



IOU Financial Inc.

**Annual Report
2022**

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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. ("We", "IOU Financial" or the "Company"), prepared as of April 25, 2023, should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes as at and for the years ended December 31, 2022 and 2021, 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 Inc. is a wholesale marketplace lender that provides small businesses quick and easy access to growth capital through a network of preferred brokers across the US. Built on a proprietary technology platform that connects underwriters, merchants and brokers in real time, IOU Financial has become a trusted alternative to banks by underwriting US\$1.38 billion in loans to fund small business growth since 2009. To learn more about IOU Financial's corporate history, financial products, or to join our broker network please visit: IOUFinancial.com.

As at December 31, 2022, our customers had been in business an average 11.4 years (based on their incorporation date) at the time of application. These businesses borrowed, on average, US\$95,225 for a weighted average term of 12.1 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.

As a marketplace lender we generally do not hold the loans we originate on our balance sheet. Rather, we have agreements with a number of institutional purchasers and sell substantially all loans that we originate to those purchasers. We retain the right to service those loans on behalf of the purchasers in exchange for servicing fees based on collections.

Our primary sources of revenue include gains on the sale of loans to institutional purchasers, servicing fees based on the amounts that we collect on behalf of the loan purchasers, administrative and other fees that we charge to borrowers and referral fees earned by ZING Funding, our retail distribution arm.

Since we generally do not carry loans on our balance sheet, we generally do not bear the risk of loss from borrowers' failure to repay their loans. However, our servicing fees are directly tied to the collections we make on behalf of the loan purchasers. As a result, loan performance has a direct impact on our revenues.

IOU Financial's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "IOU". IOU Financial had 87 full-time employees as at December 31, 2022.

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", "targeting", "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 business, current economic conditions, 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, cyber risk, maintenance of client relationships, litigation risk, volatility of stock price, geopolitical risk 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.

NON-IFRS FINANCIAL MEASURES

We use certain non-IFRS financial measures as an alternative method to evaluate performance. These measures include adjusted gross revenue, servicing portfolio yield, adjusted operating expenses, adjusted operating expense ratio, non-recurring gains and losses, adjusted net income (loss) and adjusted net income (loss) per share. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The definitions and rationale for each of the non-IFRS financial measures used as well as reconciliations to the related IFRS basis, where applicable, are provided in various sections below.

SUMMARY FINANCIAL DATA

The following tables summarize 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).

For the year ended	December 31			
	2022	2021	Change	
	\$	\$	\$	%
Loan originations (\$US)	275,480,864	161,486,680	113,994,184	70.6%
Loans under management	217,332,774	119,473,535	97,859,239	81.9%
Gross revenue	19,140,091	12,918,067	6,222,024	48.2%
Operating expenses	18,365,973	8,824,958	9,541,015	108.1%
Net income	38,826	3,722,068	(3,683,242)	-99.0%
Net income per share, diluted	-	0.03	(0.03)	-100.0%
Adjusted gross revenue ⁽¹⁾	19,242,694	11,077,458	8,165,236	73.7%
Adjusted operating expenses ⁽²⁾	18,065,013	11,033,325	7,031,688	63.7%
Adjusted net income (loss) ⁽³⁾	442,389	(326,908)	769,297	nm
Adjusted net income (loss) per share	-	-	-	-
Total assets	25,809,140	26,563,736	(754,596)	-2.8%
Total liabilities	8,496,760	11,058,178	(2,561,418)	-23.2%

For the quarter ended	December 31			
	2022	2021	Change	
	\$	\$	\$	%
Loan originations (\$US)	82,747,015	49,567,725	33,179,290	66.9%
Loans under management	217,332,774	119,473,535	97,859,239	81.9%
Gross revenue	3,417,250	3,098,178	319,072	10.3%
Operating expenses	5,607,505	2,117,786	3,489,719	164.8%
Net income (loss)	(2,654,479)	690,507	(3,344,986)	nm
Net income (loss) per share	(0.02)	0.01	(0.03)	nm
Adjusted gross revenue ⁽¹⁾	5,127,586	3,233,423	1,894,163	58.6%
Adjusted operating expenses ⁽²⁾	5,536,505	2,908,098	2,628,407	90.4%
Adjusted net income (loss) ⁽³⁾	(873,143)	35,440	(908,583)	nm
Adjusted net income (loss) per share	(0.01)	-	(0.01)	nm
Total assets	25,809,140	26,563,736	(754,596)	-2.8%
Total liabilities	8,496,760	11,058,178	(2,561,418)	-23.2%

- (1) Adjusted gross revenue is a non-IFRS measure and is defined as gross revenue prepared in accordance with IFRS for the period, adjusted to add back the amortization of servicing assets and remove revenue associated with the creation of servicing assets. We use adjusted gross revenue as another measure of financial performance and believe it useful to investors as it removes components of revenue that are non-cash in nature for the periods presented, as these items influence operating results depending on the timing and amount of loan sales.
- (2) Adjusted operating expenses is a non-IFRS measure and is defined as total operating expenses prepared in accordance with IFRS for the period, adjusted for stock-based compensation and non-recurring gains and losses which affect operating results only periodically. We use adjusted operating expenses as another measure of financial performance and believe it useful to investors as it removes certain non-cash and non-recurring expenses that we believe are not closely correlated with the Company's operating performance.
- (3) Adjusted net income is a non-IFRS measure and is defined as net income for the period prepared in accordance with IFRS, adjusted for the adjustments to revenue and operating expense discussed above. We believe these measures are useful to investors because they help identify underlying trends in our business that could otherwise be masked by certain expenses, write-offs, charges, income or recoveries that can vary from period to period.

