IOU Financial
Business Lending. Simplified.

IOU FINANCIAL INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following management's discussion and analysis ("MD&A") of IOU Financial Inc. ("IOU Financial" or the "Company"), prepared as of April 29, 2020, should be read in conjunction with, and is qualified in its entirety by reference to the condensed consolidated financial statements as at and for the years ended December 31, 2019 and 2018 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All amounts are expressed in Canadian dollars unless otherwise indicated.

OVERVIEW

IOU Financial provides small businesses throughout the US and Canada access to the capital they need to seize growth opportunities quickly. In a unique approach to lending, IOU Financial's advanced, automated application and approval system accurately assesses applicants' financial realities, with an emphasis on day-to-day cash flow trends. IOU Financial allows these businesses to apply for six, nine, twelve, fifteen and eighteen-month term loans of up to US$500,000 to qualified US applicants ($150,000 in Canada) within a few business days, with affordable charges favorable to cash-flow management. Its speed and transparency make IOU Financial a trusted alternative to banks. To lean more visit: IOUFinancial.com.

As at December 31, 2019, IOU Financial's customers had been in business an average 11.6 years (based on their incorporation date) at the time of application. These businesses borrowed on average US$74,279 for a weighted average term of 12.0 months and generally used the funds for working capital purposes, to purchase new equipment, invest in an increased workforce, attend to repairs, expand their business, purchase more inventory or increase marketing efforts**.**

IOU Financial finances its lending activities in part by selling some of its commercial loans receivable to third party purchasers on a non-recourse basis and retaining the servicing rights for these loans in exchange for a service fee.

As a lender, IOU Financial earns revenue from fees it charges to its borrowers, interest payments it receives on loans it has funded, gains on the sale of loans it has sold as well as servicing fees it charges third-party purchasers for servicing the loans. A referral fee is earned on loans that are referred to and funded by other third-party lenders.

IOU Financial's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "IOU". Since commencing commercial lending operations in December of 2009 until December 31, 2019, the Company has originated approximately US$789.0 million. IOU Financial had 51 full-time employees as at December 31, 2019.

CORPORATE HISTORY

IOU Financial is the continuation of Matco Ravary Inc. (“Matco Ravary”), a Company founded in 1977, which specialized for over 40 years in the retailing of home improvement and building materials. On November 1, 2002, Matco Ravary sold its operating assets to a company involved in the same sector, thereby ceasing all operations in the home improvement and building materials retailing sector. On May 14, 2004, substantially all of its issued and paid-up capital was distributed to its shareholders.

On April 29, 2005, Matco Ravary changed its corporate name to MCO Capital Inc. (“MCO”). During the following fiscal years, the main business and objective of MCO was to identify and evaluate businesses and assets with a view to a potential acquisition.

On February 28, 2011, MCO completed a reverse acquisition and acquired all of the issued and outstanding shares of IOU Central Inc. (“IOU Central”), a Canadian corporation incorporated in August 2006. On the same day, MCO also acquired all of the issued and outstanding shares of IOU USA, other than the shares of IOU USA already held by IOU Central. IOU USA was incorporated in Delaware in August 2006. In connection with the completion of the reverse acquisition, MCO effected a share consolidation and changed its name from “MCO Capital Inc.” to “IOU Financial Inc.”

FORWARD-LOOKING STATEMENTS

Statements made in this MD&A that describe IOU Financial’s or management’s budgets, estimates, expectations, forecasts, objectives, predictions or projections of the future may be “forward-looking statements”. Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that IOU Financial expects or anticipates may occur in the future. The forward-looking statements can be identified by the use of the conditional or forward-looking terminology such as “anticipates”, “believes”, “estimates”, “expects”, “may”, “plans”, “projects”, “should”, “will”, or the negative thereof or other variations thereon.

IOU Financial cautions that, by their nature, forward-looking statements involve risks and uncertainties. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including but not limited to, risks inherent in growing a new business, dependence on third-party service providers, competition, regulatory risk, dependence on key personnel, risks related to rapid growth of the Company, security and confidentiality risk, risk related to inability to attract borrowers and lenders, technological development risk, IT disruptions, maintenance of client relationships, litigation risk, volatility of stock price, and other factors that are beyond its control. IOU Financial cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties and assumptions that would cause the company’s actual results to differ from current expectations, please refer to the section “Risks and Uncertainties” of this MD&A.

The forward-looking statements in this MD&A reflect IOU Financial’s views as at the date of this MD&A and are based on certain assumptions including assumptions as to future economic conditions and courses of action, as well as other factors management believes are appropriate in the circumstances. IOU Financial does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

OVERALL PERFORMANCE AND SELECTED FINANCIAL INFORMATION

The following table summarizes key financial data for each of the respective periods. The financial information presented below has been presented in Canadian dollars (except where otherwise noted) and has been prepared in accordance with International Financial Reporting Standards (IFRS).

Summarized Financial Data

For the year ended December 31	**2019** **$**	2018 $
Loan originations ($US)	**154,221,080**	124,966,233
Principal balance of loan portfolio	**56,871,350**	34,504,755
Principal balance of servicing portfolio	**53,900,047**	61,431,330
Total loans under management	**110,771,397**	95,936,085
Adjusted gross revenue (1)	**23,699,254**	18,444,266
Interest expense	**3,998,673**	3,355,496
Provision for loan losses	**7,951,635**	5,004,324
Adjusted operating expenses (2)	**10,117,365**	8,369,410
Adjusted net earnings(3)	**1,758,254**	2,152,712
Adjusted net earnings per share(4)	**0.02**	0.02
Net earnings	**1,523,309**	2,710,218
Net earnings per share(4)	**0.02**	0.03
Total assets	**63,832,810**	43,731,098
Total liabilities	**50,682,432**	31,875,324

(1) IOU Financial's adjusted gross revenue is defined as gross revenue prepared in accordance with IFRS for the period, plus amortization of servicing assets less gain on sale of loans. The Company uses adjusted gross revenue as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates the non-cash gain on sale of loans and the non-cash amortization of servicing assets which influence operating results depending on the timing and amount of the loan sales.

(2) IOU Financial's adjusted operating expenses is defined as total operating expenses prepared in accordance with IFRS for the period less: non-cash stock-based compensation which is given at different times and prices, and non-recurring costs, plus non-recurring gains which affects operating results only periodically. The Company uses adjusted operating expenses as it eliminates items that do not necessarily reflect how the Company is performing.

