IOU Financial Inc.

Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended
March 31, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW

The accompanying condensed interim consolidated financial statements of IOU Financial Inc. for the three-month period ended March 31, 2020 and 2019 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, 2020 and 2019

IOU FINANCIAL INC.

Consolidated Statements of Financial Position
As at March 31, 2020 and December 31, 2019
(in Canadian dollars)

	Note	**March 31, 2020 $ (unaudited)**	December 31, 2019 $
Assets			
Cash and cash equivalents		**5,276,841**	5,332,532
Restricted cash		**1,484,775**	1,378,989
Sales taxes receivable		**12,752**	23,286
Commercial loans receivable, net	**5**	**56,249,138**	54,449,029
Servicing assets	**5**	**1,471,192**	1,405,302
Other receivables		**278,707**	211,940
Prepaid expenses and deposits		**288,066**	114,772
Equipment and leasehold improvements	**6**	**151,004**	145,233
Intangible assets	**7**	**40,413**	54,940
Right-of-use assets	**8**	**857,137**	716,787
Total Assets		**66,110,025**	63,832,810
Liabilities			
Accounts payable and accrued liabilities	**9**	**1,701,945**	2,042,877
Financing credit facilities	**10**	**40,814,420**	37,954,729
Convertible debentures	**11**	**9,948,432**	9,931,181
Lease liabilities	**8**	**903,522**	753,645
Total Liabilities		**53,368,319**	50,682,432
Shareholders' Equity			
Share capital	**13**	**26,933,221**	26,988,530
Contributed surplus		**4,512,666**	4,477,383
Accumulated other comprehensive income		**3,830,125**	2,077,163
Deficit		**(22,534,306)**	(20,392,698)
Total Shareholders' Equity		**12,741,706**	13,150,378
Total Liabilities and Shareholders' Equity		**66,110,025**	63,832,810

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

Approved by the Board on May 28, 2020

Phil Marleau (*signed*), Director
Wayne Pommen (*signed*), Director

IOU FINANCIAL INC.

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

	Note	**2020** **$**	2019 $
Revenue			
Interest revenue	**15**	**4,969,386**	3,578,969
Other fees and servicing income	**15**	**453,149**	391,143
Net gain recognized on sale of loans	**5**	**920,756**	875,379
Gross Revenue		**6,343,291**	4,845,491
Cost of Revenue			
Interest expense		**984,479**	870,828
Provision for loan losses, net of recoveries	**5**	**4,931,535**	1,435,578
Total Cost of Revenue		**5,916,014**	2,306,406
Net Revenue		**427,277**	2,539,085
Operating expenses	**16**	**2,568,885**	2,453,215
(Loss) Earnings Before Income Taxes		**(2,141,608)**	85,870
Income tax expense		**-**	-
Net (Loss) Earnings for the Period		**(2,141,608)**	85,870
Currency translation differences		**1,752,962**	154,007
Income tax		**-**	-
Other comprehensive income		**1,752,962**	154,007
Comprehensive (Loss) Income for the Period		**(388,646)**	239,877
(Loss) Earnings per Share:			
Basic	**12**	**(0.02)**	0.00
Diluted	**12**	**(0.02)**	0.00

Net (loss) earnings and comprehensive (loss) income are entirely attributable to the shareholders of the Company. Other comprehensive income is entirely subject to be reclassified to net earnings.

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

IOU FINANCIAL INC.

Consolidated Statements of Changes in Shareholders' Equity
For the Three-Month Period Ended March 31
(in Canadian dollars, except as otherwise noted)
(unaudited)

	Note	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Accumulated OCI [1] ($)	Deficit ($)	Shareholders' Equity ($)
Balance as at December 31, 2019		**86,708,122**	**26,988,530**	**4,477,383**	**2,077,163**	**(20,392,698)**	**13,150,378**
Comprehensive (loss) income for the period		**-**	**-**	**-**	**1,752,962**	**(2,141,608)**	**(388,646)**
Shares repurchased	**13**	**(279,000)**	**(55,309)**	**-**	**-**	**-**	**(55,309)**
Stock-based compensation	**13**	**-**	**-**	**35,283**	**-**	**-**	**35,283**
Balance as at March 31, 2020		**86,429,122**	**26,933,221**	**4,512,666**	**3,830,125**	**(22,534,306)**	**12,741,706**

