



IOU Financial Inc.

Consolidated Financial Statements

**For the Years Ended
December 31, 2017 and 2016**

IOU FINANCIAL INC.

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For the Years Ended
December 31, 2017 and 2016

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April 26, 2018

Independent Auditor's Report

To the Shareholders of IOU Financial Inc.

We have audited the accompanying consolidated financial statements of IOU Financial Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IOU Financial Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A116819

IOU FINANCIAL INC.

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

	Note	2017 \$	2016 \$
Assets			
Cash		3,975,995	5,673,288
Restricted cash		1,863,702	872,520
Sales taxes receivable		27,765	226,448
Commercial loans receivable, net	4	31,229,867	39,420,217
Servicing asset	4	1,066,325	891,652
Other receivables		274,487	154,574
Prepaid expenses and deposits		183,997	74,646
Equipment and leasehold improvements	5	207,348	261,905
Intangible assets	6	189,076	319,241
Total Assets		39,018,562	47,894,491
Liabilities			
Accounts payable, accrued liabilities and restructuring provision	7	838,501	1,468,935
Financing credit facility	8	19,652,382	25,800,542
Convertible debentures	9	10,298,267	10,202,019
Total Liabilities		30,789,150	37,471,496
Shareholders' Equity			
Share capital	10	27,171,722	24,032,349
Contributed surplus		4,023,120	3,818,416
Accumulated other comprehensive income		962,456	2,044,834
Deficit		(23,927,886)	(19,472,604)
Total Shareholders' Equity		8,229,412	10,422,995
Total Liabilities and Shareholders' Equity		39,018,562	47,894,491

Commitments and Contingency (Note 19)

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

Approved by the Board on April 26, 2018:

Phil Marleau (*signed*), Director

Wayne Pommen (*signed*), Director

IOU FINANCIAL INC.

Consolidated Statements of Comprehensive Loss
For the Years Ended December 31, 2017 and 2016
(in Canadian dollars)

	Note	2017 \$	2016 \$
Revenue			
Interest revenue	13	14,386,265	13,310,052
Other fees and servicing income	13	914,633	1,570,027
Net gain on sale of commercial loans	4	2,114,198	2,520,448
Gross Revenue		17,415,096	17,400,527
Cost of Revenue			
Interest expense		3,680,425	3,177,124
Allowance for loan losses, net of recoveries	4	8,232,736	7,330,743
Total Cost of Revenue		11,913,161	10,507,867
Net Revenue		5,501,935	6,892,660
Operating expenses	15	9,856,107	11,562,792
Loss Before Income Taxes		(4,354,172)	(4,670,132)
Income tax expense	14	101,110	137,983
Net Loss for the Year		(4,455,282)	(4,808,115)
Other Comprehensive Loss:			
Items that May be Reclassified Subsequently to Net Loss:			
Currency translation differences		(1,183,488)	(863,116)
Income tax		101,110	137,983
Other comprehensive loss		(1,082,378)	(725,133)
Comprehensive Loss for the Year		(5,537,660)	(5,533,248)
Loss per Share:			
Basic and diluted loss per share	12	(0.05)	(0.08)

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

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

IOU FINANCIAL INC.

Consolidated Statements of Changes in Shareholders' Equity
 For the Years Ended December 31, 2017 and 2016
 (in Canadian dollars, except as otherwise noted)

	Common Shares (#)	Share Capital (\$)	Contributed Surplus (\$)	Accumulated OCI ¹ (\$)	Deficit (\$)	Shareholders' Equity (\$)
Balance as at December 31, 2015	61,628,783	21,688,794	3,600,320	2,769,967	(14,664,489)	13,394,592
Comprehensive loss	-	-	-	(725,133)	(4,808,115)	(5,533,248)
Private placement (Note 10)	8,507,765	2,162,346	-	-	-	2,162,346
Warrants exercised (Note 10)	316,361	181,209	(54,665)	-	-	126,544
Equity component of convertible debentures (Note 9)	-	-	14,639	-	-	14,639
Stock-based compensation (Note 10)	-	-	258,122	-	-	258,122
Balance as at December 31, 2016	70,452,909	24,032,349	3,818,416	2,044,834	(19,472,604)	10,422,995
Comprehensive loss	-	-	-	(1,082,378)	(4,455,282)	(5,537,660)
Private placement (Note 10)	17,372,400	3,139,373	44,032	-	-	3,183,405
Stock-based compensation (Note 10)	-	-	160,672	-	-	160,672
Balance as at December 31, 2017	87,825,309	27,171,722	4,023,120	962,456	(23,927,886)	8,229,412

¹ OCI: Other comprehensive income

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

IOU FINANCIAL INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(in Canadian dollars)