(3) Beginning in the first quarter of 2019, the calculation of adjusted net earnings was revised and is defined as net earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs. Prior to the first quarter of 2019, the calculation of adjusted net earnings (net loss) was defined as net earnings (net loss) for the period prepared in accordance with IFRS less: gain on sale of loans and income tax recovery, plus: amortization of servicing assets, stock-based compensation, amortization of transactions costs-financing credit facilities, depreciation and amortization, income tax expense and non-recurring costs. As a result, the prior comparative periods have been calculated to reflect the revised definition. The Company uses adjusted net earnings as a measure of financial performance.

(4) Basic and diluted. The adjusted net earnings and net earnings per share has been calculated using the weighted average number of shares outstanding during each period.

IOU Financial's innovative lending platform continues to be a viable solution to the challenges small businesses face when trying to obtain financing. IOU Financial believes that a large opportunity exists to expand its presence in what it believes is a significantly underserved market.

In 2019, the Company funded US$154.2 million in loans (2018: US $125.0 million), representing an increase of 23.4% over 2018. This was driven by identifying, recruiting, partnering and promoting existing relationships with business loan brokers, continued geographic expansion into Canada and investing in direct marketing and sales. This was in line with the Company's long-term outlook for annual loan origination growth of 25% to 30%. However, it should be noted the Company retracted in March 2020 its previously disclosed long-term outlook for loan origination growth of 25% to 30% due to the Covid-19 pandemic and its unknown consequences on the economy.

For the year ended December 31, 2019, loans originated through our wholesale channel, where borrowers are sourced via relationships with third-party business loan brokers, increased 24.9% year over year to US$141.1 million. The Company will continue to develop this channel by servicing existing broker relationships and forming new relationships. Loans originated through the retail channel, where borrowers are sourced directly, increased 9.5%, year over year, to US$13.1 million. The Company intends to grow this channel through investments in direct marketing and sales. In addition, as part of its wholesale and retail efforts, the Company is currently investing in providing brokers and merchants with a best-in-class user experience.

As at December 31, 2019, total loans under management amounted to $110.8 million (2018: $95.9 million), representing an increase of 15.5% year over year and is attributable to the growth in loan originations of 23.4% compared to the same period in 2018. The principal balance of the loan portfolio amounted to $56.9 million (2018: $34.5 million), representing an increase of 64.8% and consistent with the Company's strategy to retain more loans on its balance sheet. The principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of third parties) amounted to $53.9 million (2018: $61.4 million), representing a decrease of 12.3%.

Adjusted gross revenue increased 28.5% to $23.7 million for the year ended December 31, 2019 compared to 2018 ($18.4 million) due to an increase in interest revenue and servicing income.

Interest revenue increased 32.7% to $17.9 million in 2019 compared to the same period in 2018 as a result of the increase in the average commercial loans receivable balance of 44.5% in 2019 compared to 2018. The increase in the interest revenue will lag behind the increase in the average commercial loans receivable balance as loans originated in the latter part of the year do not contribute interest revenue for the full year.

Servicing income increased 25.0% to $4.5 million in 2019 compared to 2018 as a result of the increase in the average servicing portfolio of 27.8% in 2019 compared to 2018. The servicing portfolio yield decreased slightly from 8.2% in 2018 to 8.0% in 2019.

Interest expense during the year ended December 31, 2019 increased 19.2% to $4.0 million (2018: $3.4 million). The increase is attributable to an increase in average borrowings of 30.3% in 2019 compared to 2018 and offset by a 1.0 percentage point decrease in the Cost of Borrowing Rate to 10.4%. In an effort to lower its Cost of Borrowing Rate, the Company closed a new credit facility in the first quarter of 2019 at a rate which is substantially lower than the current Cost of Borrowing Rate. Specifically, the rate on the new credit facility was 6.41% at December 31, 2019 or approximately 4.0 percentage points less than the current Cost of Borrowing Rate. Also, in December 2019, the Company modified and extended its 2016 Credit Facility until December 31, 2022. The modified interest rate of the Credit Facility is LIBOR plus 5.5%, down from LIBOR plus 8.5%. The new rate came into effect in January 2020. However, due to the Covid-19 pandemic, the Company effected modification agreements in March and April 2020 with certain borrowers in excess of allowable limits resulting in the 2016 Credit Facility charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% effective April 1, 2020.

Provision for loan losses during the year ended December 31, 2019 increased to $8.0 million (2018: $5.0 million). The increase is attributable to an increase in the average commercial loans receivable balance in 2019 of 44.5% compared to last year and an increase in the Provisional Credit Loss Rate to 16.7% in 2019 compared to 15.2% in 2018 due to a slight increase in delinquencies related to loans originated in Q2 and Q3 2019. The Provisional Credit Loss Rate in 2019 of 16.7% was in line with the Company's expected average of approximately 16.5%. However, due to the Covid-19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Provisional Credit Loss Rate to average approximately 16.5%.The Provisional Credit Loss Rate is a representation of the expected credit loss within the lifetime of the loan and includes a provision to all current loans (Stage 1 provision). The growth in the principal balance of the loan portfolio contributed approximately 1.0% to 2.0% to the Provisional Credit Loss Rate compared to the Net Credit Loss Rate.

The Net Credit Loss Rate decreased from 13.4% in 2018 to 12.5% in 2019. The Net Credit Loss Rate in 2019 of 12.5% was below the Company's expected average Net credit Loss Rate of approximately 15%. However, due to the Covid-19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Net Credit Loss Rate to average approximately 15%. The Company uses the Net Credit Loss Rate as an alternative measure to the Provisional Credit Loss Rate as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge-offs and recoveries.

Adjusted operating expenses increased 21.0% or $1.7 million to $10.1 million in 2019 (2018: $8.4 million) due primarily to reinvestments in staff, technology and advertising and promotion expenses. However, the Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, decreased to 9.9% in 2019 (2018: 11.0%) as the Company increased its loans under management at a greater rate than operating expenses. Operating expenses increased to $9.9 million for the year ended December 31, 2019 compared to $8.5 million in the same period in 2018. The reinvestments in staff, technology and advertising and promotion expenses were partly offset by the non-recurring gain relating to the revaluation of convertible debentures of $0.5 million in Q3 2019 following the extension of the convertible debentures from December 31, 2020 to December 31, 2023.

IOU closed on the year ended December 31, 2019 with adjusted net earnings of $1,758,254, or $0.02 per share compared to adjusted net earnings of $2,152,712 or $0.02 per share for the same period last year.