2022 PERFORMANCE HIGHLIGHTS AND RECENT DEVELOPMENTS

2022 was a year of successful execution on IOU Financial's growth strategy, bringing significant growth in revenues resulting from loan originations that surpassed the top end of our guidance for 2022. During the year, IOU continued to advance on its strategic growth initiatives first announced in 2021, resulting in product expansion, significant development of its technology platform and growth of its broker and merchant networks.

However, in the fourth quarter of 2022, IOU, along with our industry in general, began to experience rising delinquency rates within the portfolio of loans we service on behalf of our loan purchasers. Economic uncertainty caused by rising interest rates and inflation in the United States has significantly impacted the operating environment for small businesses. This resulted in rising delinquencies that had a significant negative impact on our revenue and profitability in the fourth quarter of 2022, as we significantly reduced our expectations of future collections and the related servicing fees we earn.

In response to this rise in delinquency, IOU took decisive action to tighten its underwriting criteria, reduce its risk appetite in several industries as well as enlisting industry-leading collections experts to provide additional support to ongoing payment recovery efforts. These actions have begun to have a positive impact on delinquencies and collections but have also significantly curtailed originations in the first quarter of 2023 and tempered the overall outlook for 2023 originations.

IOU continues to maintain its commitment to investing in strategic growth initiatives and position itself to take advantage of opportunities in the marketplace when the economic headwinds begin to subside. As a result, we have taken steps to reduce the growth in operating expenses in 2023 in response to the challenges we face, but are committed to maintaining our focus on technology innovation, product expansion and distribution strategies as well as to maintain the high level of service to our broker and merchant networks we are known for.

Selected performance highlights from the year include:

1. 2022 was a year of record loan originations, leading to adjusted gross revenue growth of 73.7% over 2021

2022 loan originations of \$275.5 million exceeded the high end of our 2022 guidance range of US\$260 million, including an all-time Company monthly origination record of US\$30 million set in December 2022 and quarterly origination records in both the third (US\$74.2 million) and fourth (US\$82.7 million) quarters of 2023. The growth in originations was driven by increased demand from new borrowers and continued repeat activity from our existing borrowers. We drove increased new borrower demand in 2022 as we introduced new products to the marketplace, expanded our network of brokers and merchants and continued to expand our retail presence through ZING Funding. Our borrowers also continue to come back to us to service their working capital needs, with originations to repeat borrowers comprising approximately 40% of our originations in 2022. Importantly, we have driven this growth while maintaining the same consistent high quality underwriting standards we are known for and that our stakeholders expect of us.

2. **Economic headwinds contributed to increased delinquencies in Q4 2022, leading to adjusted Q4 net loss of \$0.9 million and adjusted full year net income of \$0.4 million**

Adjusted gross revenue grew 73.7% compared to 2021 from the growth in originations. Origination growth contributes revenue from gains on the sale of loans to institutional loan purchasers, as well as fees paid by our borrowers. Increased originations also contribute to increased loans under management and collections from borrowers on which we earn servicing revenue as we make those collections on behalf of the institutional loan purchasers.

Adjusted operating expenses grew in 2022 as compared to 2021 by 63.7% to support the growth in our business and the investments made in our technology. However, we continue to demonstrate the operating leverage of these investments as our adjusted operating expense ratio in 2022 declined as compared to 2021.

Servicing fee revenue increased throughout 2022 from those higher originations and collections, as for much of 2022 collections performed in line with expectations and delinquencies and prepayments of loans were consistent with historical trends. However, the increase in delinquencies in the fourth quarter of 2022 caused us to revise our estimates of future collections on the loans we currently service and as result we reduced the rate at which we recognized servicing revenue in the fourth quarter. This reduction had a negative impact on the rate of growth of servicing fee revenue over 2021. Additionally, we determined that a portion of the servicing assets recognized in previous quarters would not be recoverable as a result of our reduced collections expectations, and therefore we recorded an impairment of those assets in the fourth quarter of 2022 as a component of servicing asset amortization, which further reduced fourth quarter revenue.

The reduced revenue accrual rate along with the servicing asset impairment charge led to an adjusted net loss of \$0.9 million in the fourth quarter of 2022, which reduced our full year adjusted net income to \$0.4 million.