	Note	2017 \$	2016 \$
Operating Activities			
Net loss for the year		(4,455,282)	(4,808,115)
Non-cash items included in net loss	16	(14,011,153)	(12,214,008)
Net change in non-cash working capital items	16	(37,142,392)	(74,460,022)
Sale of commercial loans		42,373,813	60,827,481
Interest received		14,386,265	13,310,052
Interest expense		3,680,425	3,177,124
Cash generated by (used in) operating activities		4,831,676	(14,167,488)
Financing Activities			
Interest paid		(3,623,984)	(2,955,200)
Issuance of equity, net of transaction costs		3,183,405	2,162,346
Warrants exercised		-	126,544
Proceeds from financing credit facility	8	910,728	25,800,542
Repayment of financing credit facility	8	(5,668,150)	(9,226,338)
Cash (used in) generated from financing activities		(5,198,001)	15,907,894
Investing Activities			
Additions to intangible assets		(68,908)	(114,683)
Additions to equipment and leasehold improvements		(41,903)	(67,906)
Cash used in investing activities		(110,811)	(182,589)
(Decrease) Increase in Cash and Restricted Cash		(477,136)	1,557,817
Exchange rate difference on cash and restricted cash		(228,975)	110,659
Cash and Restricted Cash			
Beginning of year		6,545,808	4,877,332
End of year		5,839,697	6,545,808

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

IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements
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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 the Company 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 (incorporated in Delaware on August 16, 2006).

IOU USA’s wholly owned subsidiary, IOU Small Business Asset Fund, LLC (“IOU SBAF”), was incorporated on December 9, 2015 as a Delaware limited liability company and currently holds a portfolio of commercial loans receivable.

The Company’s wholly owned subsidiary, IOU Financial Canada Inc. (“IOUF Canada” together with IOUF, IOUC, IOU USA and SBAF, the “Group”), was incorporated on December 1, 2015 under the *Canada Business Corporations Act*. Currently, IOUF Canada does not have any significant 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 April 26, 2018.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared under the historical cost convention. Other measurement bases used are described in the applicable notes.

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Notes to the Consolidated Financial Statements
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3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 year

IAS 7, Statement of Cash Flows

In January 2016, the IASB released amendments to International Accounting Standard (“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 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.

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b) i) The following standards are effective for the Company on January 1, 2018:

IFRS 9, Financial Instruments

In July 2014, the IASB issued the complete 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 new requirements will be applied by adjusting our consolidated statement of financial position on January 1, 2018, the date of initial application, with no restatement of comparative period financial information.

The Company is currently completing the evaluation of the impact of the adjustment. This standard did not have significant impact on its consolidated financial position and results, except for the impact of the new expected losses impairment model. The commercial loans receivable are expected to be \$0.7 million lower on January 1, 2018 following the adoption of IFRS 9, with a corresponding increase in deficit. The Company continues to validate certain elements of its expected losses impairment process in advance of its first quarter of 2018 reporting.

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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 impact of adopting IFRS 15 is not expected to be material on the Company's consolidated financial position and results given the nature of its lending activities.

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 impact of adopting the modifications of the standard is not expected to be material on the Company's consolidated financial position and result given its limited use of share-based payments.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

This new interpretation was issued by the IASB in December 2016. It provides guidance on how to determine the "date of the transaction" for purposes of identifying the exchange rate to use in transactions within the scope of IAS 21, The Effects of Changes in Foreign Exchange Rates, involving the payment or receipt of consideration in advance. The main features of IFRS Interpretation Committee ("IFRIC") 22 are as follows: (i) An entity uses the exchange rate on the date that the advanced foreign currency consideration is paid or received to translate the related asset, expense or income upon initial recognition; and (ii) When there are multiple advance payments or receipts, the entity determines this date for each such payment or receipt. The interpretation is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

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b) ii) The following standards are effective for the Company on January 1, 2019:

IFRS 16, Leases

In January 2016, the IASB released IFRS 16, Leases, which supersedes IAS 17, Leases, and the related interpretations on leases: 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 consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

This new interpretation was issued by the IASB in September 2017. It provides guidance on when the recognition of a current tax asset is appropriate if tax laws require an entity to make an immediate payment in respect of a disputed amount. The interpretation is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

b) iii) The following standard amendments, effective for the Company on January 1, 2019, are not expected to impact significantly the Company's results or financial position:

- IAS 19, Employee Benefits, has been amended for defined benefit plans.
- IAS 28, Investments in Associates and Joint Ventures, has been amended for the impairment to long-term interests in an associate or joint venture to which the equity method is not applied.
- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements, have been amended for the gain in control of a business that is a joint operation.
- IAS 12, Income Taxes, has been amended to clarify that an entity recognizes income tax consequences on dividends depending on the originating transaction or event that generated the distributable profits giving rise to the dividend.
- IAS 23, Borrowing Costs, has been amended to clarify that an entity treats as general borrowings any borrowings made specifically to obtain a qualifying asset that remain outstanding when the asset is ready for its intended use or sale.

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Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are described below:

1. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1.1 Deferred Tax Estimation

The recognition of deferred tax assets and liabilities involves making assumptions including estimating the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future.

The realization of deferred tax assets ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax asset can be utilized and it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the Company making assumptions within its overall tax-planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the Company expects to recover the asset's carrying value or settle the liability.

1.2 Servicing Assets

The initial recognition of servicing assets requires the Company to make estimates of the fair value of the service to be provided which is based on market expectations at the time of the sale of the loan and may vary from the actual cash flows received.

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1.3 Stock-Based Compensation

The Company measures the cost of equity-settled transactions with employees of the Company and share warrants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or share warrant, volatility and dividend yield and making assumptions about them.