	Note	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Accumulated OCI 1 ($)	Deficit ($)	Shareholders' Equity ($)
Balance as at December 31, 2018		87,825,309	27,171,722	4,189,397	2,410,662	(21,916,007)	11,855,774
Comprehensive income for the period		-	-	-	154,007	85,870	239,877
Stock-based compensation		-	-	127,969	-	-	127,969
Balance as at March 31, 2019		87,825,309	27,171,722	4,317,366	2,564,669	(21,830,137)	12,223,620

[1] OCI: Other Comprehensive Income

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

IOU FINANCIAL INC.

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

	Note	2020 $	2019 $
Operating Activities			
Net (loss) earnings for the period		**(2,141,608)**	85,870
Non-cash items included in net earnings	**17**	**(4,828,757)**	(3,120,914)
Change in non-cash working capital items	**17**	**(21,453,170)**	(24,354,876)
Sale of commercial loans		**23,547,260**	21,844,093
Interest received		**4,868,366**	3,188,397
Interest expense		**999,027**	870,828
Interest paid		**(1,163,893)**	(987,538)
Cash (used) generated in operating activities		**(172,775)**	(2,474,140)
Investing Activities			
Additions to equipment and leasehold improvements		**(18,668)**	-
Additions to intangible assets		**-**	-
Additions to restricted cash		**(105,786)**	-
Cash used in investing activities		**(124,454)**	-
Financing Activities			
Transaction costs used (paid)		**286,111**	(363,729)
Repurchase of shares	**13**	**(55,309)**	-
Proceeds from financing credit facilities	**10**	**-**	2,672,600
Repayment of financing credit facilities	**10**	**(430,264)**	-
Payments of lease liabilities		**(53,095)**	-
Cash generated (used) in financing activities		**(252,557)**	2,308,871
Decrease in Cash		**(549,786)**	(165,269)
Exchange rate difference on cash		**494,095**	(129,524)
Cash			
Beginning of period		**5,332,532**	8,731,250
End of period		**5,276,841**	8,436,457

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

1. General Information

IOU Financial Inc. ("IOU Financial") was incorporated under Part IA of the Companies Act (Quebec) and is governed by the Business Corporations Act (Quebec). The registered office of IOU Financial is located at 1 Place Ville-Marie, Suite 1670, Montréal, Quebec, Canada. IOU Financial is a public company listed on the TSX Venture Exchange (TSX-V).

IOU Financial's wholly owned subsidiary IOU Central Inc. ("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). On January 1, 2020, IOU Central was dissolved, leaving IOU USA to be a subsidiary of IOU Financial.

IOU Financial's wholly owned subsidiary IOU Financial Canada Inc. ("IOUF Canada") was incorporated on December 1, 2015 under the Business Corporations Act (Quebec). IOUF Canada is engaged in the commercial lending business in Canada.

IOU USA's wholly owned subsidiary IOU Small Business Asset Fund I, LLC ("IOU SBAF I") and IOU Small Business Asset Fund II, LLC ("IOU SBAF II") were incorporated on December 9, 2015 and January 2, 2019 as Delaware limited liability companies and currently hold a portfolio of commercial loans receivable.

IOU USA's new wholly owned subsidiary, Zing Funding I, LLC, ("ZING FUNDING") was incorporated on March 16, 2020 as a Delaware limited liability company and is engaged in the commercial lending brokerage business.

The term "Company" in these consolidated financial statements refers collectively to IOU Financial and its wholly owned subsidiaries: IOU Central, IOU USA, IOUF Canada, IOU SBAF I, IOU SBAF II, and ZING FUNDING.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 28, 2020.