3. **We continued to advance strategic initiatives throughout 2022**

- **Technology innovation:** The Company continues to invest in developing its proprietary IOU360 platform to better support brokers, merchants, investors and internal stakeholders, all designed to support greater efficiencies and the long-term scalability of the business. The Company continued to advance on the development of its next generation Broker Portal while automating several new features to ensure compliance and early fraud detection and increase efficiency for loan processing.
- **Product expansion:** The Company is committed to continue introducing innovative loan products to meet the needs of more small business owners as well as to achieve further differentiation in the market. Over the past 18 months The Company has introduced the [IOU Financial Premier PLUS term loan](#) (August 1, 2022) for loan amounts of up to US\$1.5 million and with terms up to 36 months, the [IOU Financial Cash-Back Loan](#) (August 2021) and the [IOU Financial 24-Month Loan](#) (November 2021). Additional product innovations have recently been enabled by technology platform development and will be announced in 2023.
- **Distribution:** The Company continues to evolve its wholesale (IOU Financial) and retail (ZING Funding) distribution strategies to maximize its exposure to growth opportunities through both channels.

2023 OUTLOOK

In the first quarter ended March 31, 2023 IOU originated US\$48.4 million in loans. For all of 2023, the Company is targeting loan originations in the range of US\$200M to US\$240M. Based on lower expected origination volume combined with the continuing impact of delinquencies on loans originated in 2022, we anticipate modest revenue and operating expense growth in 2023.

DISCUSSION AND ANALYSIS OF 2022 RESULTS

GROSS REVENUE

For the year ended	2022	December 31,	Change	
	\$	2021	\$	%
Revenue				
Servicing income	10,938,851	6,048,422	4,890,429	80.9%
Administrative and other fees	3,171,196	1,964,914	1,206,282	61.4%
Gain on Sale	5,045,593	2,078,030	2,967,563	142.8%
Amortization of servicing assets	(10,186,195)	(5,177,397)	(5,008,798)	96.7%
Servicing assets recognized	10,083,592	7,018,006	3,065,586	43.7%
Interest	87,054	986,092	(899,038)	-91.2%
Total Gross Revenue	19,140,091	12,918,067	6,222,024	48.2%
Amortization of servicing assets	10,186,195	5,177,397	5,008,798	96.7%
Servicing assets recognized	(10,083,592)	(7,018,006)	(3,065,586)	43.7%
Adjusted Gross Revenue	19,242,694	11,077,458	8,165,236	73.7%
Ratios				
Servicing Yield ⁽¹⁾	6.9%	7.4%	-0.5%	

For the quarter ended	2022	December 31,	Change	
	\$	2021	\$	%
Revenue				
Servicing income	2,557,410	1,827,069	730,341	40.0%
Administrative and other fees	1,009,924	766,733	243,191	31.7%
Gain on Sale	1,541,565	599,422	942,143	157.2%
Amortization of servicing assets	(4,044,636)	(2,039,248)	(2,005,388)	98.3%
Servicing assets recognized	2,334,300	1,904,003	430,297	22.6%
Interest	18,687	40,199	(21,512)	-53.5%
Total Gross Revenue	3,417,250	3,098,178	319,072	10.3%
Amortization of servicing assets	4,044,636	2,039,248	2,005,388	98.3%
Servicing assets recognized	(2,334,300)	(1,904,003)	(430,297)	22.6%
Adjusted Gross Revenue	5,127,586	3,233,423	1,894,163	58.6%
Ratios				
Servicing Yield ⁽¹⁾	5.1%	6.8%	-1.7%	

(1) Servicing Yield is a non-IFRS measure and is calculated as servicing income divided by the average loans under management for the period, presented on an annualized basis. We believe this measure is useful to investors as its to identify trends or occurrences in the underlying business.

Servicing income is dependent on collections made on behalf of loan purchasers and the contractual fee percentage charged to the loan purchasers on each collection. In certain instances, the percentage that we ultimately earn on collections is dependent on the total amount collected on the loans sold to the institutional purchaser. In these instances, we recognize revenue based on our estimates of total future collections on those loans that were sold and the amount of revenue we recognize is subject to adjustment based on changes in these estimates.

The increase in servicing income in 2022 is from higher collections driven by the increase in originations and therefore the level of loans under management in 2022. For much of 2022, collections performed in line with expectations as origination volumes increased over the prior year and delinquencies and prepayments of loans were consistent with historical trends. However, as previously discussed above, in the fourth quarter of 2022 we began to experience an increase in delinquencies in connection with the general economic headwinds in the United States. This increase caused us to revise our estimates of future collections on loans we currently service, and thus we reduced the estimated rate at which we recognized servicing revenue in the fourth quarter, which had a negative impact on the rate of growth of servicing fee revenue over 2021.

Administrative and other fee revenue primarily represents referral fee revenue earned by our ZING Funding brokerage, fees that we charge to borrowers on each loan originated and fees earned by our internal collections team for recoveries on behalf of loan purchasers. ZING is engaged in the commercial lending brokerage business where borrowers are sourced directly by ZING brokers and are either funded through IOU or referred to a third-party lending platform. ZING earns a referral fee on loans that are referred to and funded by third-party lenders, with such fees typically expressed as a percentage of the originated amount of each loan that ZING refers to these lenders. In 2022, ZING facilitated approximately US\$45.6 million in loan origination volume, representing an increase of approximately 74% over 2021, with \$19.3 million of that volume being facilitated through IOU. ZING earned total referral fees from all lenders of \$2.0 million, including \$0.7 million from lenders other than IOU. The increased loan volume was driven by increased interest in the services provided by ZING's brokers, driven in part by increased marketing spend to attract additional borrowers. The increase in loans originated over 2021 drove an increase in fees to borrowers, and the increase in the overall level of loans under management resulted in higher fees earned by our internal collections team for recoveries on behalf of loan purchasers.