2. Critical Judgments in Applying the Company's Accounting Policies

2.1 Valuation of Commercial Loans

Management exercises judgment to determine whether indicators of loan impairment exist based on historical loss experience, and if so, management must estimate the timing and amount of future cash flows from loans receivable. Specifically, management must assess at which point a loan is deemed to be uncollectible in order to write it off. Further details on the estimates used to determine any allowance for impaired loans receivable are provided in the accounting policy "Impairment of commercial loans receivable".

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO").

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Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at historical cost less residual value, accumulated depreciation and impairment losses. Historical cost includes expenditure that are directly attributable to the acquisition of the items. The depreciation rate, residual value and useful life of equipment are reviewed annually and adjusted if appropriate. Depreciation based on the estimated useful life of the assets is calculated as follows:

Office equipment	20% straight-line method
Computer equipment	30% straight-line method
Leasehold improvements	over remaining lease term

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible Assets

The costs to develop software for the Company's website and online loan platform are capitalized when management has authorized and committed project funding, preliminary development efforts are successfully completed, and it is probable that the project will be completed and the software will be used as intended. Capitalized software development costs primarily include fees paid to outside consultants and salaries for employees directly involved in the development efforts. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed. Costs incurred for upgrades and enhancements that are considered to be probable to result in additional functionality are capitalized. The Company capitalizes expenditures for betterments and expenses amounts for maintenance, repairs and renewals as they are incurred.

Internal use software is stated at cost less accumulated amortization. Amortization and useful lives are reviewed annually. Capitalized costs are amortized using the straight-line method over their expected lives which presently approximate three years.

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Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Financial Instruments

Classification

The Company classifies its financial assets and financial liabilities in the following categories: loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Management determines the classification of its financial instruments at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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The classification of financial assets and financial liabilities is as follows:

	Classification	Measurement
Financial Assets:		
Commercial loans receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Financial Liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Financing credit facility	Other financial liabilities	Amortized cost
Liability component of convertible debentures	Other financial liabilities	Amortized cost

Recognition and Measurement

All of the Company's financial assets and financial liabilities are recognized initially at fair value and subsequently measured at amortized cost, less impairment losses, using the effective interest rate method.

Fair Value

The fair value of financial instruments on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

Impairment of Commercial Loans Receivable

The Company assesses on an ongoing basis whether a loan is impaired and an impairment loss is only incurred when objective evidence of impairment exists. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows. Individual impairment is identified at the end of each reporting period by making judgments about the probability of an account going into default based upon information known by management.

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If it is determined that no objective evidence of impairment exists for an individual 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. Future cash flows for the group are estimated on the basis of their contractual cash flows and historical loss experience for loans with credit risk characteristics similar to the group. Any estimates of loss rates contained within the model used to calculate the impairment are reviewed regularly and compared to actual results and adjusted as required to accurately reflect the operations of the Company.

The payment performance of customers could be different from the assumptions used to determine the impairment, and there can be no assurance that expected future cash flows will be realized. As such, the measurement of impairment of loans receivable is subject to a high level of uncertainty and changes in estimates, assumptions, or circumstances may cause future assessments to be significantly different than current assessments and may require an increase or decrease in the allowance. All assumptions are reviewed regularly.

Any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of the allowance for loan losses, and the amount of the loss is recognized in the consolidated statement of comprehensive loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive loss, or as a reversal to the allowance for loan losses.

Loan Sales

In the normal course of business, the Company may sell its interests in commercial loans receivable. The Company derecognizes loans receivable sold only when it has transferred substantially all the risks and rewards of ownership of the assets, which occurs when the Company no longer considers itself to have any significant exposure to the variability in the present value of the future cash flows from the loans receivable. Outstanding proceeds of sold or discharged loans receivable are reported separately from other loans receivable, and measured at their realizable value, net of expected transaction costs.

Where the Company retains the servicing rights of loans sold, the benefits of servicing are assessed against market expectations. When the benefits of servicing are more than market expectations, a servicing asset is recognized. Servicing assets are carried at amortized cost. Amortization is calculated on a straight-line basis over the term of the servicing agreement which approximates one year. When the benefits of servicing are less than market expectations, a servicing liability is recognized.

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Transaction Costs

Transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and deducted from equity, net of any related income tax benefit. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. Transaction costs for all financial instruments not at fair value through profit and loss are added to the carrying amount of the instrument.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Revenue Recognition

The Company's revenue comprises the fair value of the consideration received or receivable for services provided in the ordinary course of business.

The Company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company.

a) Interest Revenue

Interest revenue is recognized in the consolidated statement of comprehensive loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset back to the net carrying amount. This calculation takes into account all contractual terms of the financial instrument including fee income charged to the borrower on the origination of the financial asset ("loan origination fees"), net of any transaction costs that are directly attributable to the financial asset but not future credit losses. Under the effective interest method, the interest realized is not necessarily the same as the stated interest rate on the loan. The application of this method has the effect of recognizing revenue on the financial asset evenly in proportion to the amount outstanding over the period of repayment.

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When a loan is classified as impaired, the original expected timing and amount of future cash flows may be revised to reflect new loan circumstances. Interest revenue continues to be recognized using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. This is offset by a corresponding adjustment to the allowance for loan loss charge to reflect the fact that this additional revenue may not be collectible.