IOU closed on its year ended December 31, 2019 with IFRS net earnings of $1,523,309, or $0.02 per share, compared to IFRS net earnings of $2,710,218 or $0.03 per share for the same period in 2018.

ADJUSTED AND IFRS NET EARNINGS FOR THE PERIOD ENDED DECEMBER 31, 2019

The following table presents IOU Financial's adjusted and IFRS net earnings for the years ended December 31, 2019 and 2018. The financial information is presented in Canadian dollars (except where otherwise noted) and was prepared in accordance with IFRS.

Adjusted and IFRS net earnings

For the year ended December 31	**2019** **$**	2018 $
Interest revenue	**17,861,394**	13,464,475
Servicing & other income	**5,837,860**	4,979,791
Adjusted Gross Revenue	**23,699,254**	18,444,266
Interest expense	**3,998,673**	3,355,496
Provision for loan losses	**7,951,635**	5,004,324
Recoveries	**(248,043)**	(322,000)
Cost of Revenue	**11,702,265**	8,037,820
Adjusted Net Revenue	**11,996,989**	10,406,446
Adjusted operating expense	**10,117,365**	8,369,410
Income tax expense/(recovery)	**121,370**	(115,676)
Adjusted Net Earnings	**1,758,254**	2,152,712
Adjusted Net Earnings per Share	**0.02**	0.02

Adjusted Net Earnings	**1,758,254**	2,152,712
Non-cash gain on sales of loans	**3,273,642**	3,466,884
Non-cash amortization of servicing asset	**(3,706,180)**	(2,743,101)
Non-cash stock-based compensation	**(287,986)**	(166,277)
Non-recurring gain	**485,579**	-
Net Earnings per IFRS	**1,523,309**	2,710,218
Net Earnings per Share	**0.02**	0.03

Adjusted Gross Revenue

IOU Financial's adjusted gross revenue is defined as gross revenue prepared in accordance with IFRS, plus amortization of servicing assets less gain on sale of loans. The Company uses adjusted gross revenue as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates the non-cash gain on sale of loans and the non-cash amortization of servicing assets which influence operating results depending on the timing and amount of the loan sales.

The following table summarizes revenues by category.

Adjusted Gross Revenue

For the year ended December 31	**2019** **$**	2018 $
Gross Revenue		
Interest revenue	**17,861,394**	13,464,475
Servicing & other income	**5,837,860**	4,979,791
Non-cash amortization of servicing assets	**(3,706,180)**	(2,743,101)
Non-cash gain on sale of loans	**3,273,642**	3,466,884
Gross Revenue	**23,266,716**	**19,168,049**
Non-cash amortization of servicing assets	**3,706,180**	2,743,101
Non-cash gain on sale of loans	**(3,273,642)**	(3,466,884)
Adjusted Gross Revenue	**23,699,254**	**18,444,266**
Ratios		
Portfolio Yield (1)	**37.5%**	40.8%
Servicing Portfolio Yield (2)	**8.0%**	8.2%

(1) Portfolio Yield is calculated as follows: interest revenue divided by the average commercial loans receivable for the period presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.
(2) Servicing Portfolio Yield is calculated as follows: servicing income divided by the average servicing portfolio for the period presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.

Adjusted gross revenue increased 28.5% to $23.7 million for the year ended December 31, 2019 compared to 2018 ($18.4 million) due to an increase in interest revenue and servicing income.

Interest revenue increased 32.7% to $17.9 million in 2019 compared to the same period in 2018 as a result of the increase in the average commercial loans receivable balance of 44.5% in 2019 compared to 2018. The increase in the interest revenue will lag behind the increase in the average commercial loans receivable balance as loans originated in the latter part of the year do not contribute interest revenue for the full year.

Servicing income increased 25.0% to $4.5 million in 2019 compared to 2018 as a result of the increase in the average servicing portfolio of 27.8% in 2019 compared to 2018. The servicing portfolio yield decreased slightly from 8.2% in 2018 to 8.0% in 2019.

Gross revenue increased to $23.3 million for the year ended December 31, 2019 (2018: $19.2 million), representing an increase of 21.4% over 2018. The increase is due to an increase in interest revenue as a result of an increase in the average commercial loans receivable balance in 2019 of 44.5% compared to 2018 as well as an increase in servicing income due to an increase in the average servicing portfolio.

As per the debt assignment agreements, The Company retains the servicing rights (payment collections) to the loans it has sold, and the purchaser agrees to be charged a servicing fee over the term of the loans. Under IFRS, the Company recognizes a non-cash gain on sale along with servicing assets that are amortized to the consolidated statements of comprehensive income over the term of the assignment agreements. The Company recognizes a non-cash gain on sale of loans and related servicing asset since the actual expected cash flows to be received are higher than the fair value of providing such services.

Cost of revenue

IOU Financial's cost of revenue consists primarily of interest costs incurred in connection with the financing of its lending activities and provisions for loan losses (net of recoveries). The following table summarizes cost of revenue by category.

Cost of Revenue

For the year ended December 31	**2019** **$**	2018 $
Cost of revenue		
Interest expense	**3,998,673**	3,355,496
Provision for loan losses	**7,951,635**	5,004,324
Recoveries	**(248,043)**	(322,000)
Cost of Revenue	**11,702,265**	**8,037,820**
Ratios		
Cost of Borrowing Rate (1)	**10.4%**	11.4%
Provisional Credit Loss (PCL) Rate (2)	**16.7%**	15.2%
Net Credit Loss (NCL) Rate (3)	**12.5%**	13.4%

(1) The Cost of Borrowing Rate is calculated as follows: interest expense divided by the average borrowings for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.
(2) The Provisional Credit Loss rate is calculated as follows: provision for loan losses divided by the average commercial loans receivable for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.
(3) The Net Credit Loss rate is calculated as follows: charge offs net of recoveries divided by the average commercial loans receivable for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.

The cost of revenue for the year ended December 31, 2019 increased from $8.0 million in 2018 to $11.7 million in 2019. The increase is primarily a result of the increase in the provision for loan losses due to the increase in the average commercial loans receivable balance in 2019 of 44.5% compared to last year.

