



IOU Financial Inc.

Condensed Interim Consolidated Financial Statements

**For the Three-Month Period Ended
March 31, 2018 and 2017**

NOTICE OF NO AUDITOR REVIEW

The accompanying condensed interim consolidated financial statements of IOU Financial Inc. for the three-month period ended March 31, 2018 and 2017 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, 2018 and 2017

	PAGE
Condensed Interim Consolidated Statements of Financial Position	3
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)	4
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity	5
Condensed Interim Consolidated Statements of Cash Flows	6
Notes to the Condensed Interim Consolidated Financial Statements	7

IOU FINANCIAL INC.

Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2018 and December 31, 2017
(in Canadian dollars)

	Note	March 31, 2018 \$	December 31, 2017 \$
Assets			
Cash		5,047,190	3,975,995
Restricted cash		1,872,936	1,863,702
Sales taxes receivable		64,350	27,765
Commercial loans receivable, net	4	30,123,681	31,229,867
Servicing asset	4	1,277,795	1,066,325
Other receivables		308,614	274,487
Prepaid expenses and deposits		130,404	183,997
Equipment and leasehold improvements	5	195,932	207,348
Intangible assets	6	185,303	189,076
Total Assets		39,206,205	39,018,562
Liabilities			
Accounts payable, accrued liabilities and restructuring provision	7	1,456,264	838,501
Financing credit facility	8	18,509,667	19,652,382
Convertible debentures	9	10,324,222	10,298,267
Total Liabilities		30,290,153	30,789,150
Shareholders' Equity			
Share capital	10	27,171,722	27,171,722
Contributed surplus		4,039,625	4,023,120
Accumulated other comprehensive income		1,533,732	962,456
Deficit		(23,829,027)	(23,927,886)
Total Shareholders' Equity		8,916,052	8,229,412
Total Liabilities and Shareholders' Equity		39,206,205	39,018,562

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 24, 2017:

Phil Marleau (*signed*), Director

IOU FINANCIAL INC.

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

	Note	2018 \$	2017 \$
Revenue			
Interest revenue	12	3,369,970	3,711,044
Other fees and servicing income	12	354,646	288,578
Net gain recognized on sale of loans	4	713,361	293,595
Gross Revenue		4,437,977	4,293,217
Cost of Revenue			
Interest expense		812,535	918,658
Provision for loan losses, net of recoveries	4	954,329	1,931,899
Total Cost of Revenue		1,766,864	2,850,557
Net Revenue		2,671,113	1,442,660
Operating expenses	13	1,873,915	2,436,057
Earnings (Loss) Before Income Taxes		797,198	(993,397)
Income tax expense		-	1,688
Net Earnings (Loss) for the Period		797,198	(995,085)
Other Comprehensive Income (Loss):			
Items that May be Reclassified Subsequently to Net Earnings (Loss):			
Currency translation differences		571,276	(46,537)
Income tax		-	1,688
Other comprehensive income (loss)		571,276	(44,849)
Comprehensive Income (Loss) for the Period		1,368,474	(1,039,934)
Earnings (Loss) per Share:			
Basic and diluted	10	0.01	(0.01)

Net earnings (loss) and comprehensive income (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 (\$)	Accumulated OCI ¹ (\$)	Deficit (\$)	Shareholders' equity (\$)
Balance at December 31, 2017, as published	87,825,309	27,171,722	4,023,120	962,456	(23,927,886)	8,229,412
Impacts of adopting IFRS 9 (note 3.4)	-	-	-	-	(698,339)	(698,339)
Balance at January 1, 2018, as modified	87,825,309	27,171,722	4,023,120	962,456	(24,626,225)	7,531,073
Comprehensive income	-	-	-	571,276	797,198	1,368,474
Stock-based compensation (Note 10)	-	-	16,505	-	-	16,505
Balance at March 31, 2018	87,825,309	27,171,722	4,039,625	1,533,732	(23,829,027)	8,916,052

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

¹ OCI: Other comprehensive income

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

IOU FINANCIAL INC.