Interest income and guarantee fee income is thereafter recognized on this impaired carrying value using the effective interest rate. Additional changes to the amount or timing of future cash flows could result in further loan losses, or the reversal of prior loan losses, which would also impact the amount of subsequent income recognized.

b) Other Fees and Servicing Income

Fee income that is integral to the effective yield of a financial asset is recognized as an adjustment to the effective interest rate calculation and is included in financing revenue.

Fee and servicing revenue comprises service fees, non-sufficient funds and other admin fees and referral fees.

Service fees are charged on loans sold to third parties where the Company retains the servicing rights on the loans.

Non-sufficient funds and other admin fee revenue is charged and collected on all missed payments or for other administrative reasons and is recognized as it is earned.

Referral fee revenue is collected upon the successful referral and funding of unfunded loan applications to third parties. This revenue is recognized when it is earned.

All fee and servicing revenue is recognized as services are provided and when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured.

Cash and Restricted Cash

Cash and restricted cash comprise cash in hand, deposits held at call with banks and restricted cash. Restricted cash comprises funds held on behalf of third-party loan purchaser, bonding insurance collateral and cash held as security for lending activities.

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Convertible Debentures

Convertible debentures are separated into their liability and equity components. The fair value of the liability component at the time of issue is determined based on an estimated interest rate of the debenture without the conversion feature. The amount attributed to the equity component is determined as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Interest Expense

Interest expense comprises interest expense on debt borrowings and is recognized in profit or loss, in the period in which it is incurred, under the effective interest method.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds.

Contributed Surplus

Contributed surplus is used to record the accumulated fair value of stock options recognized as share-based payments and warrants issued. Contributed surplus is increased by the compensation charge over the vesting period and is reduced by corresponding amounts when the options and warrants are exercised, cancelled or expire.

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Foreign Exchange

a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars. The functional currency of IOU USA and IOU SBAF is the US dollar, while the rest of the Group has the Canadian dollar as its functional currency.

b) Group Companies

The assets and liabilities of the subsidiaries with a US dollar functional currency are translated at the exchange rate prevailing on the reporting date, and revenues and expenses at the average rates during the reporting period. Foreign currency gains or losses resulting from the translation of these subsidiary is recorded in other comprehensive income (loss) with a corresponding increase or decrease to the foreign currency translation reserve component of accumulated other comprehensive income (loss), which is a component of shareholders' equity.

Share-Based Compensation

The Company operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee and others providing similar services received in exchange for the grant of options is recognized as an expense with a corresponding increase to contributed surplus. The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date.

Each tranche of a share-based compensation award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital. Any amounts previously credited to contributed surplus relating to the original stock-based compensation is also allocated to share capital.

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Taxation

Income tax expense or recovery represents the sum of the tax currently payable and deferred tax.

a) Current Tax

The tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

b) Deferred Tax

Deferred tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which apply when the related deferred income tax asset is expected to be realized or the deferred income tax liability is expected to be settled.

i) Deferred Tax Liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit (loss).

ii) Deferred Tax Assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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c) Current and Deferred Tax for the Period

Current and deferred tax are recognized as an expense or income in the net loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Basic and Diluted Earnings (Loss) per Share

Earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is computed using the treasury stock method, giving effect to the exercise of all stock options, warrants and convertible debentures. The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of these elements.

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4. Commercial Loans Receivable

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

	2017	2016
	\$	\$
Principal balance of commercial loans receivable	33,047,679	42,108,901
Unamortized fees and transaction costs	933,032	1,078,806
Commercial loans receivable	33,980,711	43,187,707
Less allowance for loan losses	(2,750,844)	(3,767,490)
Commercial loans receivable, net	31,229,867	39,420,217

The loans bear fixed interest at rates ranging between 12.99% and 15.99% (2016: 12.99% and 16.99%) and mature no later than 15 months after each statement of financial position date (2016: 18 months). Guarantee fees charged on each loan range between 7% and 17% (2016: 7% and 17%) of the original loan amount. At inception, the loans have an average date to maturity of 11.9 months (2016: 12.1 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 US 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 performs 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 December 31, 2017 and 2016 was \$30,296,835 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.

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Movements in the allowance for loan losses are as follows:

	2017 \$	2016 \$
Allowance, beginning of year	3,767,490	996,462
Additional allowance for receivables impairment	8,614,664	7,705,968
Receivables written off during the year as uncollectible	(9,330,168)	(5,231,723)
Translation differences	(301,142)	296,783
Allowance, end of year	2,750,844	3,767,490
Recoveries of loans previously written off	381,927	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:

	2017 \$	2016 \$
Allowance for loan losses – Collective	745,173	1,017,224
Allowance for credit losses – Individual	2,005,671	2,750,266
	2,750,844	3,767,490

Age and Credit Quality

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

Age	2017 \$	%	2016 \$	%
Current	28,448,551	83.72	34,404,939	79.66
Payments in arrears:				
1 to 21 payments	1,381,813	4.07	3,067,443	7.10
22 to 63 payments	2,141,077	6.30	3,793,337	8.78
64 + payments	2,009,270	5.91	1,921,988	4.46
Total	33,980,711	100.00	43,187,707	100.00

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

Credit quality	2017		2016	
	\$	%	\$	%
Neither past due nor impaired	28,448,551	83.72	34,404,938	79.66
Past due but not impaired:				
1 to 21 payments	1,181,902	3.48	2,995,915	6.94
22 + payments	1,651,293	4.86	3,553,166	8.23
Impaired	2,698,965	7.94	2,233,688	5.17
Total	33,980,711	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 year ended December 31, 2017, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of \$42,373,813 (2016: \$60,827,481). 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 \$2,114,198 for the year ended December 31, 2017 (2016: \$2,520,448), along with a servicing asset that is amortized to the statement of comprehensive loss over the term of the servicing asset. At December 31, 2017, the carrying amount of this asset amounted to \$1,066,325 (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.