The increase in gain on sale for 2022 is a function of the increase in origination volume. Gain on sale represents the excess of the purchase price paid by the institutional loan purchasers over the loan proceeds provided to the merchant and the direct costs incurred by IOU to originate the loan. These direct costs primarily represent commissions paid to external brokers and our internal account executives.

We retain the rights to service the loans sold to institutional loan purchasers, which primarily consists of collecting payments on behalf of the loan purchasers. Under IFRS, the Company recognizes a servicing asset at the time the loan is sold representing the estimated servicing fee revenue the Company expects to earn over the term of the loan that is in excess of the fair value of providing such services. The estimated servicing fees we expect to earn are also subject to estimation of the ultimate amount to be collected on the loans sold to an institutional purchaser. These assets are then amortized over the term of the loan, with such amortization be reflected in servicing asset amortization.

The increase in servicing assets recognized and related servicing asset amortization in 2022 are due to the increased loan origination volume in the current year. As with servicing fee revenue, our revision of estimated future collections reduced the rate at which we recognized servicing assets in the fourth quarter, which had a negative impact on the rate of growth over 2021. Additionally, we determined that a portion of the servicing asset recognized in previous quarters would not be recoverable as a result of our reduced collections expectations, and therefore we recorded an impairment of those assets in the fourth quarter of 2022 to servicing asset amortization.

Interest revenue decreased significantly compared to the prior year due to the wind down of our on-balance sheet loan portfolio as we complete the transition to our marketplace business model.

COST OF REVENUE

For the year ended

	2022	December 31,		
	\$	2021	Change	%
		\$	\$	
Cost of Revenue				
Net recovery of loan losses	(185,153)	(925,548)	740,395	-80.0%
Debt interest expense	802,134	1,278,677	(476,543)	-37.3%
Cost of Revenue	616,981	353,129	263,852	74.7%

For the quarter ended

	2022	December 31,		
	\$	2021	Change	%
		\$	\$	
Cost of Revenue				
Loan loss provision	256,761	2,151	254,610	nm
Debt interest expense	170,120	269,822	(99,702)	-37.0%
Cost of Revenue	426,881	271,973	154,908	57.0%

Net recovery of loan losses decreased significantly compared to the prior year due to the wind down of our on-balance sheet loan portfolio as we complete the transition to our marketplace business model. We have not originated any new loans in the current year that we held for investment. We continue our collection efforts on delinquent loans that we held for investment that were originated prior to the marketplace transition, with such collections being the primary driver of the net recovery on loan losses. Fourth quarter was impacted by reserves taken on several on-balance sheet loans that ceased paying.

Interest expense decreased compared to 2021 due to the continuing reduction in convertible debenture balance, as we have redeemed \$3.6 million and \$3.7 million of debentures in the years ended December 31, 2022 and 2021, respectively. The remaining debentures are due to be redeemed on December 31, 2023.

OPERATING EXPENSES

For the year ended

	2022	December 31,		
	\$	2021	Change	%
		\$	\$	
Operating Expenses	18,365,973	8,824,958	9,541,015	108%
Stock Based Compensation	(160,152)	(150,213)	(9,939)	7%
Non-Recurring Gain/(Loss)-net ⁽²⁾	(140,808)	2,358,580	(2,499,388)	nm
Adjusted Operating Expenses	18,065,013	11,033,325	7,031,688	64%

Ratio				
Adjusted Operating Expense Ratio ⁽¹⁾	11.3%	12.4%	-1.1%	

For the quarter ended

	December 31,			
	2022	2021	Change	
	\$	\$	\$	%
Operating Expenses	5,607,505	2,117,786	3,489,719	165%
Stock Based Compensation	(20,480)	(24,597)	4,117	-17%
Non-Recurring Gain/(Loss)-net ⁽²⁾	(50,521)	814,909	(865,430)	-106%
Adjusted Operating Expenses	5,536,504	2,908,098	2,628,406	90%

Ratio

Adjusted Operating Expense Ratio ⁽¹⁾	11.0%	10.5%	0.5%
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⁽¹⁾ The Adjusted Operating Expense Ratio is a non-IFRS measure and is calculated by dividing adjusted operating expenses by the average loans under management for the period, presented on an annualized basis. The ratio uses the average of month end balances over the period presented. Prior year expenses and expense ratio has been recast for the prior year income statement reclassifications disclosed in the financial statements. We believe this measure is useful to investors as its to identify trends or occurrences in the underlying business.