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

	Note	2018 \$	2017 \$
Operating Activities			
Net earnings (loss) for the period		797,198	(995,085)
Non-cash items included in net earnings (loss)	14	(3,446,792)	(3,450,449)
Net change in non-cash working capital items	14	(13,663,065)	(9,005,414)
Sale of commercial loans		15,353,575	6,776,140
Interest received		3,369,970	3,711,044
Interest expense		812,535	918,658
Cash generated by (used) in operating activities		3,223,421	(2,045,106)
Financing Activities			
Interest paid		(791,221)	(895,686)
Transaction costs paid		(213,580)	-
Repayment of financing credit facility		(1,274,000)	-
Cash used in financing activities		(2,278,801)	(895,686)
Investing Activities			
Additions to intangible assets		(10,431)	-
Additions to equipment and leasehold improvements		(3,311)	(6,547)
Cash used in investing activities		(13,742)	(6,547)
Increase (Decrease) in Cash and Restricted Cash			
		930,878	(2,947,339)
Exchange rate difference on cash and restricted cash		149,551	(59,571)
Cash and Restricted Cash			
Beginning of period		5,839,697	6,545,808
End of period		6,920,126	3,538,898

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

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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, Québec, 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 IOU 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 condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 24, 2018.

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, 2017, 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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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.

3.1 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, 2017.

3.2 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, 2018. These changes were made in accordance with the applicable transitional provisions.

a) New standards adopted during the period

IFRS 9, Financial Instruments

The Company has adopted as at January 1, 2018, IFRS 9, Financial Instruments, which replaces 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. The impacts of these modifications is reflected in note 3.4. The Company has elected not to restate comparative period results. All comparative period information is, therefore, presented in accordance with IAS 39.

Classification and Measurement

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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Impairment of Financial Assets

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.

IFRS 15. Revenue from Contracts with Customers

The Company has adopted as at January 1, 2018, the 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.

Other fees income is the Company main revenue stream that has been affected by IFRS 15. The impact of adopting the modifications of IFRS 15 was not material on the Company's results or financial position.

IFRS 2. Share-Based Payment

The Company has adopted as at January 1, 2018, the modifications 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 material on the Company's consolidated financial position and result given its limited use of share-base payments.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

IFRIC 22, Foreign Currency Transactions and Advance Consideration

The Company has adopted as at January 1, 2018, IFRIC 22, Foreign Currency Transactions and Advance Consideration, which 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 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 impact of adopting the modifications of the standard, is not material on the Company's consolidated financial position due to limited transaction falling in the scope of IFRIC 22.

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, 2019 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 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 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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

3.3 Update on Significant Accounting Policies

Following the adoption of the above mentioned IFRS 9, the Company has updated its significant accounting policies as follows.

Classification and Measurement – Financial Assets

At initial recognition, all financial assets are recorded at fair value on the Consolidated Statements of Financial Position. After initial recognition, financial assets are classified either at (i) amortized cost; (ii) fair value through profit or loss; or (iii) fair value through other comprehensive income (FVOCI).

Such classification is based on:

- the contractual cash flows characteristics of the financial assets; and
- the Company's business model for managing these financial assets.

In addition, the Company can also use the Fair Value Option and/or the FVOCI Option.

The contractual cash flows associated with the financial asset must be solely payments of principal and interest on the outstanding principal amount for the asset to be classified at amortized cost, otherwise it must be classified and measured at fair value through profit or loss.

The table below presents the different classifications for each of the three possible business models that can be used to manage, on a portfolio basis, a group of financial assets to achieve their respective business objectives.

Business Model	Business Objective	Classification
Originated to hold (OTH)	Solely the collection of the contractual cash flows of the financial assets	Amortized cost
Originated to sell (OTS)	Sale of the financial assets	Fair value through profit or loss
Originated to hold and sell	Both the collection of contractual cash flows of the financial assets and their sale	FVOCI

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

The following table presents the Company's classification of its financial assets under former and current accounting methods. The Company has no financial assets at FVOCI and has not used the Fair Value Option.