2. Going Concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

Commencing March 2020, and as disclosed in note 20, the coronavirus pandemic ("COVID-19") caused disruption, slowdown and even temporary closures of several of the

Company's clients. In an effort to help its clients, in late March 2020, management began the process of effecting modified payment plans for clients manifesting bona fide hardships directly attributable to the impacts of the COVID-19 pandemic. The nature and duration of the modified plans varied according to the degree of hardship experienced by each client. As a result of the disruption caused by the COVID-19 pandemic and of entering into these modified plans, the Company went into an over-advance position with its financing credit facilities. Due to the fact that the over- advance positions remained uncured, the Company received default notices subsequent to quarter end.

The availability of the above noted financing credit facilities is subject to IOU Financial maintaining the financial covenants on a quarterly basis, otherwise the financing credit facilities become repayable. These circumstances give significant doubt as to the ability of IOU Financial to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Company and the financing credit facilities are working together to remedy the situation. Nevertheless, there is no assurance that these initiatives will be successful.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary If the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3. Basis of Preparation

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements have been prepared under the historical cost convention. Other measurement bases used are described in the applicable notes.

4. 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 audited consolidated financial statements for the year ended December 31, 2019, except as described below.

4.1 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, 2020.

a) New Standards adopted during the year

The Company has not adopted any new standards during the year.

b) New Standards and Interpretations not yet Adopted that Are Relevant to the Company

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2020 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.

4.2 Use of Estimates and Judgments

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements for the year ended December 31, 2019.

5. Commercial Loans Receivable

As at March 31, 2020 and December 31, 2019, the Company held commercial loans receivable as part of its regular operations.

	March 31, 2020 $	December 31, 2019 $
Principal balance of OTH loans	**61,632,606**	56,871,350
Unamortized fees and transaction costs	**2,275,204**	2,092,854
OTH loans	**63,907,810**	58,964,204
Allowance for expected credit losses	**(7,658,672)**	(4,515,175)
Commercial loans receivable, net	**56,249,138**	54,449,029

The loans bear fixed interest at rates ranging between 9.25% and 15.99% (2019: 9.25% and 15.99%) and mature no later than 18 months (2019: 15). As at March 31, 2020, 11.84% (2019:8.00%) of commercial loans receivable have a maturity date of over 12 months. Guarantee fees charged on each loan range between 7.00% and 30.00% (2019: 7.00% and 23.00%) of the original loan amount. At inception, the loans have an average date to maturity of 12.1 months (2019: 11.8 months). The loans are being repaid daily or weekly 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 is substantially all denominated in US dollars. Transaction costs and unamortized fees comprise broker commissions and loan closing fees and are recognized over the term of the loan through the effective rate mechanism.

The fair value of these loans is estimated to be equivalent to the carrying amount, due to the residual short-term nature of these loans.

(in Canadian dollars, except as otherwise noted)

Credit Quality of OTH Loans

The following table presents the gross carrying amount of commercial loans receivable as at March 31, 2020, according to credit quality and ECL impairment stages.

	%	Gross Carrying Amount	Allowance for Expected Credit Losses	Net Carrying Amount
Stage 1	55.52	35,480,920	(705,374)	34,775,546
Stage 2	31.67	20,239,462	(2,821,975)	17,417,487
Stage 3	12.81	8,187,428	(4,131,323)	4,056,105
Total	100.00	63,907,810	(7,658,672)	56,249,138

The following table presents the gross carrying amount of commercial loans receivable as at December 31, 2019, according to credit quality and ECL impairment stages.

	%	Gross Carrying Amount	Allowance for Expected Credit Losses	Net Carrying Amount
Stage 1	85.89	50,643,436	(1,005,219)	49,638,217
Stage 2	3.45	2,037,037	(285,065)	1,751,972
Stage 3	10.66	6,283,731	(3,224,891)	3,058,840
Total	**100.00**	**58,964,204**	**(4,515,175)**	**54,449,029**

Movement in the Allowances for Losses on OTH Loans

The following table presents the movements of the allowance for expected credit losses as at March 31, 2020.