⁽²⁾ Non-Recurring Gain/(Loss), net is a non-IFRS measure and refers to adjustments to remove the impacts of operating expenses which are not incurred in the normal course of business and can fluctuate at different times and at various amounts as we believe these amounts are not closely correlated with our performance. Non-recurring losses primarily. The non-recurring losses in 2022 and 2021 primarily related to losses recognized upon redemption of Debentures. In 2021, the non-recurring gain is comprised of PPP loan forgiveness, wage subsidies and employment retention credits.

Our operating expenses primarily consist of compensation and compensation related expenses, marketing expenses to attract applicants to our ZING brokerage, data related expenses to support our underwriting and loan processing activities, outside contractor expenses to support enhancements to the IOU platform, and other general operating expenses to support the operations of our business.

We increased operating expenses significantly in the current year to support the growth in our business and our continued investment in our growth and scalability initiatives. The increase in operating expenses compared to 2021 can be primarily attributed to the following:

- \$3.1 million in compensation as a result of increased headcount and headcount related expenses to support growth and increased commissions paid to ZING brokers resulting from ZING's growth
- \$0.8 million in marketing expenses as we increase the visibility of the IOU and ZING brands and to attract additional brokers and merchants
- \$1.2 million in data services from increased loan application volume and costs incurred to support the functionality of, and enhancements to, the IOU360 technology platform.
- \$1.7 million in professional fees as we have supplemented our existing internal capabilities with subject matter resources to support growth and continued enhancements to our technology and have increased collection related expenses in connection with the growth in the serviced loan portfolio
- \$0.3 million in amortization expense in connection with increased investment in the IOU technology platform
- \$2.4 million from the non-recurring gain recorded in 2021 related to PPP loan forgiveness, wage subsidies and employee retention credits

The decrease in the Adjusted Operating Expense Ratio for the year ended December 31, 2022, which we use as a measure of our operating efficiency, is reflective of the operating leverage we have generated from the investments we have made in the business that has enabled us to grow in a scalable fashion. In the fourth quarter of 2022, we increased adjusted operating expenses to accommodate current and anticipated growth, resulting in a modest increase in our adjusted operating expense ratio from 10.5% in the fourth quarter of 2021 to 11.0% in the fourth quarter of 2022.

NET INCOME AND ADJUSTED NET INCOME

The following table presents our adjusted and IFRS net income/(loss) for the years December 31, 2022 and 2021. The financial information is presented in Canadian dollars (except where otherwise noted) and was prepared in accordance with IFRS. Adjusted income (loss) is a non-IFRS measure and is defined as net income for the period prepared in accordance with IFRS adjusted for the revenue and operating expense non-IFRS adjustments.

For the year ended	2022 \$	December 31, 2021 \$	Change \$	%
Adjusted Revenue	19,242,694	11,077,458	8,165,236	74%
Cost of Revenue	616,981	353,129	263,852	75%
Adjusted Operating Expenses	18,065,013	11,033,325	7,031,688	64%
Income Tax Expense	118,311	17,912	100,399	561%
Adjusted Net Income/(Loss)	442,389	(326,908)	769,297	nm
Diluted Adjusted Net Income/(Loss) per Share	-	-	-	-
Non-cash amortization of servicing assets	(10,186,195)	(5,177,397)	(5,008,798)	97%
Servicing assets recognized	10,083,592	7,018,006	3,065,586	44%
Stock Based Compensation	(160,152)	(150,213)	(9,939)	7%
Non-Recurring Gain/(Loss), net	(140,808)	2,358,580	(2,499,388)	nm
Net Income (Loss)	38,826	3,722,068	(3,683,242)	-99%
Diluted Net Income (Loss) per Share	-	0.03	(0.03)	-

For the quarter ended	2022 \$	December 31, 2021 \$	Change \$	%
Adjusted Revenue	5,127,586	3,233,423	1,894,163	59%
Cost of Revenue	426,881	271,973	154,908	57%
Adjusted Operating Expenses	5,536,504	2,908,098	2,628,406	90%
Income Tax Expense	37,344	17,912	19,432	108%
Adjusted Net Income/(Loss)	(873,143)	35,440	(908,583)	nm
Diluted Adjusted Net Income/(Loss) per Share	(0.01)	-	(0.01)	nm
Non-cash amortization of servicing assets	(4,044,636)	(2,039,248)	(2,005,388)	98%
Servicing assets recognized	2,334,300	1,904,003	430,297	23%
Stock Based Compensation	(20,479)	(24,597)	4,118	-17%
Non-Recurring Gain/(Loss), net	(50,521)	814,909	(865,430)	nm
Net Income (Loss)	(2,654,479)	690,507	(3,344,986)	nm
Diluted Net Income (Loss) per Share	(0.02)	0.01	(0.03)	nm

CONSOLIDATED FINANCIAL POSITION

The following table presents our consolidated statement of financial position as at December 31, 2022 and 2021. The financial information is presented in Canadian dollars and was prepared in accordance with IFRS.