Interest expense during the year ended December 31, 2019 increased 19.2% to $4.0 million (2018: $3.4 million). The increase is attributable to an increase in average borrowings of 30.3% in 2019 compared to 2018 and offset by a 1.0 percentage point decrease in the Cost of Borrowing Rate to 10.4%. In an effort to lower its Cost of Borrowing Rate, the Company closed a new credit facility in the first quarter of 2019 at a rate which is substantially lower than the current Cost of Borrowing Rate. Specifically, the rate on the new credit facility was 6.41% at December 31, 2019 or approximately 4.0 percentage points less than the current Cost of Borrowing Rate. Also, in December 2019, the Company modified and extended its 2016 Credit Facility until December 31, 2022. The modified interest rate of the Credit Facility is LIBOR plus 5.5%, down from LIBOR plus 8.5%. The new rate came into effect in January 2020. However, due to the Covid-19 pandemic, the Company effected modification agreements in March and April 2020 with certain borrowers in excess of allowable limits resulting in the 2016 Credit Facility charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% effective April 1, 2020.

Provision for loan losses during the year ended December 31, 2019 increased to $8.0 million (2018: $5.0 million). The increase is attributable to an increase in the average commercial loans receivable balance in 2019 of 44.5% compared to last year and an increase in the Provisional Credit Loss Rate to 16.7% in 2019 compared to 15.2% in 2018 due to a slight increase in delinquencies related to loans originated in Q2 and Q3 2019. The Provisional Credit Loss Rate in 2019 of 16.7% was in line with the Company's expected average of approximately 16.5%. However, due to the Covid-

19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Provisional Credit Loss Rate to average approximately 16.5%.The Provisional Credit Loss Rate is a representation of the expected credit loss within the lifetime of the loan and includes a provision to all current loans (Stage 1 provision). The growth in the principal balance of the loan portfolio contributed approximately 1.0% to 2.0% to the Provisional Credit Loss Rate compared to the Net Credit Loss Rate.

The Net Credit Loss Rate decreased from 13.4% in 2018 to 12.5% in 2019. The Net Credit Loss Rate in 2019 of 12.5% was below the Company's expected average Net credit Loss Rate of approximately 15%. However, due to the Covid-19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Net Credit Loss Rate to average approximately 15%. The Company uses the Net Credit Loss Rate as an alternative measure to the Provisional Credit Loss Rate as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge-offs and recoveries.

<u>Adjusted Operating Expenses</u>

IOU Financial's adjusted operating expenses is defined as total operating expenses prepared in accordance with IFRS for the period, less: non-cash stock-based compensation, which is given at different times and prices, non-recurring costs, plus non-recurring gains which affects operating results only periodically. The Company uses adjusted operating expenses as it eliminates items that do not necessarily reflect how the Company is performing. Operating expenses consist of day to day operating expenses such as wages and salaries, professional fees, including consulting services, legal, audit and accounting fees, data services and IT costs.

Adjusted Operating Expenses

For the year ended December 31	2019 $	2018 $
Operating Expenses	**9,919,772**	8,535,687
Stock Based Compensation	**(287,986)**	(166,277)
Non-Recurring Gain	**485,579**	-
Adjusted Operating Expenses	**10,117,365**	8,369,410
Ratio		
Adjusted Operating Expense Ratio (1)	**9.9%**	11.0%

(1) The Adjusted Operating Expense Ratio is calculated as follows: adjusted operating expenses divided by the average loans under management for the year, presented on an annualized basis. The nine-month ratios are calculated on a four-point basis, using December, March, June and September period end balances, presented on an annualized basis.

The Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, decreased to 9.9% in 2019 (2018: 11.0%) as the Company increased its loans under management at a greater rate than operating expenses. Operating expenses increased to $9.9 million for the year ended December 31, 2019 compared to $8.5 million in the same period in 2018. The reinvestments in staff, technology and advertising and promotion expenses were partly offset by the non-recurring gain relating to the revaluation of convertible debentures of $0.5 million in Q3 2019 following the extension of the convertible debentures from December 31, 2020 to December 31, 2023.

Adjusted operating expenses increased by $1.8 million to $10.1 million in 2019 compared to $8.4 million in 2018. This increase can be primarily attributed to the following:

- an increase of $0.9 million in wages and salaries as a result of an increase in the number of full-time employees;
- an increase of $0.6 million in data services and IT costs;
- an increase of $0.2 million in advertising and promotion.

Operating expenses increased by $1.4 million to $9.9 million in 2019 compared to $8.5 million in 2018. The reinvestments in staff, technology and advertising and promotion expenses were partly offset by the non-recurring gain relating to the revaluation of convertible debentures of $0.5 million in Q3 2019 following the extension of the convertible debentures from December 31, 2020 to December 31, 2023.

Adjusted Net Earnings

IOU Financial's adjusted earnings is defined as net earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs. The Company uses adjusted net earnings as a measure of financial performance.

Adjusted Net Earnings

For the period ended December 31	**2019**	2018
	$	$
Net Earnings	**1,523,309**	2,710,218
Gain on Sale of Loans	**(3,273,642)**	(3,466,884)
Amortization of Servicing Assets	**3,706,180**	2,743,101
Stock-Based Compensation	**287,986**	166,277
Non-Recurring Gain	**(485,579)**	-
Adjusted net earnings (1)	**1,758,254**	2,152,712

(1) Beginning in the first quarter of 2019, the calculation of adjusted net earnings was revised and is defined as net earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs. Prior to the first quarter of 2019, the calculation of adjusted net earnings was defined as net earnings for the period prepared in accordance with IFRS less: gain on sale of loans and income tax recovery, plus: amortization of servicing assets, stock-based compensation, amortization of transaction costs-financing credit facilities, depreciation and amortization, income tax expense and non-recurring costs. As a result, the prior comparative periods have been calculated to reflect the revised definition.

IOU closed on the year ended December 31, 2019 with adjusted net earnings of $1,758,254, or $0.02 per share compared to adjusted net earnings of $2,152,712 or $0.02 per share for the same period last year.

IOU closed on its year ended December 31, 2019 with IFRS net earnings of $1,523,309, or $0.02 per share, compared to IFRS net earnings of $2,710,218 or $0.03 per share for the same period in 2018.

CONSOLIDATED FINANCIAL POSITION

The following table presents IOU Financial's consolidated statement of financial position as at December 31, 2019 and December 31, 2018. The financial information is presented in Canadian dollars (except where noted) and was prepared in accordance with IFRS.