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	1,005,219	285,065	3,224,891	4,515,175
Transfers to stage 1	1,697,848	(1,697,848)	-	-
Transfers to stage 2	(1,715,619)	1,715,619	-	-
Transfers to stage 3	(389,551)	(174,343)	563,894	-
Impact of originations	582,431	-	-	582,431
Net remeasurement	(595,480)	2,659,303	2,294,759	4,358,582
Net variation of the allowance	(420,371)	2,502,731	2,858,653	4,941,013

(in Canadian dollars, except as otherwise noted)

Loans written off	-	-	(2,649,360)	(2,649,360)
Recoveries of loans previously written off	-	-	310,474	310,474
Net write offs	-	-	(2,338,886)	(2,338,886)
Translation differences	120,526	34,179	386,665	541,370
Balance, March 31, 2020	**705,374**	**2,821,975**	**4,131,323**	**7,658,672**

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

Loans with a contractual amount of $2,649,360 written off during the period are still subject to enforcement activity.

Loan sales and servicing assets

During the three-month period ended March 31, 2020, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $23.5 million (2019: $21.8 million). At the time of sale, the Company transferred to the purchaser 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. The Company recognized a net gain on sale of the commercial loans of $920,756 for three-month period ended March 31, 2020 (2019: $875,379), along with servicing assets that are amortized to the consolidated statements of comprehensive income over the term of the assignment agreements. As at March 31, 2020, the carrying amount of these assets amounted to $1,471,192 (2019: $1,618,259). The servicing asset is determined by comparing the actual expected cash flows to be received to the fair value of providing such services. The fair value of the servicing was determined by using readily available third-party pricing for a similar type of service, which is around 1% of the total principal and interest collected over the term of the servicing period.

(in Canadian dollars, except as otherwise noted)

6. Equipment and Leasehold Improvements

The following table presents the carrying amount of the equipment and leasehold improvements as at March 31, 2020.

	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at December 31, 2018	183,602	188,580	181,607	553,789
Translation differences	(4,672)	(6,400)	(1,727)	(12,799)
Additions	-	7,977	34,357	42,334
Balance at December 31, 2019	178,930	190,157	214,237	583,324
Translation differences	8,564	13,015	3,291	24,870
Additions	-	18,666	2	18,668
Balance at March 31, 2020	**187,494**	**221,838**	**217,530**	**626,862**
Accumulated Depreciation				
Balance at December 31, 2018	148,922	153,322	73,509	375,753
Translation differences	(4,287)	(5,667)	(1,151)	(11,105)
Depreciation expense for the period	25,950	15,413	32,080	73,443
Balance at December 31, 2019	170,585	163,068	104,438	438,091
Translation differences	8,388	10,543	1,051	19,982
Depreciation expense for the period	4,466	4,520	8,799	17,785
Balance at March 31,2020	**183,439**	**178,131**	**114,288**	**475,858**
Carrying Amounts				
At December 31, 2019	8,345	27,089	109,799	145,233
At March 31, 2020	**4,055**	**43,707**	**103,242**	**151,004**

(in Canadian dollars, except as otherwise noted)

7. Intangible Assets

The following table presents the carrying amount of the intangible assets as at March 31, 2020. Intangible assets comprise internal use software.

	Three-Month Period Ended March 31,2020 $	Year Ended December 31,2019 $
Cost		
Balance at beginning of the period	**1,750,978**	1,854,440
Translation differences	**189,680**	(103,462)
Additions	**-**	-
Balance at end of the period	**1,940,658**	1,750,978
Accumulated Amortization		
Balance at beginning of the period	**1,696,038**	1,711,068
Translation differences	**185,638**	(98,629)
Amortization charge for the period	**18,569**	83,599
Balance at end of the period	**1,900,245**	1,696,038
Carrying Amount	**40,413**	54,940

(in Canadian dollars, except as otherwise noted)

8. Right-of-use assets and lease liabilities

The following table presents the value of the right-of-use assets and lease liabilities as at March 31, 2020.