Financial Assets	Current Classification (IFRS 9)	Former Classification (IAS 39)
Cash	Amortized cost	Loans and receivables
Restricted cash	Amortized cost	Loans and receivables
OTH loans	Amortized cost	Loans and receivables
OTS loans	Fair value through profit or loss	Loans and receivables
Other receivables	Amortized cost	Loans and receivables

Except for commercial loans receivable, composed of OTH loans and OTS loans, the changes in accounting methods for other financial assets did not have any significant impact on the Company's results.

Commercial Loans Receivable

The Company recognizes commercial loans receivable when cash is advanced to a borrower. Commercial loans are initially recognized at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest method for OTH loans or at fair value for OTS loans.

Presentation

OTH loans are presented net of allowances for credit losses on the Consolidated Statements of Financial Position.

The interest income on OTS loans is recorded on the line "Interest revenue" in the Consolidated Statement of Comprehensive Income (Loss). Changes in the fair value of OTS loans are recognized in net gains recognized on sale of loans in the Consolidated Statements of Comprehensive Income (Loss).

Reclassifications

A commercial loan designated as OTS at initial recognition is reclassified as OTH only in rare situations when there is a change in the business model used to manage the commercial loan. The reclassification is applied prospectively from the reclassification date.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Impairment of OTH Loans

At the end of each reporting period, the Company now applies a three-stage forward looking impairment approach to measure the expected credit losses (ECL) on its OTH loans. The stages are based on the change in the credit quality of the OTH loan since initial recognition. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions.

The following table presents the 3 stages of the Company's impairment model.

Stage	Credit Quality – Reporting Date vs Initial Recognition	Impairment Amount
1	No changes	Equals to 12-month ECL
2	Significant increase	Equals to lifetime ECL
3	Credit-impaired	Equals to lifetime ECL or the financial asset is written off

Formerly, a loan was deemed impaired only when objective evidence of impairment was existing. Other loans were assessed collectively for impairment based on historical loss experiences. The table below compares the Company's current impairment model with its former model.

Stage	Current Accounting Method (IFRS 9)	Former Accounting Method (IAS 39)
1	12-month ECL	Not applicable
2	Lifetime ECL	Based on historical losses
3	Lifetime ECL	Based on objective evidences

Interest Income

The interest income is calculated on the gross carrying amount of the OTH loans in Stages 1 and 2 and on the net carrying amount of the OTH loans in Stage 3.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Changes in Credit Risk

The Company considers that a significant increase in credit risk exists after a commercial loan has missed three consecutive payments or earlier if other reasonable and supportable information exists to support the estimated increase in probability of default of the OTH loan. The assessment of a significant increase in credit risk requires significant judgment.

If the credit risk of an OTH loan improves such that there is no longer a significant increase in credit risk since initial recognition, the OTH loan is reverted from Stage 2 to Stage 1.

Credit-Impaired

The definition of default used by the Company to identify its credit impaired OTH loans is consistent with the definition of default used for internal credit risk management purposes. The Company considers that an event of default occurs when a payment is late by more than 90 days or earlier when one or more events that have a detrimental impact on the estimated future cash flows of the commercial loan have occurred.

Write off

Commercial loans are written off when the Company considers the probability of recovery to be non-existent due to:

- (i) having exhausted reasonable recovery efforts; or
- (ii) the borrower is bankrupt or winding up and balances owing are not likely to be recovered.

ECL Measurement

ECLs are measured as the probability-weighted present value of all expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Company and all the cash flows that the Company expects to receive.

The measurement of ECLs is primarily based on the product of the OTH loan's:

- probability of default,
- loss given default, and
- exposure at default.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Forward-looking macroeconomic factors such as credit default indices, interest rates, and gross domestic product are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. Due to the short-term nature of the Company's commercial loans, the forward-looking macroeconomic factors are generally not important to the Company.

The Company applies experienced credit judgment to adjust the modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modelling process.

Classification and Measurement – Financial Liabilities

The following table presents the Company's classification of its financial liabilities under former and current accounting methods.