Condensed Consolidated Statement of Financial Position

	As at December 31, 2019	As at December 31, 2018
	$	$
Assets		
Commercial loans receivable	**58,964,204**	35,656,294
Allowance for expected credit losses	**(4,515,175)**	(3,324,114)
Commercial loans receivable – net	**54,449,029**	32,332,180
Non-portfolio assets	**9,383,781**	11,398,918
Total assets	**63,832,810**	43,731,098
Liabilities		
Financing credit facilities	**37,954,729**	19,758,556
Convertible debentures – liability component	**9,931,181**	10,407,017
Other liabilities	**2,796,522**	1,709,751
Total liabilities	**50,682,432**	31,875,324
Shareholders' equity	**13,150,378**	11,855,774
Ratios		
Allowance for Expected Credit Losses (ACL) Ratio (1)	7.7%	9.3%
Stage 3 Delinquency Ratio (2)	10.7%	6.6%

(1) The Allowance for Expected Credit Losses Ratio is calculated as follows: allowance for expected credit losses divided by the commercial loans receivable at year end.
(2) The Stage 3 Delinquency Ratio is calculated as follows: amount of commercial loans receivable included in stage 3 divided by the commercial loans receivable at year end.

Total Assets

Total assets increased by $20.1 million (46.0%) from $43.7 million at December 31, 2018 to $63.8 million at December 31, 2019. This increase is mainly attributable to an increase of $22.1 million in commercial loans receivable-net and the recognition of the new right-of-use asset of 0.7 million, offset by a decrease in cash and restricted cash of $2.0 million.

As at December 31, 2019, the allowance for Expected Credit Losses Ratio decreased from 9.3% to 7.7% compared to December 31, 2018. The Stage 3 Delinquency Ratio increased from 6.6% to 10.7% compared to December 31, 2018.

Total Liabilities

IOU Financial's total liabilities increased by $18.8 million (59.0%) from $31.9 million at December 31, 2018 to $50.7 million at December 31, 2019. The increase is mainly due to the increase in financing credit facilities of $18.2 million and an increase of $1.1 million in other liabilities due to the recognition of lease liabilities of $0.8 million and an increase in accounts payable and accrued liabilities of $0.3 million, offset by a decrease in convertible debentures – liability component of $0.5 million primarily due to the extension of convertible debentures from December 31, 2020 to December 31,2023.

Shareholders' Equity

Shareholders' Equity increased by $1.3 million (10.9%) from $11.9 million at December 31, 2018 to $13.2 million at December 31, 2019. This increase is attributable to current period comprehensive income, the exercise of warrants and stock-based compensation.

LIQUIDITY AND CAPITAL RESOURCES

IOU Financial's primary sources of liquidity and capital resources are cash-on-hand, cash provided by operations and cash provided by financing through the issuance of equity and/or debt securities as well as the sale of loans.

On March 5, 2019, the Company entered into a US$50 million credit facility ("2019 Credit Facility"). The facility has an initial commitment amount of US$50 million and is expandable to US$100 million at the Company's request and the lender's acceptance. The interest rate on the facility is 90-day LIBOR plus 4.50%, which represents 6.64% as at December 31, 2019. The term of the facility is three years with a revolving period ending on March 5, 2021 and an amortization period beginning after the revolving period and ending on March 5, 2022. The amount outstanding as at December 31, 2019 is US$14.0 million. In December 2019, IOU modified and extended its US $22 million secured credit facility ("2016 Credit Facility") until December 31, 2022. The modified interest rate of the Credit Facility is LIBOR plus 5.5%, down from LIBOR plus 8.5%. The new rate came into effect in 2020. However, due to the Covid-19 pandemic, the Company effected modification agreements in March and April 2020 with certain borrowers in excess of allowable limits resulting in the 2016 Credit Facility charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% effective April 1, 2020.

Flow of funds

The following table presents a summary of cash flows for the years ended December 31, 2019 and 2018.

Consolidated Statement of Cash Flows

For the year ended December 31	**2019** **$**	2018 $
Cash (used) generated in operating activities	**(21,222,645)**	4,221,761
Cash used in investing activities	**548,757**	(150,963)
Cash generated (used) in financing activities	**19,487,561**	(1,746,471)
(Decrease) increase in cash	**(1,186,327)**	2,324,327
Exchange rate (loss) gain on cash	**(242,311)**	460,848
Net (decrease) increase in cash	**(1,428,638)**	2,785,175

Cash used in operating activities

The $25.4 million increase in cash used in operating activities for the year ended December 31, 2019, compared to the same period in 2018, was primarily related to an increase of $22.4 million in the cash outflow from the net change in non-cash working capital items (2019: $115.0 million compared to 2018: $92.6 million) and a decrease of $2.4 million in the cash inflow from the sale of commercial loans (2019: $93.3 million compared to 2018: $95.7 million).

Cash used in investing activities

The $0.7 million increase in cash used by investing activities for the year ended December 31, 2019, compared to the same period in 2018, is primarily due to a decrease of $0.6 million in restricted cash.

Cash generated from financing activities

The $21.2 million increase in cash generated in financing activities for year ended December 31, 2019, compared to the same period in 2018, is primarily due to the proceeds of $19.9 million from the financing credit facilities in 2019 and repayment of $1.3 million to the financing credit facilities in 2018.

SUMMARY OF QUARTERLY RESULTS

Quarterly Results

For the quarters ended	**Dec 31/19** **$**	Sept 30/19 $	Jun 30/19 $	Mar 31/19 $
Gross revenue	**6,339,300**	6,595,598	5,486,327	4,845,491
Net revenue	**3,079,405**	3,208,098	2,737,863	2,539,085
Net earnings	**217,569**	1,000,614	219,256	85,870
Net earnings per share (1)	**0.00**	0.01	0.00	0.00

For the quarters ended	Dec 31/18 $	Sept 30/18 $	Jun 30/18 $	Mar 31/18 $
Gross revenue	5,220,144	4,871,322	4,638,606	4,437,977
Net revenue	2,740,101	2,819,265	2,899,750	2,671,113
Net earnings	459,638	600,593	852,789	797,198
Net earnings (loss) per share (1)	0.01	0.01	0.01	0.01

(1) Basic and diluted. Net earnings (loss) per share has been calculated using the weighted average number of shares outstanding during each period. Rounded to the nearest cent.

OFF-BALANCE SHEET ARRANGEMENTS

IOU Financial does not engage in any off-balance sheet financing activities. IOU Financial does not have any interest in non-consolidated entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

PROPOSED TRANSACTIONS

There were no proposed transactions as at the date of the Company's financial statements.

