				
1 to 21 payments	**2,557,083**	**5.67**	2,995,915	6.94
22 + payments	**3,936,560**	**8.72**	3,553,166	8.23
Impaired	**1,993,640**	**4.42**	2,233,688	5.17
Total	**45,127,478**	**100.00**	43,187,707	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 three-month period ended March 31, 2017, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $6,776,140 (2016: $20,657,944). 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 $293,585 for the three-month period ended March 31, 2017 (2016: $818,782), along with a servicing asset that is amortized to the statement of comprehensive loss over the term of the servicing asset. At March 31, 2017, the carrying amount of this asset amounted to $785,096 (December 31, 2016: $891,652). 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.

5. Equipment and Leasehold Improvements

	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
Cost				
Balance as at December 31, 2015	187,420	130,230	115,703	433,353
Translation differences	(2,850)	(2,972)	-	(5,822)
Additions	13,644	25,705	28,557	67,906
Write offs	(20,546)	(3,178)	-	(23,724)
Balance at December 31, 2016	177,668	149,785	144,260	471,713
Translation differences	(304)	(334)	-	(638)
Additions	1,180	2,841	2,526	6,547
Balance at March 31, 2017	178,544	152,292	146,786	477,622
Accumulated Depreciation				
Balance as at December 31, 2015	69,179	67,040	9,869	146,088
Translation differences	(859)	(1,159)	-	(2,018)
Depreciation charge for the period	34,748	35,582	19,132	89,462
Write offs	(20,546)	(3,178)	-	(23,724)
Balance at December 31, 2016	82,522	98,285	29,001	209,808
Translation differences	(125)	(180)	-	(305)
Depreciation charge for the period	8,850	8,298	4,985	22,133
Balance at March 31, 2017	91,247	106,403	33,986	231,636
Carrying Amounts				
At December 31, 2016	95,146	51,500	115,259	261,905
At March 31, 2017	87,297	45,889	112,800	245,986

6. Intangible Assets

Intangible asset comprises internal use software.

	March 31, 2017 $	December 31, 2016 $
Cost		
Balance at beginning of period	**2,036,216**	1,978,200
Translation differences	**(6,693)**	(56,667)
Acquisitions	**-**	114,683
Write offs	**(63,730)**	-
Balance at end of period	**1,965,793**	2,036,216
Accumulated Amortization		
Balance at beginning of period	**1,716,975**	1,617,548
Translation differences	**(6,120)**	(57,164)
Amortization charge for the period	**34,613**	156,591
Balance at end of period	**1,745,468**	1,716,975
Carrying Amount	**220,325**	319,241

7. Accounts Payable and Accrued Liabilities

	March 31, 2017 $	December 31, 2016 $
Trade payables	**617,095**	508,270
Payable to loan purchasers	**951,650**	501,440
Other payables and accruals	**440,784**	459,225
Total	**2,009,529**	1,468,935

Payable to loan purchasers comprises amounts owing to third-party loan purchasers.

Other payables and accruals include the restructuring provision in the amount of $63,090 (December 31, 2016: $110,882). In September 2016, the Company announced a restructuring plan to reduce operating expenses.

8. Financing Credit Facility

	March 31, 2017 $	December 31, 2016 $
Balance, beginning of period	**25,800,542**	8,851,238
New facility	**-**	26,010,397
Repayment	**-**	(9,226,338)
Amortization of transaction costs	**88,506**	206,880
Translation differences	**(83,524)**	(41,635)
Balance, end of period	**25,805,524**	25,800,542

At end of period, the carrying value of the liability was composed of:

	March 31, 2017 $	December 31, 2016 $
Financing credit facility	**26,521,761**	26,608,957
Unamortized transactions costs	**(716,237)**	(808,415)
	25,805,524	25,800,542

On April 22, 2016, the Company entered into a US$50 million credit facility with a third-party lender (the "Credit Facility"). The facility consists of a US$25 million term loan, expandable to US$50 million at IOU's request and the lender's acceptance. The term of the facility is three years. The facility is denominated in US dollars and was arranged to help finance the Company's lending activities and to repay the existing credit facility. The interest rate on the facility is LIBOR plus 8.50%. If the facility is increased to US$37.5 million, the interest rate will be LIBOR plus 8.20%, and if the facility is increased to US$50 million, the interest rate will be LIBOR plus 7.75%. At March 31, 2017, the Company has undrawn borrowing facilities on the initial US$25 million term loan of US$5.2 million.

As part of the Credit Facility, the Company must respect certain financial covenants. As at March 31, 2017, the Company did not meet the minimum consolidated Tangible Net Worth and Fixed Charge Coverage Ratio covenants, as defined in the agreement, however, the third-party lender has agreed in May 2017 to waive the covenant breaches. All other financial covenants were met for the three-month period ended March 31, 2017.