Financial Liabilities	Current Accounting Method (IFRS 9)	Former Accounting Method (IAS 39)
Accounts payable, accrued liabilities and restructuring provision	Amortized cost	Other financial liabilities
Financing credit facility	Amortized cost	Other financial liabilities
Convertible debentures	Amortized cost	Other financial liabilities

The changes in accounting methods for financial liabilities did not have any significant impact on the Company's results.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Definitions – Financial Instruments

Term	Meaning
Amortized cost	The principal is generally the fair value of the financial instrument at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs as well as of a profit margin.
Exposure at default	Outstanding balances anticipated at each point in time and assuming previous payments were made. Expected exposure at default decreases over time until it reaches zero upon loan maturity.
Fair Value	The fair value 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.
Fair Value Option	Irrevocable designation at fair value through profit or loss at initial recognition. Certain conditions must be met: - documented risk management strategy; - elimination or significant reduction in a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or liabilities or recognizing gains and losses on them on different bases; and - fair values are reliable.
FVOCI Option	Irrevocable designation, at initial recognition, of an investment in an equity instrument that is neither held for trading nor a contingent consideration recognized in a business combination as being measured at fair value through other comprehensive income.
Modified loans	OTH loans for which the contractual cash flows have been renegotiated or otherwise modified.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are measured at amortized cost under IAS 39.
Loss given default	Reflects the losses expected should default occur and considers such factors as repayments of principal and interest between the balance sheet date and the time of default.
Other financial liabilities	Financial liabilities that are measured at amortized cost instead of fair value under IAS 39.
Probability of default	Probabilities of a default occurring over the determined period, based on conditions existing at the balance sheet date and on future economic conditions that have, or will have, an impact on credit risk.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Calculation of Interest Income

Type of revenue	Current Accounting Method (IFRS 9)	Former Accounting Method (IAS 39)
Interest – OTH loans	Effective interest rate method on the gross carrying amount	Effective interest rate method on the gross carrying amount
Interest – credit-impaired loans	The effective interest rate method is applied to the amortised cost of a credit-impaired loan (i.e. net of the stage 3 allowance for that loan) in subsequent reporting periods, until the loan is fully impaired or written off.	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 loan loss provision charge to reflect the fact that this additional revenue may not be collectible.
Interest – modified loans	The gross carrying amount of a modified loan is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the loan's original effective interest rate	Not applicable
Interest – OTS loans	Effective interest rate method	Not applicable

Definitions – Calculation of Interest Income

Term	Meaning
Effective Interest Rate	Rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount considering all contractual cash flows, including, for commercial loans, loan origination fees, net of any transaction costs that are directly attributable to the financial instrument but, for financial assets, not future credit losses. (*)
Expected life	Represents the remaining contractual life of commercial loans receivable.
Loan Origination Fees	Fee income charged to the borrower on the origination of the financial asset.

(*) Under the effective interest method, the interest realized is not necessarily the same as the stated interest rate on the agreement. The application of this method has the effect of recognizing interest on the financial instrument evenly in proportion to the amount outstanding over the period of repayment.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

3.4 Impacts of IFRS 9 Adoption

The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Consolidated Financial Statements of Financial Position amounts on the date of initial application, i.e., January 1, 2018, with no restatement of comparative periods, in accordance with the transitional provisions of IFRS 9. The impacts of IFRS 9 adoption were recognized through adjustments to Deficit on January 1, 2018.

The following information presents the impacts of IFRS 9 adoption on the financial assets and liabilities balances in the Consolidated Statement of Financial Position from December 31, 2017 to January 1, 2018.