	Three-Month Period Ended March 31,2020 $	Year Ended December 31,2019 $
Right-of-use Assets		
Balance at beginning of the period	**716,787**	1,088,257
Depreciation of right-of-use assets	**(62,620)**	(191,349)
Translation differences	**202,970**	(180,121)
Balance at end of the period	**857,137**	716,787
Lease Liabilities		
Balance at beginning of the period	**753,645**	1,088,257
Principal payments	**(53,095)**	(154,491)
Translation differences	**202,972**	(180,121)
Balance at end of the period	**903,522**	753,645

9. Accounts Payable and Accrued Liabilities

	March 31, 2020 $	December 31, 2019 $
Trade payables	**569,445**	573,882
Payable to loan purchasers	**556,218**	792,916
Other payables and accruals	**576,282**	676,079
Total	**1,701,945**	2,042,877

10. Financing Credit Facilities

	Three-Month Period Ended March 31,2020 $	Year Ended December 31,2019 $
Balance at beginning of period	**37,954,729**	19,758,556
Proceeds	**-**	19,906,790
Repayments	**(430,264)**	-
New transaction costs incurred	**(7,426)**	(375,083)
Transaction costs incurred	**-**	-
Amortization of transaction costs	**80,061**	461,373
Translation differences	**3,217,320**	(1,796,907)
Balance at end of period	**40,814,420**	37,954,729

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

	March 31, 2020 $	December 31, 2019 $
Financing credit facilities	**41,780,687**	38,936,865
Unamortized transaction costs	**(966,267)**	(982,136)
	40,814,420	37,954,729

The carrying amount of current borrowings is a reasonable approximation of the fair value, as the facilities bear interest at a floating rate and the contractual spreads are commensurate with the spreads the Company estimates it could currently obtain.

2016 Credit Facility

On April 22, 2016, the Company entered into a US$50.0 million credit facility with a third-party lender (the “2016 Credit Facility”). The facility consisted of a US$25.0 million term loan, expandable to US$50.0 million at the Company’s request and the lender’s acceptance. The facility is denominated in US dollars and the interest rate is LIBOR plus 8.50%.

In February and July 2018, the 2016 Credit Facility was modified and extended until December 31, 2020, the date on which the full amount will be due. The amount of the modified facility is US$22.0 million, with a term portion equal to US$15.0 million and a revolver amount of US$7.0 million.

(in Canadian dollars, except as otherwise noted)

In December 2019, the Company modified and extended its 2016 Credit Facility until December 31, 2022. The modified interest rate of the 2016 Credit Facility is LIBOR plus 5.50%, down from LIBOR plus 8.50%, which represented 7.08% as at March 31, 2020.

2019 Credit Facility

On March 5, 2019, the Company entered into a new US$50.0 million credit facility (the "2019 Credit Facility"). The facility has an initial commitment amount of US$50.0 million and is expandable to US$100.0 million at the Company's request and the lender's acceptance. The interest rate on the facility is 90-day LIBOR, subject to a minimum LIBOR of 1.5%, plus 4.50% which represents 6.00% as at March 31, 2020. 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 March 31, 2020 is US$13.9 million.

Transaction costs

Transaction costs directly attributable to the implementation and subsequent modification of the financial liabilities described above have been included in the measurement of the liabilities and are amortized over the term of the agreements using the effective rate. For the year ended March 31, 2020, amortization of $80,061 (2019: $92,384) has been included in operating expenses (Note 16).

Pledged assets

With respect to the 2016 Credit Facility, all assets held by the subsidiary IOUF SBAF I are pledged as collateral for the facility. The following table presents the carrying amounts of assets pledged as collateral.

Asset	**March 31, 2020** **$**	December 31, 2019 $
Commercial loans receivable, net	**27,741,454**	28,547,715
Cash	**110,785**	2,356,398

With respect to the 2019 Credit Facility, all assets held by the subsidiary IOUF SBAF II are pledged as collateral for the facility. The following table presents the carrying amounts of assets pledged as collateral.

Asset	**March 31, 2020** **$**	December 31, 2019 $
Commercial loans receivable, net	**28,507,684**	25,901,314
Cash	**446,157**	1,303,424

(in Canadian dollars, except as otherwise noted)

Financial covenants

As part of the 2016 and the 2019 Credit Facilities, the Company must respect certain financial covenants. All financial covenants were met as at December 31, 2019, but not as at March 31, 2020. Please refer to Notes 2 and 20a regarding the financing credit facilities.