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

Pledged assets

In terms of the Credit Facility, all assets held by the Company's subsidiary IOUF SBAF are pledged as collateral for the facility. The following table present the carrying amounts of assets pledged as collateral for the facility.

Asset	**March 31, 2017 $**	December 31, 2016 $
Commercial loans receivable, net	**40,746,686**	39,670,217
Cash	**1,335,777**	3,840,832

9. Convertible debentures

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

	March 31, 2017 $	December 31, 2016 $
Par value of convertible debentures	**11,500,000**	11,500,000
Unamortized discount and transaction costs	**(1,275,009)**	(1,297,981)
Liability component amount	**10,224,991**	10,202,019

10. Capital Stock

Authorized

Unlimited number of common shares (the “Common Shares”).

Issued

	March 31, 2017 $	December 31, 2016 $
70,452,909 (2016: 70,452,909) Common Shares	**24,032,349**	24,032,349

Warrants

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

	Warrants outstanding (#)	Average exercise price per warrant ($)
Balance as at December 31, 2015	1,371,481	0.45
Exercised	(316,361)	0.40
Balance as at December 31, 2016	1,055,120	0.45
Exercised	-	-
Balance as at March 31, 2017	**1,055,120**	**0.49**

During the three-month period ended March 31, 2017, no warrants (2016: 311,061) were exercised for an equivalent number of Common Shares.

As at March 31, 2017 outstanding share purchase warrants are:

Exercise Price	Expiry Date	Quantity
$0.40	May 2017	60,000
$0.40	June 2017	533,150
$0.60	December 2017	111,229
$0.60	December 2017	18,718
$0.60	February 2018	169,631
$0.60	March 2018	144,454
$0.60	March 2018	17,938
Total		**1,055,120**

Stock-Based Compensation

Movements in options for the periods presented are as follows:

	Options Outstanding (#)	Average Exercise Price ($)
Balance as at December 31, 2015	6,146,000	0.49
Forfeited	(472,166)	0.53
Balance as at December 31, 2016	5,673,834	0.49
Forfeited	(3,334)	0.55
Balance as at March 31, 2017	5,670,500	0.49

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 vest over a two-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.

For the three-month period ended March 31, 2017, the Company recognized a stock-based compensation cost relating to the above employee stock option plan of $17,994.

The following summarizes information about share options outstanding as at March 31, 2017:

Exercise Price ($)	Granted (#)	Exercisable (#)	Expiry Date
0.40	1,085,000	1,085,000	Apr-2017
0.55	150,000	150,000	Nov-2017
0.49	200,000	200,000	Mar-2018
0.40	1,254,000	1,254,000	Apr-2018
0.41	60,000	60,000	May-2018
0.60	1,416,500	1,416,500	Apr-2019
0.60	60,000	60,000	May-2019
0.55	1,445,000	963,333	Nov-2020
	5,670,500	5,188,833	

11. 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 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.

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, 2017, $1,993,640 (December 31, 2016: $2,233,688) of the commercial loans receivable were impaired and an allowance for expected losses of $2,996,027 (December 31, 2016: $3,767,490) has been established. (see 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 table presents the contractual maturities of financial liabilities.

				As at March 31, 2017
	Carrying Amount	**0 to 1 Month**	**1 to 12 Months**	**Over 1 Year**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**2,009,529**	**1,951,697**	**57,832**	**-**
Financing credit facility[1]	**25,805,524**	**-**	**-**	**25,805,524**
Convertible debentures	**10,224,991**	**-**	**-**	**10,224,991**
Loan commitment	**80,646**	**80,646**	**-**	**-**

				As at December 31, 2016
	Carrying amount	0 to 1 month	1 to 12 months	Over 1 year
	$	$	$	$
Accounts payable and accrued liabilities	1,468,935	1,377,459	76,073	15,403
Financing credit facility	25,800,542	-	-	25,800,542
Convertible debentures	10,202,019	-	-	10,202,019

[1] Reflects the effect of the waiver obtained in May 2017 (see note 8).

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, 2017 and December 31, 2016 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, 2017 was 1.3383 (December 31, 2016: 1.3427).

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 $432,298 (December 31, 2016: $347,130), 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 to eighteen months.

The Company is exposed to cash flow interest rate risk on its finance credit facility issued at a variable rate. During 2016 and 2017, 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 loss represents interest income on financial assets that are classified as loans and receivables.

12. Revenue by Category

The following table presents an analysis of revenue by category.

For the three-month period ended March 31	**2017** **$**	2016 $
Interest Revenue	**3,711,044**	2,193,327
Other Fees and Servicing Income		
Other fees	**69,734**	88,133
Servicing fees	**608,100**	1,335,199
Amortization of servicing asset	**(389,256)**	(1,122,586)
Total other fees and servicing income	**288,578**	300,746

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

The following table presents the details of operating expenses.