	As at December 31, 2022	As at December 31, 2021	Change	
	\$	\$	\$	%
Assets				
Cash and cash equivalents	4,154,133	7,358,752	(3,204,619)	-44%
Restricted Cash	-	1,205,688	(1,205,688)	-100%
Commercial loans receivable, net	7,222,270	6,789,281	432,989	6%
Servicing assets	3,294,577	3,092,164	202,413	7%
Service fees receivable	4,635,429	1,368,210	3,267,219	239%
Other receivables	3,684,665	4,553,282	(868,617)	-19%
Other assets	2,818,066	2,196,359	621,707	28%
Total assets	25,809,140	26,563,736	(754,596)	-3%
Liabilities				
Convertible debentures	4,359,670	7,619,634	(3,259,964)	-43%
Other liabilities	4,137,090	3,438,544	698,546	20%
Total liabilities	8,496,760	11,058,178	(2,561,418)	-23%
Shareholders' equity	17,312,380	15,505,558	1,806,822	12%

Total Assets

Cash declined with cash used in operations and the repurchase of \$3.6 million of convertible debentures in the current year. Commercial loans receivable increased from the increased loan origination volume in December 2022 and the timing of the sales to loan purchasers. Due from loan purchasers increased with increased volume of loans sold in the fourth quarter and timing of payments from the purchasers. We collected \$2.7 million of amounts due from loan purchasers subsequent to December 31, 2022, with the remaining receivable primarily representing deferred servicing fees that we expect to collect in the future after we reach certain thresholds of collections on loans sold to certain loan purchasers.

Total Liabilities

The convertible debenture liability decreased in connection with the \$3.6 million of debenture repurchases completed in the current year. Other liabilities grew in connection with the overall growth the business and due to the timing of remitting certain payments to loan purchasers in connection with our loan servicing obligations.

Shareholders' Equity

Shareholders' equity increased primarily from current year earnings and the impact the strengthening of the US dollar, as the majority of our net assets are US dollar denominated.

LIQUIDITY AND CAPITAL RESOURCES

We finance our operations, growth and cash needs primarily through income from operations and unrestricted cash. Our principal capital requirements have been to fund our growing operation, our stated strategic initiatives and the repurchases of convertible debentures.

As at December 31, 2022, we had approximately \$4.2 million of unrestricted cash on hand to fund our operations and capital needs. All of our cash on hand is held at major North American financial institutions. We also held \$6.7 million

of loans for sale as of December 31, 2022 that were sold shortly after year end. Additionally, we collected \$2.7 million of amounts due from loan purchasers subsequent to December 31, 2022 that were receivable at December 31, 2022.

As at December 31, 2022 we had approximately \$4.4 million of convertible debentures outstanding that come due December 31, 2023. We believe that our cash on hand and cash flows from operations will be sufficient to repay our outstanding debt, but we may incur additional debt or issue additional equity securities in the future.

We finance the growth in our loan origination volume and loans under management primarily through cash from operations and the sale of originated loans to financial institutions. Substantially all of the loans we have originated in 2022 and 2021 have been sold to these purchasers.

Cash Flows

For the year ended December 31	2022	2021	Change	
	\$	\$	\$	%
Cash (used) generated in operating activities	(175,572)	1,805,407	(1,980,979)	nm
Cash used in investing activities	(52,742)	(775,289)	722,547	-93%
Cash used in financing activities	(3,721,138)	(3,607,491)	(113,647)	3%
Decrease in cash	(3,949,452)	(2,577,373)	(1,372,079)	53%
Exchange rate loss on cash	744,833	(22,852)	767,685	nm
Net increase in cash	(3,204,619)	(2,600,225)	(604,394)	23%

Cash used in operations was impacted by the growth in loans designated as held for sale and unsold as of the balance sheet date, as well as the growth in due from loan purchasers as of December 31, 2022. The sale of these loans was subsequently completed shortly after the balance sheet date and we have collected \$2.7 million from loan purchasers subsequent to the balance sheet date.

Cash used in investing activities is primarily from capital expenditures made in connection with development of the IOU360 platform, offset by restricted cash of \$1.2 million becoming available for general corporate purposes in 2022 as the restrictions were no longer required in 2022.

Cash used in financing activities is primarily due to repurchases of convertible debentures in the current year.

SUMMARY OF QUARTERLY RESULTS

For the quarters ended	Dec 31/22	Sept 30/22	Jun 30/22	Mar 31/22
	\$	\$	\$	\$
Revenue	3,417,250	5,666,062	5,183,771	4,873,008
Net income/(loss)	(2,654,479)	652,034	923,444	1,117,827
Net income/(loss) per share*	(0.02)	0.01	0.01	0.01

For the quarters ended	Dec 31/21	Sept 30/21	Jun 30/21	Mar 31/21
	\$	\$	\$	\$
Revenue	3,098,178	4,421,079	2,754,135	2,644,675
Net income/(loss)	690,507	3,100,271	10,754	(79,464)
Net income per share	0.01	0.02	-	-

*Does not sum due to rounding

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

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

- i) The Company leases its Canadian office space from Palos Management Inc ("PMI"). The terms of the lease are similar to those that would have been present for an arm's-length transaction. PMI is indirectly owned by The Marleau Capital Corporation ("MCC"). Philippe Marleau, a director of the Company, holds a significant interest in MCC and therefore MCC is deemed to have significant influence over the Company. The Company made payments totaling approximately \$0.4 million and \$0.3 million to PMI for the years ended December 31, 2022 and 2021, respectively, under the terms of the lease. Future non-cancellable liabilities under the lease are \$1.4 million as at December 31, 2022.
- ii) The Company sells loans to funds managed by NB Specialty Finance Fund LP ("NB"). NB is deemed to have significant influence over the Company as they are a significant shareholder of the Company. For the year ended December 31, 2022, the Company sold loans to NB in the amount of US\$166.8 million (2021: US\$77 million) and earned service fees of \$5.4 million (2021: \$2.1 million) from loans sold. The Company has approximately \$5.8 million in receivables from NB as at December 31, 2022 (2021: \$4.0 million) for servicing fees earned and purchase price deferred on loans sold.