11. Convertible Debentures

The Debentures recognized in the consolidated statements of financial position are calculated as follows:

	March 31, 2020 $	December 31, 2019 $
Par value of the Debentures	**11,400,000**	11,400,000
Unamortized discount and transaction costs	**(1,451,568)**	(1,468,819)
Liability component amount	**9,948,432**	9,931,181

12. (Loss) Earnings per Share

	March 31,2020 $	March 31,2019 $
Basic and Diluted Earnings per Share		
Net (loss) earnings	**(2,141,608)**	85,870
Weighted average number of common shares for the purposes of basic (loss) earnings per share	**86,524,144**	87,825,309
Basic (loss) earnings per share	**(0.02)**	0.00
Effect of dilutive securities: Warrants	**-**	40,322
Weighted average number of common shares for the purposes of diluted earnings per share	**87,547,924**	87,865,631
Diluted (loss) earnings per share	**(0.02)**	0.00

(in Canadian dollars, except as otherwise noted)

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share.

	March 31,2020 **$**	March 31,2019 $
Stock options	**7,061,500**	8,402,667
Debentures	**22,800,000**	15,333,333
Number of shares	**29,861,500**	23,736,000

13. Share Capital

Authorized

Unlimited number of common shares

Issued and Outstanding

	March 31, 2020 **$**	December 31, 2019 $
86,429,122 Common shares	**26,933,221**	
86,708,122 Common shares		26,988,530

a) As part of the Normal Course Issuer Bid ("NCIB"), between December 31, 2019 and March 31, 2020, the Company repurchased and cancelled 279,000 common shares in the market for a total cost of $54,565 including $744 of transaction costs.

(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 as at December 31, 2018	479,125	0.20
Exercised	(348,313)	0.20
Expired	(130,812)	0.20
Balance as at December 31, 2019	-	-
Exercised	-	-
Expired	-	-
Balance as at March 31, 2020	**-**	**-**

Stock-Based Compensation

Movements in options for the periods presented are as follows:

	Options Outstanding (#)	Average Exercise Price ($)
Balance as at December 31, 2018	6,201,000	0.35
Granted	2,385,000	0.23
Forfeited	(1,724,500)	0.48
Balance as at December 31, 2019	6,861,500	0.28
Granted	200,000	0.25
Balance as at March 31, 2020	**7,061,500**	**0.28**

Stock options are granted to directors, officers, selected employees and consultants. The exercise price of the granted options is determined by the Board of Directors at a price which shall not be lower than the greater of the closing market price of the shares on the TSX,V on (a) the trading day prior to the grant of the options and (b) the date of the grant of the options.

The employee options vest over a two-year period, with one-third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

(in Canadian dollars, except as otherwise noted)

The following summarizes information about stock options outstanding as at March 31 2020:

Exercise Price ($)	Outstanding Options (#)	Exercisable (#)	Expiry Date
0.55	887,500	887,500	November 2020
0.27	1,699,000	1,699,000	June 2022
0.27	500,000	333,333	July 2023
0.20	1,395,000	930,000	July 2023
0.20	100,000	66,667	July 2023
0.27	500,000	333,333	March 2024
0.22	1,610,000	1,073,333	March 2024
0.22	100,000	66,667	March 2024
0.22	70,000	23,333	August 2024
0.25	200,000	50,000	January 2023
Total	**7,061,500**	**5,463,166**	

The Company granted, on January 15, 2020, options to consultant to acquire up to 200,000 Common Shares at an exercise price of $0.25 per share. These options have a term of three years and vest as follows: 50,000 options shall vest on March 15, 2020, 50,000 options shall vest on June 15, 2020, 50,000 options shall vest on September 15, 2020, and 50,000 options shall vest on December 15, 2020.

14. 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 risks). 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.