	Value at December 31, 2017	Classification Impact	Measurement Impact	Impairment Impact	Value at January 1, 2018
Cash	3,975,995	-	-	-	3,975,995
Restricted cash	1,863,702	-	-	-	1,863,702
Commercial loans	31,321,367	-	(322,572) ¹	(375,767) ²	30,623,028
Other receivable	274,487	-	-	-	274,487
Accounts payable	838,501	-	-	-	838,501
Financing credit facility	19,652,382	-	-	-	19,652,382
Convertible debentures	10,298,267	-	-	-	10,298,267

¹ The measurement impact is related to loans that have been renegotiated or modified prior to December 31, 2017, for which the gross carrying amount has been recalculated as the present value of the renegotiated or modified contractual cash flows based on the original effective interest rate.

² The impairment impact is mainly due to the recognition of credit losses when expected instead of when incurred, which triggered the earlier recognition of losses.

	Classification Impact	Measurement Impact	Impairment Impact	Total
Impact of IFRS 9 on equity at January 1, 2018	-	(322,572)	(375,767)	(698,339)

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

4. Commercial Loans Receivable

As at March 31, 2018 and December 31, 2017, the Company held commercial loans receivable as part of its regular operations.

	2018 \$	2017 \$
Principal balance of OTH loans	32,163,142	33,047,679
Unamortized fees and transactions costs	885,934	933,032
OTH loans	33,049,076	33,980,711
Less allowance for loan losses	(2,925,395)	(2,750,844)
OTH loans, net	30,123,681	31,229,867
OTS loans	-	-
Commercial loans receivable, net	30,123,681	31,229,867

The loans bear fixed interest at rates ranging between 9.25% and 15.99% (2017: 12.99% and 15.99%) and mature no later than 15 months after each statement of financial position date. Guarantee fees charged on each loan range between 7% and 25% (2017: 7% and 17%) of the original loan amount. At inception, the loans have an average date to maturity of 11.5 months (2017: 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, 2018 and December 31, 2017 was \$29,237,747 and \$30,296,835, 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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Credit Quality of OTH Loans

The following table present the gross carrying amount of commercial loans receivable as at March 31, 2018, according to credit quality and ECL impairment stages.

	%	Gross Carrying Amount	Allowance for Credit Losses	Net Carrying Amount
Stage 1	86.29	28,517,343	(569,059)	27,948,284
Stage 2	5.98	1,975,915	(395,183)	1,580,732
Stage 3	7.73	2,555,818	(1,961,153)	594,665
Total	100.00	33,049,076	(2,925,395)	30,123,681

Movement in the Allowances for Credit Losses on OTH Loans

The following table presents the movements of the allowance for credit losses as at March 31, 2018.

	Stage 1	Stage 2	Stage 3	Total
Balance, Dec. 31, 2017				
Per IAS 39	-	745,173	2,005,671	2,750,844
Adoption of IFRS 9	569,189	(193,422)	-	375,767
Balance, Jan. 1, 2018	569,189	551,751	2,005,671	3,126,611
Per IFRS 9				
Transfers to stage 1	82,978	(82,978)	-	-
Transfers to stage 2	(32,899)	32,899	-	-
Transfers to stage 3	(22,019)	(120,074)	142,093	-
Impact of originations	284,189	22,950	-	307,139
Net remeasurement	(317,682)	(14,506)	979,378	647,190
Net variation of the allowance	(5,433)	(161,709)	1,121,471	954,329
Write offs	-	-	(1,255,315)	(1,255,315)
Recoveries of loans previously written off	-	-	70,638	70,638
Net write offs	-	-	(1,184,677)	(1,184,677)
Translation differences	5,303	5,141	18,688	29,132
Balance, Mar. 31, 2018	569,059	395,183	1,961,153	2,925,395

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

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

IAS 39 Comparative Disclosure

The following tables present the comparative figures as at December 31, 2017 and in accordance with IAS 39.