LOANS UNDER MANAGEMENT

IOU Financial maintains geographical and industry diversification in its loans under management. This diversification reduces the risk of loss to IOU Financial and its institutional loan buyers arising from adverse regional or industrial economic conditions. The following tables present the portfolio by geography and industry as at December 31, 2022.

Industry Category	Portfolio %
Specialty trade contractors and home building renovation	15%
Other professional services	6%
Other store or online retailers and wholesalers	9%
Medical services	3%
Automotive garage	6%
Manufacturing	4%
Other	57%
Total	100%

State	Portfolio %
California	13%
Florida	12%
Texas	11%
New York	6%
Georgia	5%
New Jersey	4%
Pennsylvania	4%
Ohio	3%
North Carolina	3%
Illinois	3%
Arizona	3%
Other US states	33%
Total	100%

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at April 25, 2023

Outstanding Share data	
Ordinary shares issued and outstanding:	Number of shares issued
December 31, 2021	104,990,596
Shares issued between January 1, 2022 and December 31, 2022	345,000
Shares cancelled between January 1, 2022 and December 31, 2022	-
Shares issued after December 31, 2022	200,000
Shares cancelled after December 31, 2022	-
Shares outstanding on April 25, 2023	105,535,596
Options issued and outstanding:	Number of Options issued
December 31, 2021	9,375,000
Options granted between January 1, 2022 and December 31, 2022	2,705,000
Options exercised between January 1, 2022 and December 31, 2022	(345,000)
Options forfeited between January 1, 2022 and December 31, 2022	(1,278,333)
Options granted after December 31, 2022	-
Options exercised after December 31, 2022	(200,000)
Options forfeited after December 31, 2022	(80,000)
Options outstanding on April 25, 2023	10,176,667

On February 1, 2022 we granted options entitling a director to acquire up to an aggregate of 55,000 common shares of IOU Financial at an exercise price of \$0.2005. On August 8, 2022, we granted options entitling senior officers, directors, and certain managers and consultants to acquire up to an aggregate of 2,650,000 common shares of IOU Financial at an exercise price of \$0.16. All of these options expire five years from the date of grant and vest over a two-year period, with one-third (1/3) vesting immediately and one-third (1/3) each vesting on each of the first and second anniversaries of the date of grant.

EVENT AFTER THE REPORTING DATE

On February 28, 2023 we announced that David Kennedy, who has served as Chief Financial Officer since 2016, has accepted an advisory role with the Company and that Danny O'Keefe, formerly the Chief Accounting Officer of the Company transitioned into the role of Chief Financial Officer.

CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future in the preparation of the financial statements. Actual results may differ from these estimates. 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 as follows:

1. Servicing assets
The initial recognition of servicing assets and liabilities requires the Company to make estimates of the expected cash flows and compensation to be received over the expected term of the commercial loan receivables sold, based on expected collection rates on the commercial loans receivable sold. Actual cash flows received may be different than those initial expectations. We are also required to determine the fair value of the services provided to the loan purchasers, which is based on our assumption as to market expectations at the time of the sale of the loan.

2. Derecognition of financial asset
We exercise significant judgment in assessing whether the criteria for derecognition of commercial loan receivables sold have been met.
3. Servicing Fee Receivable
We exercise judgment to determine the expected future cash flows on certain loan receivables sold for purposes of determining the expected servicing fees to be received over the term of the loan.

CURRENT CHANGES IN ACCOUNTING POLICIES

The Company has not adopted any new or amended standards and interpretations since January 1, 2022.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

All of our commercial loan receivables are due from customers located 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 has substantial operations, including all of its revenue-generating activities, in the United States and therefore is exposed to foreign exchange risk arising from currency exposure with respect to the US dollar. The Company has not historically used derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

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 and through the sale of loans under our marketplace strategy to institutional purchasers. We have also historically obtained capital through equity and debt offerings and from time to time we may seek to raise additional capital to fund loan originations and for general corporate purposes.

Credit risk

Credit risk primarily arises from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. We regularly monitor credit risk exposure and take steps to mitigate the likelihood that these exposures will result in an actual loss.

The Company's cash, commercial loans receivable (including loans held for sale), service fees receivables, purchase price receivables, and other receivables expose us to credit risk, with the maximum credit risk exposure being the carrying value of these assets. The allowance for loan losses is maintained at a level considered sufficient to cover all potential losses related to the commercial loans held by the Company at period end.