For the three-month period ended March 31	**2017** **$**	2016 $
Wages and salaries	**1,268,156**	1,651,748
Credit on qualifying wages	**(34,815)**	(32,630)
Stock-based compensation	**17,994**	97,905
Consulting fees	**25,370**	17,809
Rental expense	**143,755**	141,942
Insurance	**23,698**	22,007
Amortization of transactions costs – credit facility (Note 8)	**88,506**	-
Interest and bank charges	**41,354**	36,144
Professional fees	**217,267**	85,233
Legal and accounting fees	**116,134**	144,070
Business fees and licenses	**29,050**	26,436
Travel and entertainment	**40,545**	33,584
Telecommunications	**18,726**	23,098
Data services, IT costs and other	**218,671**	198,611
Filing fees	**2,547**	3,964
Advertising and promotion	**94,755**	326,637
Depreciation and amortization	**56,746**	56,460
Other	**67,599**	94,955
Total Operating Expenses	**2,436,058**	2,927,963

14. Supplemental Cash Flow Information

Non-cash items included in net loss comprise the following:

For the three-month period ended March 31	**2017** **$**	2016 $
Depreciation of equipment	**22,133**	22,923
Amortization of intangible asset	**34,613**	33,537
Amortization of servicing asset	**389,256**	1,122,586
Stock-based compensation	**17,994**	97,905
Interest revenue	**(3,711,044)**	(2,193,327)
Net gain on sale of loans	**(293,595)**	(818,782)
Income tax expense	**1,688**	239,093
Amortization of transaction costs – financing credit facility	**88,506**	-
	(3,450,449)	(1,496,065)

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

For the three-month period ended March 31	**2017** **$**	2016 $
Sales taxes receivable	**100,835**	36,531
Other receivables	**(123,656)**	(97,669)
Commercial loans receivable	**(9,546,063)**	(19,444,303)
Prepaid and deposits	**(40,854)**	(84,318)
Accounts payable and accrued liabilities	**604,324**	(851,834)
	(9,005,414)	20,441,593

15. Related Party Transactions

Transactions in the Normal Course

The Company had the following transactions with related parties in the normal course of its operations:

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-month period ended March 31, 2017, a fund managed by Palos purchased \$1,839,340 (2016: \$6,264,145) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to \$286,571 have been earned by the Company on these loans during the three-month period ended March 31, 2017 (2016: \$284,909). Palos also received agency fees of \$410 (2016: \$14,235) relating to the outstanding servicing portfolio balance during the period related to a third-party purchaser.

ii) The Company rents its Canadian office space from Palos. The lease may be cancelled after October 2021 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 \$143,755 excluding applicable taxes (2016: \$58,690). Future non-cancellable lease commitments under this agreement amount to \$1,454,460 and are included in the amounts disclosed in note 17 i).

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 is shown below:

For the three-month period ended March 31	**2017** **$**	2016 $
Salaries and other short-term employee benefits	**194,893**	195,306
Share-based payments	**65,976**	63,627
	260,869	258,933

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.

Revenues by activity, are as follows:

	For the Three-Month Period Ended March 31, 2017		
	Lending **$**	**Servicing** **$**	**Total** **$**
Revenue			
Interest Revenue	**3,711,044**	**-**	**3,711,044**
Fee income	**69,734**	**-**	**69,734**
Servicing income	**-**	**608,100**	**608,100**
Accelerated recognition of transactions costs on loans sold	**-**	**44,090**	**44,090**
Amortization of servicing asset	**-**	**(389,256)**	**(389,256)**
Gain on servicing asset	**-**	**249,505**	**249,505**
Total	**3,780,778**	**512,439**	**4,293,217**

	For the three-month period ended March 31, 2016		
	Lending $	Servicing $	Total $
Revenue			
Interest Revenue	2,193,327	-	2,193,327
Fee income	88,133	-	88,133
Servicing income	-	1,335,199	1,335,199
Accelerated recognition of transactions costs on loans sold	-	137,487	137,487
Amortization of servicing asset	-	(1,122,586)	(1,122,586)
Gain on servicing asset	-	681,295	681,295
Total	2,281,460	1,031,395	3,312,855

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 as at March 31, 2017 under the non-cancellable operating lease are as follows:

	$
No later than 1 year	**517,803**
Later than 1 year and no later than 4 years	**895,429**
Later than 5 years	**343,064**
Total	**1,756,296**

ii) Loan contracts in transit

As at March 31, 2017, the Company has approved $80,646 (December 31, 2016: $nil) of loans that have not yet settled.

18. Events After the Reporting Date

On May 15 and 25, 2017, the Company closed a private placement of 17,457,400 common shares at a price of $0.20 per common share for total gross proceeds of $3.5 million ($3.3 million, net of transaction costs).