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

	December 31, 2017 \$
Allowance for loan losses - collective	745,173
Allowance for credit losses - individual	2,005,671
	<u>2,750,844</u>

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

Age	December 31, 2017	
	\$	%
Current	28,448,551	83.72
Payments in arrears:		
1 to 21 payments	1,381,813	4.07
22-63 payments	2,141,077	6.30
64 + payments	2,009,270	5.91
Total	<u>33,980,711</u>	<u>100.00</u>

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

Credit quality	December 31, 2017	
	\$	%
Neither past due nor impaired	28,448,551	83.72
Past due but not impaired:		
1 to 21 payments	1,181,902	3.48
22 + payments	1,651,293	4.86
Impaired	2,698,965	7.94
Total	<u>33,980,711</u>	<u>100.00</u>

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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

Loan sales and servicing asset

During the three-month period ended March 31, 2018, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of \$15,353,575 million (2017: \$6,776,140). 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 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 \$713,361 for the three-month period ended March 31, 2018 (2017: \$293,595), along with a servicing asset that is amortized to the statement of comprehensive income (loss) over the term of the servicing asset. At March 31, 2018, the carrying amount of this asset amounted to \$1,277,795 (December 31, 2017: \$1,066,325). 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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

5. Equipment and Leasehold Improvements

	Office Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Total \$
Cost				
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
Translation differences	2,427	2,812	891	6,130
Additions	952	2,359	-	3,311
Balance at March 31, 2018	176,111	153,119	179,698	508,928
Accumulated Depreciation				
Balance at December 31, 2016	82,522	98,285	29,001	209,808
Translation differences	(4,044)	(5,498)	-	(9,542)
Depreciation charge for the period	35,457	36,011	20,405	91,873
Balance at December 31, 2017	113,935	128,798	49,406	292,139
Translation differences	1,904	2,757	-	4,661
Depreciation charge for the period	7,068	3,973	5,155	16,196
Balance at March 31, 2018	122,907	135,528	54,561	312,996
Carrying Amounts				
At December 31, 2017	58,797	19,150	129,401	207,348
At March 31, 2018	53,204	17,591	125,137	195,932

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

6. Intangible Assets

Intangible asset comprises internal use software.

	March 31, 2018 \$	December 31, 2017 \$
Cost		
Balance at beginning of period	1,670,550	2,036,216
Translation differences	55,127	(136,199)
Acquisitions	10,431	68,908
Write offs	-	(298,375)
Balance at end of period	1,736,108	1,670,550
Accumulated Amortization		
Balance at beginning of period	1,481,474	1,716,975
Translation differences	50,201	(124,629)
Amortization charge for the period	19,130	42,007
Write offs	-	(152,879)
Balance at end of period	1,550,805	1,481,474
Carrying Amount	185,303	189,076

7. Accounts Payable, Accrued Liabilities and Restructuring Provision

	March 31, 2018 \$	December 31, 2017 \$
Trade payables	669,260	286,880
Payable to loan purchasers	239,928	81,337
Other payables and accruals	547,076	470,284
Total	1,456,264	838,501

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

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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:

	March 31, 2018 \$	December 31, 2017 \$
Balance, beginning of the period	111,807	110,882
Additions	-	349,051
Payments	(111,807)	(348,126)
Balance, end of period	-	111,807

8. Financing Credit Facility

	March 31, 2018 \$	December 31, 2017 \$
Balance, beginning of period	19,652,382	25,800,542
Proceeds	-	910,728
Repayments	(1,274,000)	(5,668,150)
Transaction costs incurred	(476,974)	-
Amortization of transaction costs	81,119	346,023
Translation differences	527,140	(1,736,761)
Balance, end of period	18,509,667	19,652,382

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

	March 31, 2018 \$	December 31, 2017 \$
Financing credit facility	19,341,000	20,072,000
Unamortized transactions costs	(831,333)	(419,618)
	18,509,667	19,652,382

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

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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 consisted of a US\$25 million term loan, expandable to US\$50 million at IOU's request and the lender's acceptance. 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%.

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. The revolver amount was unused as at March 31, 2018.

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 period ended March 31, 2018, amortization of \$81,119 (2017: \$88,506) has been included in "Operating expenses" (Note 13).