TRANSACTIONS BETWEEN RELATED PARTIES

i) The CEO and director of IOUF Canada is a shareholder in a company that owns a significant stake in Palos Capital Corporation ("Palos"), the parent company of Palos Management Inc. No servicing fees have been earned by the Company on outstanding servicing portfolio balances of loans that had previously been sold to Palos (2018: $12,453). Palos also received no agency fees during the year (2018: $973) relating to the outstanding servicing portfolio balance 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 of $122,018 is expensed as rental expense for the period (2018: rent expense of $200,925). That amount does not include the amortization of right-of-use assets and the interest on the lease liabilities. Future non-cancellable lease liabilities under this agreement amount to $853,193.

iii) 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 for periods ended December 31, 2019 and 2018 is shown below:

Key Management Compensation

For the year ended December 31	**2019**	2018
Salaries and other short-term employee benefits	**885,529**	771,082
Share-based payments	**169,496**	107,400
	1,055,025	878,482

COMMERCIAL LOANS RECEIVABLE

IOU Financial's commercial loan receivable portfolio is composed of a large number of loans, and as such, no individual loan comprises a significant portion of the portfolio. As at December 31, 2019, the average loan balance in the portfolio was approximately US$91,223 (2018: US$81,863). In addition to limiting its exposure to any single loan, IOU Financial maintains a geographically and industry diversified loan portfolio which reduces the risk of loss arising from adverse regional or industrial economic conditions.

The following tables present the portfolio by geography and industry as at December 31, 2019.

Industry Category	Portfolio %
Specialty trade contractors and home building renovation	17%
Casual, fine dining and full- service restaurants	11%
Other store or online retailers and wholesalers	6%
Manufacturing	5%
Automotive garage	4%
Medical services	2%
Other professional services	2%
Retail stores	3%
Gas stations	2%
Dentists	1%
Landscaping Services	2%
Other	45%
Total	100%

State	Portfolio %
Texas	14%
California	11%
Florida	10%
New York	6%
Georgia	5%
New Jersey	4%
North Carolina	4%
Illinois	4%
Colorado	3%
Ohio	2%
Maryland	2%
Arizona	2%
Washington	2%
Other	31%
Total	100%

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at April 29, 2020

Outstanding Share data	
Ordinary shares issued and outstanding:	**Number of shares issued**
December 31, 2018	87,825,309
Shares issued between January 1, 2019 and December 31, 2019	548,313
Shares cancelled between January 1, 2019 and December 31,2019	(1,665,500)
Shares cancelled after December 31, 2019	(279,000)
Shares outstanding on April 29, 2020	**86,429,122**
Warrants issued and Outstanding:	**Number of warrants issued**
December 31, 2018	479,125
Warrants exercised during the period	(348,313)
Warrants expired during the period	(130,812)
Warrants outstanding on April 29, 2020	**-**
Options issued and outstanding:	**Number of Options issued**
December 31, 2018	6,201,000
Options granted between January 1, 2019 and December 31, 2019	2,385,000
Options forfeited between January 1, 2019 and December 31, 2019	(1,724,500)
Options granted after December 31, 2019	200,000
Options forfeited after December 31, 2019	-
Options outstanding on April 29, 2020	**7,061,500**

NORMAL COURSE ISSUER BID

IOU Financial has commenced a Normal Course Issuer Bid ("NCIB") pursuant to which IOU Financial may purchase for cancellation, from time to time, as it considers advisable, up to 2,000,000 of its common shares ("Shares") over a 12-month period. The NCIB commenced on May 1st, 2019 and will terminate on April 30, 2020, or on such earlier date on which purchases under the NCIB have been completed or at the option of IOU Financial. Purchases of Shares under the NCIB will be made through the facilities of the TSX Venture Exchange at the market price of the Shares at the time of acquisition. Leede Jones Gable Inc. conducts the NCIB on behalf of IOU and Shares will be purchased at the discretion of senior management of IOU. As of April 29, 2020, 1,944,500 Shares were repurchased and cancelled.

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CONVERTIBLE DEBENTURES

On August 2, 2019, IOU amended its convertible debentures according to the terms below.

- extended the maturity date of the convertible debentures from December 31, 2020 to December 31, 2023;
- eliminated the condition that the convertible debentures be redeemable by IOU only when the current market price is 125% of the conversion price;
- modified the conversion price of the convertible debentures from $0.75 per share to $0.50;
- eliminated IOU's right to carry out a forced conversion of the convertible debentures; and
- eliminated IOU's right to redeem or repay the principal amount of the convertible debentures with freely tradeable shares.

The conversion period for the convertible debentures remains unchanged and is set to expire at 5:00 p.m. on the last business day prior to December 31, 2020.

IOU issued the Debentures by way of a private placement pursuant to a trust indenture dated November 2, 2015 and entered into a supplemental trust indenture with Computershare Trust Company of Canada, the debenture trustee.

Following the amendment, the liability component of the convertible debentures was determined to be $10,012,175, resulting in a gain of $485,579.

On October 21st, 2019, $100,000 of convertible debentures was converted to 200,000 common shares at $0.50 per share.

BUSINESS OUTLOOK

The Company's principal balance of its loan and servicing portfolios is diversified both across industry type and location within North America, mostly in the United States. Due to the Covid-19 pandemic, IOU has modified its underwriting standards to cease lending to industries and geographical areas which are strongly impacted by Covid-19. The company continues to originate loans and support businesses deemed essential by various governments.

The duration of the current situation with the pandemic is unknown and considering the uncertainty faced by the North American economy over the coming months, the Company retracted in March 2020 its previously disclosed long-term outlook for loan origination growth of 25% to 30%. However, the Company also sees potential for a greater than expected need for small business loans as significant working capital will be required once the situation normalizes. Furthermore, the Company is working closely with various government agencies to assist some of its merchants who may encounter hardships as a result of the Covid-19 pandemic.

Due to the uncertainty surrounding the current situation, the Company furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salary for all remaining employees commencing on April 1, 2020. IOU also announced, in April 2020, that more than two-thirds of the value of the Company's convertible debenture holders have agreed to defer the payment of interest from the April 30, 2020 payment period to the June 30, 2020 payment period ("reprieve period") and capitalizing the accrued interest over the reprieve period to the principal amount of the debentures at the end of the reprieve period, in accordance to the terms of the trust indenture under which such debentures were issued.

While the current unprecedented economic situation due to the pandemic remains uncertain, the Company is prepared to react quickly as the situation may require and looks forward to emerging as a stronger business coming out of this downturn.

CRITICAL ACCOUNTING ESTIMATES

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 material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1. Valuation of commercial loans
   Management exercises judgment to determine the expected credit losses (ECL) based on all available reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. At the end of each reporting period, the Company applies a three-stage forward looking impairment approach to measure the expected credit losses (ECL) on its Originated to hold (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. Further details on the estimates used to determine any allowance for impaired commercial loans are provided in the accounting policy of the consolidated Financial Statement “Impairment of OTH loans”.