14.1 Financial Risks

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 those exposures resulting in actual loss.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company establishes an allowance for ECLs that corresponds to the credit risk of its customers, historical trends and future 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. Refer to Note 5 for information related to the commercial loans receivable at period end and the related allowance for ECLs.

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 with external credit ratings varying from A- to A+. 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, commercial loan sales and the use of its financing credit facilities. In order to meet its liabilities when they come due, the Company is dependent on the continued availability of such financing activities. Please refer to note 2 regarding the Company's ability to meet its financial obligations.

(in Canadian dollars, except as otherwise noted)

The following table presents the contractual maturities of financial liabilities.

				As at March 31, 2020
	Carrying Amount	**0 to 1 Month**	**1 to 12 Months**	**Over 1 Year**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,703,328	569,688	901,887	231,753
Financing credit facilities	40,814,420	257,772	2,835,488	44,520,591
Convertible debentures	9,948,432	94,962	1,044,582	14,533,746
Lease liabilities	903,522	18,621	204,836	797,262

Amounts denominated in foreign currency or based on variable rates are determined based on the spot rates as at March 31, 2020.

c) Foreign exchange risk

The Company, due to its operations being conducted primarily in the United States, is exposed to foreign exchange risk arising from currency exposure with respect to the US dollar. Foreign exchange risk arises from foreign 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 arising from financial instruments that would affect net earnings as at March 31, 2020 and 2019 relates to US dollar balances of the Canadian dollar functional entities and Canadian dollar balances of US dollar functional entities.

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a 10% strengthening of the Canadian dollar would have increased the net loss by approximately $147,822 (gain in 2019: $96,122), assuming that all other variables remained constant. An assumed 10% 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.

(in Canadian dollars, except as otherwise noted)

d) Interest rate risk

The Company is subject to interest rate risk on its cash, restricted cash and financing credit facilities. A 10% increase in interest rates over a 12-month horizon based on the balances as at March 31, 2020 would decrease net earnings by approximately $68,234 (2019: $8,415).

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 6 to 18 months.

15. Revenue by Category

The following table presents an analysis of revenue by category.

For the three-month period ended March 31	**2020** **$**	2019 $
Interest Revenue	**4,969,386**	3,578,969
Other Fees and Servicing Income		
Other fees	**214,292**	204,511
Servicing fees	**1,085,922**	1,258,545
Amortization of servicing assets	**(847,065)**	(1,071,913)
Total other fees and servicing income	**453,149**	391,143

(in Canadian dollars, except as otherwise noted)

16. Operating Expenses

The following table presents the details of operating expenses for the three-month period ended March 31.

	Note	2020 $	2019 $
Wages and salaries		**1,536,197**	1,430,919
Credit on qualifying wages		**(17,987)**	(19,227)
Stock-based compensation		**35,283**	127,969
Depreciation of right-of-use assets	8	**48,957**	50,696
Rental liability interest expense	8	**14,548**	29,329
Rental expense		**37,300**	30,503
Insurance		**39,577**	31,288
Amortization of transaction costs – financing credit facilities	10	**80,061**	92,384
Bank charges		**46,730**	43,427
Professional fees		**43,741**	32,943
Legal and accounting fees		**231,614**	140,998
Business fees and licences		**34,451**	13,015
Travel and entertainment		**50,366**	40,600
Telecommunications		**21,255**	15,828
Data services and IT costs		**262,137**	208,985
Advertising and promotion		**118,305**	85,922
Depreciation and amortization		**36,354**	41,168
Other		**23,474**	56,468
Non-recurring gain		**(73,478)**	-
Total Operating Expenses		**2,568,885**	2,453,215

(in Canadian dollars, except as otherwise noted)

17. Supplemental Cash Flow Information

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

For the three-month period ended March 31

	Note	2020 $	2019 $
Depreciation of equipment and leasehold improvements	6	**17,785**	19,228
Amortization of intangible assets	7	**18,569**	21,940
Amortization of servicing asset		**847,065**	1,071,913
Amortization of right-of-use asset		**62,622**	-
Stock-based compensation		**35,283**	127,969
Interest revenue		**(4,969,386)**	(3,578,969)
Net gain recognized on sale of loans		**(920,756)**	(875,379)
Income tax expense (recovery)		**-**	-
Amortization of transaction costs – financing credit facility		**80,061**	92,384
		(4,828,757)	(3,120,914)