Pledged assets

In terms of the 2016 Credit Facility, all assets held by the Company's subsidiary IOUF 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	March 31, 2018 \$	December 31, 2017 \$
Commercial loans receivable, net	30,123,681	31,229,867
Cash	3,290,362	1,418,193

Financial covenants

As part of the 2016 Credit Facility, the Company must respect certain financial covenants. All financial covenants were met as at March 31, 2018.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

9. Convertible debentures

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

	March 31, 2018 \$	December 31, 2017 \$
Par value of convertible debentures	11,500,000	11,500,000
Unamortized discount and transaction costs	(1,175,778)	(1,201,733)
Liability component amount	10,324,222	10,298,267

10. Capital Stock

Authorized

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

Issued

	March 31, 2018 \$	December 31, 2017 \$
87,825,309 (2017: 87,825,309) Common Shares	27,171,722	27,171,722

Earning per shares

The following table presents the number of shares used to calculate the earnings (loss) per share:

	March 31, 2018	March 31, 2017
Weighted average number of shares		
Basic	87,825,309	70,452,909
Diluted (*)	87,825,309	70,452,909

(*) Excludes 15,333,333 shares issuable upon conversion of convertible debentures (2017: 15,333,333), 479,125 warrants (2017: 1,055,120) and 6,153,167 stock options (2017: 5,670,500), as the price for the conversion or the exercise of these securities was greater than the average price of the Common Shares.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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 at December 31, 2016	1,055,120	0.46
Granted	479,125	0.20
Forfeited	(723,097)	0.44
Balance at December 31, 2017	811,148	0.36
Forfeited	(332,023)	(0.60)
Balance at March 31, 2018	479,125	0.20

During the three-month period ended March 31, 2018, no warrants (2017: nil) were exercised for an equivalent number of Common Shares.

As at March 31, 2018 outstanding share purchase warrants are:

Exercise Price	Expiry Date	Quantity
\$0.20	May 2019	479,125
Total		479,125

Stock-Based Compensation

Movements in options for the periods presented are as follows:

	Options Outstanding (#)	Average Exercise Price (\$)
Balance at December 31, 2016	5,673,834	0.49
Granted	2,058,000	0.27
Forfeited	(1,345,334)	0.42
Balance at December 31, 2017	6,386,500	0.44
Forfeited	(233,333)	0.46
Balance at March 31, 2018	6,153,167	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 Stock Exchange on: a) the trading day prior to the grant of the Options and b) the date of the grant of the options.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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.

Please refer to Note 13 for the stock-based compensation cost recognized during the period in relation to the above employee stock option plan.

The following table summarizes information about share options outstanding as at March 31, 2018:

Exercise Price (\$)	Granted (#)	Exercisable (#)	Expiry Date
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-2020
0.60	60,000	60,000	May-2020
0.27	150,000	112,500	Sept-2019
0.55	1,402,500	1,402,500	Nov-2020
0.27	1,833,167	622,167	Jun-2022
	6,153,167	4,904,667	

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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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 receivables and commercial loans receivable. Please refer to Note 4 for the information related to the commercial loans receivable being impaired as at March 31, 2018 and related to the allowance for expected losses.

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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

The following table presents the contractual maturities of financial liabilities.

	Carrying Amount	0 to 1 Month	As at March 31, 2018 1 to 12 Months	Over 1 Year
	\$	\$	\$	\$
Accounts payable, accrued liabilities and restructuring provision	1,456,264	1,230,619	-	225,645
Financing credit facility	18,509,667	-	-	18,509,667
Convertible debentures	10,324,222	-	-	10,324,222

	Carrying amount	0 to 1 month	As at December 31, 2017 1 to 12 months	Over 1 year
	\$	\$	\$	\$
Accounts payable, accrued liabilities and restructuring provision	838,501	821,025	17,476	-
Financing credit facility	19,652,382	-	-	19,652,382
Convertible debentures	10,298,267	-	-	10,298,267

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, 2018 and December 31, 2017 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, 2018 was 1.2894 (December 31, 2017: 1.2545).

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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 reduced the net earnings by approximately \$380,318 (December 31, 2017: increased the net loss by approximately \$348,330), 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 2017 and 2018, the borrowings at a variable rate were denominated in USD. 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 condensed interim consolidated statement of comprehensive income (loss) represents interest income on financial assets that are classified as loans and receivables.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

12. Revenue by Category

The following table presents an analysis of revenue by category.