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 loan sale and may vary from the actual cash flows serviced.

3. Deferred Tax Estimation
   Deferred tax assets and liabilities recognition involves making a series of assumptions. For instance, the Company must estimate the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future or the tax rates expected to apply to the period when the asset is realized or the liability is settled.

   With respect to deferred tax assets, their realization 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 entity expects to recover the asset’s carrying value or settle the liability.

CURRENT CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2019.

IFRS 16, Leases

On January 1, 2019, the Company adopted IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Company has adopted the new standard for its annual periods beginning on January 1, 2019, on a modified retrospective basis whereby comparative information has not been adjusted. That new standard affects mostly the Company's operating lease commitments presented in Note 8 to the annual consolidated financial statements. Following the adoption of the new standard, the operating lease commitments are recognized in the Company's consolidated statements of financial position with an increase in assets due to the recognition of the right to use the leased assets (right-of-use assets) and an increase in liabilities due to recognition of the obligation to make lease payments (lease liabilities). Furthermore, given that the previous linear operating lease expense, which approximates the amount of the contractual lease payments, has been replaced by an amortization of the right-of-use asset separately from an interest expense on the lease liability, the nature of the operating expenses of the Company differs.

For more information related to the initial impact of IFRS 16, see note 4 of the December 31, 2018 consolidated financial statements (Significant Accounting Policies). Additional information can be found in the notes to the consolidated financial statements for the year ended December 31, 2019.

IFRIC 23, Uncertainty over Income Tax Treatments

On January 1, 2019, the Company adopted IFRIC 23 which 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 Company has evaluated that there is no impact on Consolidated Financial Statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The carrying values of cash, accounts receivable, loans receivable, financing credit facilities and accounts payable approximate their fair values due to the relatively short period to maturity of these items.

The majority of commercial loan receivables are due from customers in the United States. The maximum credit risk associated with the company's financial assets is the carrying value of those assets.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposure with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, 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.

Listed below are the relevant instruments and the amount of foreign currencies included in their balances (in US dollars) As at December 31, 2019:

Cash	3 652 021
Restricted cash	287 811
Certain other assets	1 632 749
Net commercial loan receivables	40 620 064
Accounts payable and accrued liabilities	(1 135 831)
Financing credit facilities	(29 406 732)

The exchange rate applied as at December 31, 2019 was 1.2988 (December 31, 2018: 1.3642).

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a ten (10) percent strengthening of the Canadian dollar would have increased the net earnings by approximately $473,765 (2018: $618,016), assuming that all other variables remained constant. An assumed ten (10) 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.

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 much 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.

Credit risk

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

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company 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 and commercial loans receivable. The allowance for loan losses is maintained at a level considered sufficient to cover all potential 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. The Company has no exposure to any asset-backed securities.

Interest rate risk

The Company is subject to interest rate risk on its cash and restricted cash and secured loan facility. Sensitivity to a 10% increase in interest rates over a 12 months horizon based on the balances as at December 31, 2019 decrease net earnings by approximatively $285,601 (2018: $217,909).

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 financing credit facilities issued at a variable rate. During 2018 and 2019, the borrowings at a variable rate were denominated in USD. The Company mitigates this risk by borrowing in the short term and therefore the Company does not believe that its exposure to interest rate risk is significant.

Interest revenue presented in the consolidated statement of comprehensive loss represents interest revenue on financial assets that are classified as loans and receivables.

RISKS AND UNCERTAINTIES

In addition to the risks mentioned above, IOU Financial is subject to a number of risks and uncertainties in carrying out its activities.

IOU Financial is Subject to the Risks Inherent in Growing a New Business.

IOU Financial's operations are subject to the general risks inherent in growing a new business, including, among others, hiring and retaining experienced and qualified employees. If IOU Financial cannot hire or retain qualified employees, or cannot effectively implement its business planned strategy, it will be hampered in its ability to grow its current market and to develop new markets, which would in turn have an adverse effect on its financial performance. Even if IOU Financial successfully implements its planned strategy, it may not achieve the favorable impact on its operations that it anticipates.

Compliance with debt covenants

IOU Financial entered into loan agreements with lenders in 2016 and in 2019. The loan agreements impose covenants and obligations on the part of the Company. In particular, the agreements contain certain covenants and representations, the breach of which could result in a default and the acceleration of the maturity of the term of the financing credit facilities. IOU Financial plans to address the risk of default by endeavoring to meet the financial covenants and other obligations in the loan agreement. There is no assurance, however, that IOU Financial will be in compliance with covenants in the future due to unforeseen events or circumstances and if IOU Financial was to default there is no assurance that an amendment or waiver will be granted by the lender. Please refer to note 2 of the Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018.

Dependence on Third Party Service Providers

IOU Financial's service to its clients depends, in part, on its ability to attract and retain the services that are provided to it, by third party service providers. If some or all of IOU Financial's current third-party service providers were to interrupt or cancel their current services to IOU Financial, the company might be forced to curtail or cease its operations.

Competition

IOU Financial operates in an increasingly competitive environment. Both large and small competitors compete with IOU Financial. Some of these competitors may have longer operating histories, greater name recognition and greater financial and marketing resources than IOU Financial. IOU Financial believes that its ability to compete effectively is dependent upon the quality of its product and client service. There can be no assurance that IOU Financial will be able to compete effectively and retain its existing clients or attract and retain new clients. IOU Financial's current and potential competitors may develop and market new products or services that render IOU Financial's existing and future products and services less marketable or competitive.

Regulatory Risk

IOU Financial is subject to strict regulatory and licensing compliance standards, non-conformity with which may expose IOU Financial to adverse consequences. IOU Financial's business is dependent to a large extent on its ability to remain in good standing with all regulators. Some of these regulators impose minimum working capital or net equity requirements, amongst other, which in certain cases and under certain circumstances, IOU Financial may not be able to satisfy. Under such cases, the Company may not be able to operate its regular business until all such financial or regulatory requirements have been satisfied.

Dependence on Key Personnel

IOU Financial's future depends, in part, on its ability to attract and retain key personnel. IOU Financial's future also depends on the continued contributions of its executive officers and other key technical personnel, each of whom would be difficult to replace. The loss of the services of executive officers or key personnel, and the process to replace any of its key personnel could involve significant time and expense and may significantly delay or prevent the achievement of its business objectives.