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5. Equipment and Leasehold Improvements

	Office Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Total \$
Cost				
Balance at January 1, 2016	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	(6,086)	(7,058)	(985)	(14,129)
Additions	1,150	5,221	35,532	41,903
Balance at December 31, 2017	172,732	147,948	178,807	499,487
Accumulated Depreciation				
Balance at January 1, 2016	69,179	67,040	9,869	146,088
Translation differences	(859)	(1,159)	-	(2,018)
Depreciation charge	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	(4,044)	(5,498)	-	(9,542)
Depreciation charge	35,457	36,011	20,405	91,873
Balance at December 31, 2017	113,935	128,798	49,406	292,139
Carrying Amounts				
At December 31, 2016	95,146	51,500	115,259	261,905
At December 31, 2017	58,797	19,150	129,401	207,348

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6. Intangible Assets

Intangible assets comprise internal use software.

	2017 \$	2016 \$
Cost		
Balance, beginning of year	2,036,216	1,978,200
Translation differences	(136,199)	(56,667)
Acquisitions	68,908	114,683
Write offs	(298,375)	-
Balance, end of year	1,670,550	2,036,216
Accumulated Amortization		
Balance, beginning of year	1,716,975	1,617,548
Translation differences	(124,629)	(57,164)
Amortization charge for the year	42,007	156,591
Write offs	(152,879)	-
Balance, end of year	1,481,474	1,716,975
Carrying Amount	189,076	319,241

During the year ended December 31, 2017, the Company fully wrote off certain intangible assets it ceased to use.

7. Accounts Payable, Accrued Liabilities and Restructuring Provision

	2017 \$	2016 \$
Trade payables	286,880	508,270
Payable to loan purchasers	81,337	501,440
Other payables and accruals	470,284	459,225
Total	838,501	1,468,935

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

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Other payables and accruals include the restructuring provision. In September 2016, the Company announced a restructuring plan to reduce operating expenses. In September 2017, a further cost reduction plan was implemented to reduce operating expenses.

Movements in the restructuring provision are as follows:

	2017 \$	2016 \$
Balance, beginning of year	110,882	-
Additions	349,051	220,411
Payments	(348,126)	(109,529)
Balance, end of year	111,807	110,882

8. Financing Credit Facility

	2017 \$	2016 \$
Balance, beginning of year	25,800,542	8,851,238
Proceeds	910,728	25,800,542
Repayments	(5,668,150)	(9,226,338)
Amortization of transaction costs	346,023	206,880
Translation differences	(1,736,761)	168,220
Balance, end of year	19,652,382	25,800,542

At December 31, 2017 and 2016, the carrying value of the liability amounted to:

	2017 \$	2016 \$
Financing credit facility	20,072,000	26,608,957
Unamortized transactions costs	(419,618)	(808,415)
	19,652,382	25,800,542

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

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2016 Credit Facility

On April 22, 2016, the Company entered into a new US\$50 million credit facility with a third-party lender (the "2016 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%. As at December 31, 2017, the Company has undrawn borrowing facilities on the initial US\$25 million term loan of US\$9 million.

In February 2018, the 2016 Credit Facility has been modified and extended until December 31, 2020 (the "2018 Modification"). The amount of the modified facility is US\$20 million, with a term portion equal to US\$15 million and a revolver amount of US\$5 million.

2012 Credit Facility

On April 30, 2012, the Company and its subsidiary entered into a financing credit facility agreement with a third-party lender (the "2012 Credit Facility"). 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 renewed for one year periods unless either party gave termination notice. The facility was denominated in US dollars, bore interest at a variable rate and was arranged to help finance the Company's lending activities. The Company provided a termination notice and the loan was repaid in full on June 13, 2016 for US\$8,918,467.

Transaction Costs

In accordance with IAS 39, transaction costs directly attributable to the implementation of the above financial liabilities have been included in the initial measurement of the liabilities and are amortized over the term of the agreements. For the year ended December 31, 2017, amortization of \$346,023 (2016: \$206,880) has been included in "Operating expenses" (Note 15).

Pledged Assets

In terms of the 2016 Credit Facility, all assets held by the Company's subsidiary IOU SBAF are pledged as collateral for the facility. The following table presents the carrying amounts of assets pledged as collateral for the respective facilities.

Asset	2017	2016
	\$	\$
Commercial loans receivable, net	31,321,367	39,420,217
Cash	1,418,193	3,840,832

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Financial Covenants

As part of the 2016 Credit Facility, the Company must respect certain financial covenants. As at December 31, 2017, the Company did not meet the minimum consolidated Tangible Net Worth covenant, as defined in the agreement. As part of the 2018 Modification, the third-party lender accepted to remove the minimum consolidated Tangible Net Worth requirement. All other financial covenants were met for the year ended December 31, 2017.