Change in non-cash working capital items comprises the following:

	2020 $	2019 $
Sales taxes receivable	**10,534**	(18,366)
Commercial loans receivable	**(20,771,291)**	(25,483,561)
Other receivables	**(66,767)**	(57,093)
Prepaid and deposits	**(173,294)**	(74,964)
Right-of-use assets	**-**	(1,131,218)
Lease Liabilities	**-**	1,147,556
Accounts payable and accrued liabilities	**(452,352)**	1,262,770
	(21,453,170)	(24,354,876)

(in Canadian dollars, except as otherwise noted)

18. Related Party Transactions

Transactions in the Normal Course of Operations

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

i) The CEO and director of IOUF Canada is a shareholder in a company that owns a significant stake in Palos Capital Corporation ("Palos"), the parent company of Palos Management Inc. 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 $31,222 is expensed as rental expense for the period (2019: rent expense of $30,505). 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 $797,487.

Key Management Compensation

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

For the three-month period ended March 31

	2020 **$**	2019 $
Salaries and other short-term employee benefits	**223,733**	221,150
Stock-based payments	**22,210**	82,316
	245,943	303,466

(in Canadian dollars, except as otherwise noted)

19. Segment Information

The Company determines its reportable operating segments according to the manner in which the information is used by the chief operating decision-maker and has determined that the Company operates in one reportable operating segment with two main activities: lending and servicing. Those activities have been identified on the basis of services provided.

The Company's lending activity originates and retains loans as part of its commercial loans receivable portfolio. The Company's servicing activity services commercial 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 assets are located in the United States.

Revenues by activity are as follows:

For the three-month period ended March 31

	2020			2019		
	Lending $	**Servicing $**	**Total $**	Lending $	Servicing $	Total $
Revenue						
Interest revenue	**4,969,386**	**-**	**4,969,386**	3,578,969	-	3,578,969
Other fees	**214,292**	**-**	**214,292**	204,511	-	204,511
Servicing fees	**-**	**1,085,922**	**1,085,922**	-	1,258,545	1,258,545
Accelerated recognition of transaction costs on loans sold	**-**	**134,179**	**134,179**	-	65,319	65,319
Amortization of servicing asset	**-**	**(847,065)**	**(847,065)**	-	(1,071,913)	(1,071,913)
Gain on sale of loans	**-**	**786,577**	**786,577**	-	810,060	810,060
Gross Revenue	**5,183,678**	**1,159,613**	**6,343,291**	3,783,480	1,062,011	4,485,491

20. Events after the reporting date

a) 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, the Company 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.

   In an effort to help the Company's clients, in late March 2020, management began the process of effecting modified payment plans for clients manifesting bona fide hardships directly attributable to the impacts of the COVID-19 pandemic. Due to these modified payment plans, IOU Financial went into an over-advance position with its financing credit facilities. Due to the fact that the over- advance positions remained uncured, the Company received default notices subsequent to quarter end and the 2016 Credit Facility began charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% effective April 1, 2020.

b) 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

c) On May 10th, 2020, Company's wholly owned subsidiary, IOU Central Inc., was approved by the U.S. Department of the Treasury and the Small Business Administration (SBA) to provide Paycheck Protection Program (PPP) loans.

d) On May 11th, 2020, the Company's wholly owned subsidiary, IOU Central Inc., received loan proceeds of US$699,800 from the Small Business Administration (SBA) under the Paycheck Protection Program (PPP) program. The loan carries a fixed interest rate of 1% and matures two (2) years from the date of first disbursement. No payments are due for six (6) months from the date of first disbursement, although interest will accrue during the deferment period. IOU Central Inc. can apply for an amount of loan forgiveness which would equal, in large part, to expenses incurred for payroll, rent and utilities during and an eight (8) week period commencing from the date of first disbursement, subject to the loan forgiveness provisions in the PPP program.