IOU Financial's growth could strain its personnel, resources and infrastructure

IOU Financial's growth in headcount and operations may place a significant strain on its management and its administrative, operational and financial reporting infrastructure. Accordingly, IOU Financial's success will depend, in part, on the ability of its senior management to manage the growth it achieves effectively. To do so, it must continue to hire, train and manage new employees as needed. The addition of new employees and the system development that it anticipates will be necessary to manage its growth will increase its cost base, which will make it more difficult for it to offset any future revenue shortfalls by reducing expenses in the short term. If IOU Financial fails to successfully manage its growth, it will be unable to execute its business plan. If its new hires perform poorly, or if it is unsuccessful in hiring, training, managing and integrating these new employees, or if it is not successful in retaining its existing employees, IOU Financial's business may be harmed. To manage the growth of IOU Financial's operations and personnel, it will need to continue to improve its operational and financial controls and update its reporting procedures and systems. Given the complex nature of the accounting of the Company's operations and the limited number of staff resources, IOU Financial may not be able to address all accounting and reporting impacts of new transactions or agreements on a timely basis.

Security and Confidentiality Risk

IOU Financial stores users' bank information and other personally-identifiable sensitive data. Any accidental or willful security breaches or other unauthorized access could cause users' secure information to be stolen and used for criminal purposes. Security breaches or unauthorized access to secure information could also expose IOU Financial to liability related to the loss of the information, time-consuming and expensive litigation, and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in its software is exposed and exploited, and, as a result, a third party or disaffected employee obtains unauthorized access to any of its users' data, IOU Financial's relationships with its users will be severely damaged and it could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, IOU Financial and its third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause IOU Financial's users to lose confidence in the effectiveness of its data security measures. Any security breach, whether actual or perceived, could harm IOU Financial's reputation and could result in the loss of users and future business.

If IOU Financial is unable to increase transaction volumes, its business and results of operations will be affected adversely.

To succeed, IOU Financial must increase transaction volumes on its lending platform by raising additional capital and attracting a large number of qualified borrowers in a cost-effective manner. The general tightening and other developments in the broader credit markets may impact IOU Financial's ability to attract capital to lend which, in turn, could limit its ability to increase transaction volumes. If IOU Financial is not able to attract qualified borrowers, IOU Financial will not be able to increase its transaction volumes. In addition, IOU Financial will rely on a variety of methods to drive traffic to its website and lending platform. If IOU Financial is unable to use any of its planned marketing initiatives or the cost of these initiatives was to significantly increase, IOU Financial may not be able to attract new qualified borrowers in a cost-effective manner. As a result, its revenue and results of operations could be affected adversely and could impair its ability to maintain its lending platform.

As an online company constantly involved in the development of its online lending platform, IOU Financial faces increased risks, uncertainties, expenses and difficulties.

If IOU Financial is successful, the volume of loans originated through its lending platform may increase beyond its current capacity, which will require IOU Financial to increase its facilities, personnel and infrastructure in order to accommodate the greater servicing requirements and demands of its lending platform. IOU Financial's lending platform is dependent upon its website.

IOU Financial will likely be required to constantly add new hardware and update its software and website, expand its customer support services and add new employees to maintain the operation of its lending platform, as well as satisfy its servicing requirements. If IOU Financial is unable to increase the capacity of its lending platform and maintain the necessary infrastructure, it might then suffer from a negatively impact on its revenue stream.

Any significant disruption in service on IOU Financial's website or in its computer systems could reduce the attractiveness of its lending platform and result in a loss of users.

If a catastrophic event resulted in a lending platform outage and physical data loss, IOU Financial's ability to service its loans would be materially and adversely affected. The satisfactory performance, reliability and availability of its technology and its underlying network infrastructure are critical to its operations, level of customer service, reputation and ability to attract and retain users. IOU Financial's system hardware is hosted in multiple hosting facilities. All of the data is stored in multiple geographic locations to ensure data availability in the event a particular data center fails. IOU Financial's service provider does not guarantee that access to IOU Financial's website will be uninterrupted, error-free or secure. IOU Financial's operations depend on its supplier's ability to protect their and its systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity and other environmental concerns, computer viruses or other attempts to harm its systems, criminal acts and similar events. If its arrangement with this supplier is terminated, or there is a lapse of service or damage to the supplier's facilities, IOU Financial could experience interruptions in its service, as well as delays and additional expense in arranging new facilities. Any interruptions or delays in its service, whether as a result of its supplier or other third-party error, its own error, natural disasters or security breaches, whether accidental or willful, could harm its relationships with its users and its reputation. In addition, in the event of damage or interruption, IOU Financial's insurance policies may not adequately compensate it for any losses that it may incur. IOU Financial's disaster recovery plan has not been tested under actual disaster conditions, and it may not have sufficient capacity to recover all data and services in the event of an outage at a supplier facility. These factors could prevent it from processing or posting payments on the loans, damage its brand and reputation, divert its employees' attention, reduce its revenue, subject it to liability and cause users to abandon its lending platform, any of which could adversely affect its business, financial condition and results of operations.

IOU Financial's ability to service loans or maintain accurate accounts may be adversely affected by computer viruses, physical or electronic break-ins and similar disruptions.

The highly-automated nature of IOU Financial's lending platform may make it an attractive target and potentially vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a computer "hacker" were able to infiltrate IOU Financial's lending platform, users would be subject to an increased risk of fraud or identity theft, and IOU Financial may not receive the principal or interest payments that it expects to receive on any loans that it was fraudulently induced to make. Hackers might also disrupt the accurate processing and posting of payments to IOU Financial's accounts on its lending platform, or cause the destruction of data and thereby undermine IOU Financial's rights to repayment of the loans it has made. While IOU Financial has taken steps to prevent hackers from accessing its lending platform, if it is unable to prevent hacker access, its ability to receive the principal and interest payments that it expects to receive on loans it made and its ability to service its loans and to maintain its lending platform could be adversely affected.

Maintenance of Client Relationships

The ability of IOU Financial to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients. IOU Financial's ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

Litigation Risk

IOU Financial's business may become susceptible from time to time to various legal claims, including class action claims, in the course of its operations or with respect to the interpretation of existing agreements. Any future claims or litigation could have a material adverse effect on IOU Financial's business and its profitability.

Possible Volatility of Stock Price

The market price of the common Shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in IOU Financial's results of operations, changes in financial estimates by securities analysts or by management, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the common shares.

GENERAL

The Company also discloses information related to its activities on SEDAR at www.sedar.com and on its website www.ioufinancial.com