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 (see Note 10) 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-V 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 Debentures recognized in the consolidated statement of financial position are calculated as follows:

	2017	2016
	\$	\$
Par value of Debentures	11,500,000	11,500,000
Unamortized discount and transaction costs	(1,201,733)	(1,297,981)
Liability component amount	10,298,267	10,202,019

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10. Share Capital

Authorized

Unlimited number of common shares (the "Common Shares").

Issued

	2017	2016
	\$	\$
<hr/>		
87,825,309 (2016: 70,452,909) Common Shares	27,171,722	24,032,349

On May 15 and 25, 2017, the Company closed a private placement of 17,372,400 Common Shares at a price of \$0.20 per Common Share for total gross proceeds of \$3.5 million (\$3.2 million, net of transaction costs).

On October 14, 2016 and November 8, 2016, the Company closed a private placement for gross proceeds of \$2.3 million, which resulted in the issuance of 8,507,765 Common Shares. Transaction costs have been offset against share capital for net proceeds of \$2.2 million.

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 January 1, 2016	1,371,481	0.43
Exercised	(316,361)	0.45
Balance as at December 31, 2016	1,055,120	0.46
Granted	479,125	0.20
Forfeited	(723,097)	0.44
Balance as at December 31, 2017	811,148	0.36

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During the year ended December 31, 2017, no warrants (316,361 warrants in 2016) were exercised for an equivalent number of Common Shares.

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

Exercise Price	Expiry Date	Quantity	Note
\$0.60	February 2018	169,631	(i)
\$0.60	March 2018	144,454	(i)
\$0.60	March 2018	17,938	(i)
\$0.20	May 2019	479,125	(ii)
Total		811,148	

- (i) 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.
- (ii) In connection with the \$3.5 million private placement that closed in May of 2017, 479,125 warrants were issued to intermediaries as compensation. Each broker warrant entitles the holder to acquire one Common Share at a price of \$0.20 for a period of two years from the date of its issuance.

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Stock-Based Compensation

Movements in options for the periods presented are as follows:

	Options Outstanding (#)	Average Exercise Price (\$)
Balance as at January 1, 2016	6,146,000	0.49
Forfeited	(472,166)	0.53
Balance as at December 31, 2016	5,673,834	0.49
Granted	2,058,000	0.27
Forfeited	(1,345,334)	0.42
Balance as at December 31, 2017	6,386,500	0.44

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 TSX-V 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.

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

Exercise Price (\$)	Granted (#)	Exercisable (#)	Expiry Date
0.49	200,000	200,000	Mar-2018
0.40	1,243,000	1,243,000	Apr-2018
0.41	60,000	60,000	May-2018
0.60	1,404,500	1,404,500	Apr-2019
0.60	60,000	60,000	May-2019
0.27*	150,000	75,000	Jun-2019
0.55	1,402,500	1,402,500	Nov-2020
0.27*	1,866,500	622,167	Jun-2022
	6,386,500	5,067,167	

* On June 20, 2017, the Company granted options entitling certain directors, officers, employees and consultants to acquire up to an aggregate of 2,058,000 Common Shares of the Company at an exercise price of \$0.27 per share. From these options, (i) 1,908,000 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 and exercisable for a period of five years from the date of grant, provided that it has vested; and (ii) 150,000 have a two-year term and vest quarterly over a 12-month period. The grant-date fair value has been established at \$0.09 per option using the following assumptions: volatility of 64%, risk-free interest rate of 0.84% and an expected life to maturity that equals the term.

11. Risk Management

11.1 Financial Risks

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.

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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 allowances for loan losses and risk-based pricing. The Company establishes an allowance for loan 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 receivables and commercial loans receivable. As at December 31, 2017, \$2,698,965 (2016: \$2,233,688) of the commercial loans receivable were impaired and an allowance for expected losses of \$2,750,844 (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.

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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 its 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.

	For the Year Ended December 31, 2017			
	Carrying Amount \$	0 to 1 Month \$	1 to 12 Months \$	Over 1 Year \$
Accounts payable, accrued liabilities and restructuring provision	838,501	821,025	17,476	-
Financing credit facility ¹	19,652,382	-	-	19,652,382
Convertible debentures	10,298,267	-	-	10,298,267

	For the Year Ended December 31, 2016			
	Carrying Amount \$	0 to 1 Month \$	1 to 12 Months \$	Over 1 Year \$
Accounts payable, accrued liabilities and restructuring provision	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 2018 Modification (see Note 8).

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

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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 US dollar. Foreign exchange risk arises from foreign currency 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 December 31, 2017 and 2016 relates to US dollar cash, commercial loans receivable, accounts payable and accrued liabilities and financing credit facility. The exchange rate applied as at December 31, 2017 was 1.2545 (2016: 1.3427).

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a 1% strengthening of the Canadian dollar would have increased the net loss by approximately \$348,330 (2016: \$347,130), assuming that all other variables remained constant. An assumed 1% 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 US dollars. The Company mitigates this risk by borrowing for the short 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.

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11.2 Capital Risk

The Company defines capital to be total shareholders' equity, which includes share capital, and certain debt, specifically the financing credit facility and the convertible debentures.