For the three-month period ended March 31	2018 \$	2017 \$
Interest Revenue	3,369,970	3,711,044
Other Fees and Servicing Income		
Other fees	239,379	69,734
Servicing fees	618,856	608,100
Amortization of servicing asset	(503,589)	(389,256)
Total other fees and servicing income	354,646	288,578

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.

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

13. Operating Expenses

The following table presents the details of operating expenses.

For the three-month period ended March 31	2018 \$	2017 \$
Wages and salaries	1,062,367	1,268,156
Credit on qualifying wages	(35,700)	(34,815)
Stock-based compensation	16,505	17,994
Consulting fees	28,458	25,370
Rental expense	83,235	143,755
Insurance	31,332	23,698
Amortization of transactions costs – credit facility (Note 8)	81,119	88,506
Bank charges	59,621	41,354
Professional fees	32,332	217,267
Legal and accounting fees	233,908	116,134
Business fees and licenses	46,012	29,050
Travel and entertainment	19,514	40,545
Telecommunications	17,404	18,726
Data services, IT costs and other	101,190	218,671
Filing fees	2,933	2,547
Advertising and promotion	33,139	94,755
Depreciation and amortization	35,326	56,746
Other	25,220	67,599
Total Operating Expenses	1,873,915	2,436,058

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

14. Supplemental Cash Flow Information

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

For the three-month period ended March 31	2018 \$	2017 \$
Depreciation of equipment	16,196	22,133
Amortization of intangible asset	19,130	34,613
Amortization of servicing asset	503,589	389,256
Stock-based compensation	16,505	17,994
Interest revenue	(3,369,970)	(3,711,044)
Net gain on sale of loans	(713,361)	(293,595)
Income tax expense	-	1,688
Amortization of transaction costs – financing credit facility	81,119	88,506
	(3,446,792)	(3,450,449)

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

For the three-month period ended March 31	2018 \$	2017 \$
Sales taxes receivable	(36,585)	100,835
Other receivables	(34,127)	(123,656)
Commercial loans receivable	(14,004,956)	(9,546,063)
Prepaid and deposits	53,593	(40,854)
Accounts payable and accrued liabilities	359,010	604,324
	(13,663,065)	(9,005,414)

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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, 2018, a fund managed by Palos purchased no amount (2017: \$1,839,340) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to \$10,920 have been earned by the Company on these loans during the three-month period ended March 31, 2018 (2017: \$286,571). Palos also received agency fees of \$402 (2017: \$410) 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 \$51,721 excluding applicable taxes (2017: \$55,741). Future non-cancellable lease commitments under this agreement amount to \$1,238,493 and are included in the amounts disclosed in note 17 i).

Key Management Compensation

Key management includes directors (executive and non-executive), the Chief Operating Office 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	2018 \$	2017 \$
Salaries and other short-term employee benefits	227,925	194,893
Share-based payments	9,093	65,976
	237,018	260,869

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

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, 2018			
	Lending \$	Servicing \$	Total \$
Revenue			
Interest Revenue	3,369,970	-	3,369,970
Fee income	239,379	-	239,379
Servicing income	-	618,856	618,856
Accelerated recognition of transactions costs on loans sold	-	83,712	83,712
Amortization of servicing asset	-	(503,589)	(503,589)
Gain on servicing asset	-	629,649	629,649
Total	3,609,349	828,628	4,437,977

IOU FINANCIAL INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended
March 31, 2018 and 2017
(in Canadian dollars, except as otherwise noted)

	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

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, 2018 under the non-cancellable operating lease are as follows:

	\$
No later than 1 year	352,520
Later than 1 year and no later than 4 years	1,493,247
Later than 5 years	101,815
Total	1,947,582

ii) Loan contracts in transit

As at March 31, 2018, the Company has approved no amount (December 31, 2017: \$nil) of loans that have not yet settled.