The Company's objective in managing capital is to ensure a sufficient liquidity position to market its loans, to finance its sales and marketing activities, research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with equipment and intangible assets. The ability to fund these requirements in the future depends on the Company's ability to access additional capital and generate additional cash flow from its operations.

Since inception, the Company has financed its liquidity needs primarily through private placements, the sale of loans and convertible notes. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. During the current year, the Company has met its objectives by raising additional capital of \$3.2 million (2016: \$2.2 million) net of transaction costs. Capital raised during 2017 consists of a private placement, as disclosed in the consolidated statement of shareholders' equity and in Notes 9 and 10. The capital management objectives listed above have not changed since the previous fiscal year.

The Company is not subject to externally imposed capital requirements.

12. Loss per Share

	2017	2016
	\$	\$
Basic and Diluted Loss per Share		
Net loss	(4,455,282)	(4,808,115)
Weighted average number of common shares for the purposes of basic loss per share	81,261,951	63,555,893
Basic and diluted loss per share	(0.05)	(0.08)

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The following potential Common Shares are anti-dilutive and are therefore excluded from the weighted average number of Common Shares for the purposes of diluted loss per share.

	2017 \$	2016 \$
Stock options	6,386,500	5,673,834
Warrants	811,148	1,055,120
Convertible debentures	15,333,333	15,333,333
Number of shares	22,530,981	22,062,287

13. Revenue by Category

The following table presents an analysis of revenue by category.

	2017 \$	2016 \$
Interest Revenue	14,386,265	13,310,052
Other Fees and Servicing Income		
Other fees	431,364	240,880
Servicing fees	2,149,128	4,018,120
Amortization of servicing asset	(1,665,859)	(2,688,973)
Total other fees and servicing income	914,633	1,570,027

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 transaction costs that are directly attributable to the financial instrument. These fees are amortized over the term of the loan.

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14. Income Tax

Tax expense comprises:

	2017	2016
	\$	\$
Current tax expense	-	-
Deferred tax expense	101,110	137,983
Total tax expense	101,110	137,983

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the federal and provincial statutory tax rates applicable to income of the consolidated entities. The statutory tax rates for 2017 decreased from 26.9% to 26.8%. This decrease is in line with Quebec's tax rate reduction from 11.9% to 11.8%. The difference between the Company's income tax and theoretical tax is as follows:

	2017	2016
Canadian statutory tax rates	26.80%	26.90%
Statutory income taxes	\$ (1,166,918)	\$ (1,256,266)
Non-deductible expenses	50,600	141,573
Change in tax rate	-	22,039
Difference in foreign tax rates	(300,369)	(295,794)
Net change to unrecognized tax assets	1,517,797	1,526,431
Effective income taxes	\$ 101,110	\$ 137,983

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income under US jurisdictions in which the Company operates.

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Recognized Deferred Tax Assets and Liabilities

The following tables presents the composition of recognized deferred income tax assets and liabilities.

	For the Year Ended December 31, 2017				
	Opening Balance \$	Recognized in Net Loss \$	Recognized in OCI ¹ \$	Recognized in Equity \$	Closing Balance \$
Temporary Differences					
Tax credit for salaries and wages	(38,559)	952	-	-	(37,607)
Financing fees	51,261	(459)	-	31,165	81,967
Fixed assets	(27,627)	14,504	-	-	(13,123)
Unrealized foreign exchange gain	(101,110)	-	101,110	-	-
Convertible debentures	(199,157)	(9,232)	-	-	(208,389)
	(315,192)	5,765	101,110	31,165	(177,152)
Tax Losses and Credits					
Tax losses carryforwards	315,192	(106,875)	-	(31,165)	177,152
	-	(101,110)	101,110	-	-

	For the Year Ended December 31, 2016				
	Opening Balance \$	Recognized in Net Loss \$	Recognized in OCI ¹ \$	Recognized in Equity \$	Closing Balance \$
Temporary Differences					
Tax credit for salaries and wages	(66,722)	28,163	-	-	(38,559)
Financing fees	94,148	(78,592)	-	35,705	51,261
Fixed assets	(19,483)	(8,144)	-	-	(27,627)
Unrealized foreign exchange gain	(239,093)	-	137,983	-	(101,110)
Convertible debentures	(224,883)	25,726	-	-	(199,157)
	(456,033)	(32,847)	137,983	35,705	(315,192)
Tax Losses and Credits					
Tax losses carryforwards	456,033	(105,136)	-	(35,705)	315,192
	-	(137,983)	137,983	-	-

¹ OCI: Other comprehensive income

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As at December 31, 2017, no deferred income tax asset has been recognized on approximately \$6,645,000 of Federal and Provincial tax loss carryforwards and on approximately \$12,208,000 of tax loss carryforwards in the United States (expressed in Canadian dollars). These tax loss carryforwards remain available for use in the future to reduce taxable income, no later than as follows:

	Federal and Provincial \$	United States \$
2027	29,000	-
2028	-	403,000
2029	-	1,087,000
2030	195,000	878,000
2031	361,000	788,000
2032	373,000	1,482,000
2033	243,000	1,370,000
2034	502,000	1,525,000
2035	2,551,000	700,000
2036	1,579,000	475,000
2037, net unrecognized*	812,000	3,500,000
Total	6,645,000	12,208,000

* Gross tax losses of \$1,432,000 for Federal and Provincial and \$3,551,000 in the United States less recognized amount of \$620,000 for Federal and Provincial and \$51,000 in the United States.

As at December 31, 2017, the Company had approximately \$98,000 of unused Federal tax credits that are not recognized in the consolidated financial statements. Those unused tax credits will expire between 2026 and 2033.

As at December 31, 2017, the Company had other deductible temporary differences of approximately \$553,000 for the Federal, \$967,000 for the Provincial and \$3,146,000 in the United States (expressed in Canadian dollars) for which no deferred income tax asset is recognized.

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15. Operating Expenses

The following table presents the details of operating expenses.

	2017	2016
	\$	\$
Wages and salaries	4,675,498	5,909,279
Credit on qualifying wages	(122,929)	(125,300)
Stock-based compensation	160,672	258,122
Consulting fees	117,169	88,510
Rental expense	448,994	570,539
Insurance	100,159	98,680
Amortization of transactions costs – Credit Facility (Note 8)	346,023	206,880
Bank charges	338,661	227,774
Professional fees	371,093	776,534
Legal and accounting fees	888,486	778,458
Business fees and licences	84,868	62,183
Travel and entertainment	120,835	99,796
Telecommunications	60,987	94,416
Data services, IT costs and other	900,702	974,339
Filing fees	12,247	23,885
Advertising and promotion	222,100	809,601
Depreciation and amortization	119,529	246,053
Other	191,260	242,632
Non-recurring costs*	819,753	220,411
Total Operating Expenses	9,856,107	11,562,792

* Non-recurring costs include a charge of \$393,814 (nil in 2016) related to contract cancellations, an amount of \$76,888 (nil in 2016) related to a fully impaired intangible asset, as well as an amount of \$349,051 (\$220,411 in 2016) in restructuring costs (see Note 7).

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16. Supplemental Cash Flow Information

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

	2017	2016
	\$	\$
Depreciation of equipment and leasehold improvement	91,873	89,462
Amortization of intangible assets	42,007	156,591
Write off of equipment and intangible assets	81,766	-
Amortization of servicing asset	1,665,859	2,688,973
Stock-based compensation	160,672	258,122
Interest revenue	(14,386,265)	(13,310,052)
Net gain on sale of commercial loans	(2,114,198)	(2,520,448)
Unrealized foreign exchange gain	-	78,481
Income tax expense	101,110	137,983
Amortization of transaction costs – Credit Facility	346,023	206,880
	(14,011,153)	(12,214,008)

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

	2017	2016
	\$	\$
Sales taxes receivable	198,683	4,649
Other receivables	(119,913)	215,097
Commercial loans receivable	(36,584,914)	(74,217,150)
Prepaid expenses and deposits	(109,351)	(52,546)
Accounts payable, accrued liabilities and restructuring provision	(526,897)	(410,072)
	(37,142,392)	(74,460,022)

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17. Related Party Transactions

Transactions in the Normal Course of Operations

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 year ended December 31, 2017, a fund managed by Palos purchased \$2,122,839 (2016: \$25,441,447) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to \$593,905 have been earned by the Company on the outstanding servicing portfolio balance held by Palos during the year ended December 31, 2017 (2016: \$1,454,773). Palos also received agency fees of \$1,629 (2016: \$31,002) relating to the outstanding servicing portfolio balance during the year related to a third-party purchaser.
- ii) The Company rents its 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 year relating to this lease amounts to \$228,636 excluding applicable taxes (2016: \$232,153). Future non-cancellable lease commitments under this agreement amount to \$1,292,672 and are included in the amounts disclosed in Note 19 i).

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Key Management Compensation

Key management includes directors (executive and non-executive), the Chief Operating Officer 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:

	2017 \$	2016 \$
Salaries and other short-term employee benefits	744,302	960,351
Share-based payments	85,286	179,668
	829,588	1,140,019

18. 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 United States.

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Revenues by activity are as follows:

	For the Year Ended December 31, 2017		
	Lending \$	Servicing \$	Total \$
Revenue			
Interest revenue	14,386,265	-	14,386,265
Fee income	431,364	-	431,364
Servicing income	-	2,149,128	2,149,128
Accelerated recognition of transactions costs on loans sold	-	257,961	257,961
Amortization of servicing asset	-	(1,665,859)	(1,665,859)
Gain on servicing asset	-	1,856,237	1,856,237
Total	14,817,629	2,597,467	17,415,096

	For the year ended December 31, 2016		
	Lending \$	Servicing \$	Total \$
Revenue			
Interest revenue	13,310,052	-	13,310,052
Fee income	240,880	-	240,880
Servicing income	-	4,018,120	4,018,120
Accelerated recognition of transactions costs on loans sold	-	398,077	398,077
Amortization of servicing asset	-	(2,688,973)	(2,688,973)
Gain on servicing asset	-	2,122,371	2,122,371
Total	13,550,932	3,849,595	17,400,527

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19. 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 terms.

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

	\$
No later than 1 year	403,102
Later than 1 year but no later than 4 years	1,498,484
Later than 5 years	200,907
Total	2,102,493

ii) Loan contracts in transit

As at December 31, 2017, the Company has approved no amount (2016: nil) of loans that have not yet settled.