To manage credit risk to commercial loans receivable and servicing fee revenue posed by the Company's borrowers, we maintain policies that cover the approval of credit applications, attribution of risk ratings, risk-based pricing of our loans, as well as the management of delinquent loans. In connection with these policies, we monitor the financial condition of, and assess the credit risk posed by, borrowers both at the time of loan application and on an ongoing basis over term of the loan. We sell substantially all of our loan originations to institutional purchasers at, or within a very short timeframe after, origination which further reduces our exposure to the credit risk posed by borrowers.

We manage our credit risk exposure on service fee and purchase price receivables as we are only exposed to our institutional loan purchasers, who are well known financial institutions.

Cash on deposit is held at 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

None of the Company's commercial lending is based on variable interest rates. The Company is exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate, but mitigates that risk through its marketplace strategy. We are also exposed to interest rate risk in the management of our debt structure, as we may not be able to obtain terms similar to our existing convertible debentures if we were to obtain additional financing or refinance our existing debentures.

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 Business.

IOU Financial's operations are subject to the general risks inherent in growing a 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.

Dependence on Third Party Service Providers

IOU Financial's services to its Brokers, Merchants and institutional loan purchasers depends in part on services provided to us 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.

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 attracting additional qualified borrowers in a cost-effective manner. Adverse 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

IOU FINANCIAL INC.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Robert Gloer, Director, President & CEO

Daniel O'Keefe, Chief Financial Officer and Corporate Secretary

Philippe Marleau, Director

Kathleen Miller, Director

Evan Price, Director

Yves Roy, Director

Lucas Timberlake, Director

Neil Wolfson, Director

AUDITORS

KPMG LLP

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

HEAD OFFICE

IOU Financial Inc.
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H3B 2B6
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Fax: (514) 789-0542

Supplementary documents regarding the Company are available on SEDAR's website (www.sedar.com) or upon written request to the Company's principal business center:

1 Place Ville-Marie, Suite 1670, Montreal, Quebec, H3B 2B6

IOU FINANCIAL INC.

MANAGEMENT'S REPORT

Management is responsible for the integrity and fair representation of the financial statements and other information in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards. Financial data and operating results elsewhere in the annual report are consistent with those contained in the financial statements.

The Company's policy is to maintain high-quality internal accounting and administrative control systems within the limits of reasonable cost. Such systems are designed to provide assurance that the financial information is accurate and reliable and that assets are adequately accounted for and safeguarded.

The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors, as has the other information in this annual report. In addition, the financial statements have been audited by KPMG LLP.

In the opinion of management, these financial statements incorporate, within reasonable limits, all important elements and data available as at April 25, 2023.

(s) Daniel O'Keefe

Daniel O'Keefe
Chief Financial Officer

Montreal, Canada
April 25, 2023

IOU FINANCIAL INC.



IOU Financial Inc.

Consolidated Financial Statements

**For the Years Ended
December 31, 2022 and 2021**



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IOU Financial Inc.

Opinion

We have audited the consolidated financial statements of IOU Financial Inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Derecognition of commercial loans receivable sold***Description of the matter***

We draw attention to Note 3, Note 4 and Note 5 to the financial statements. During the year, the Entity originated and subsequently sold commercial loans receivable, on a non-recourse basis, for total proceeds of \$356.7 million. At the time of sale, the Entity's significant judgment related to the derecognition of commercial loans sold is whether it has transferred to the purchaser substantially all risks and rewards of ownership associated with the loans sold, or in cases in which the Entity has neither transferred nor retained substantially all risks and rewards of ownership associated with the loans sold, whether it has retained control of the loans sold.

Why the matter is a key audit matter

We identified the derecognition of commercial loans sold as a key audit matter. Significant auditor judgment was required in evaluating the Entity's significant judgment applied in the accounting and the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the Entity's accounting conclusions with respect to the derecognition criteria having been met by examining a selection of contracts with commercial loans purchasers.
- We involved technical accounting professionals with specialized skills and knowledge who assisted us in assessing the derecognition accounting conclusion in accordance with the relevant accounting standard.
- We confirmed the sale of commercial loans receivable during the year and the related terms of the sales with the purchasers of the commercial loans.

Fair value measurement at initial recognition of servicing assets***Description of the matter***

We draw attention to Note 3, Note 4 and Note 6 to the financial statements, which disclose servicing assets of \$3,294,577 were recognized as at December 31, 2022. The determination of the fair value of servicing assets at initial recognition requires the Entity to make estimates of the expected cash flows and compensation to be received over the expected term of the commercial loan receivable sold, and to determine the fair value of the services provided to the loan purchasers, which is based on market expectations at the time of the sale of the loan. The significant assumptions used in this determination are expected collection rates on commercial loans being serviced and the current market rate for loan servicing services.

Why the matter is a key audit matter

We identified the fair value measurement at initial recognition of servicing assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of servicing assets and the high degree of estimation uncertainty in determining the fair value of servicing assets on initial recognition.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated management's assumption of future collection rates by comparing the future collection rates to historical collection rates on commercial loans originated by the Entity, giving consideration to the features of the specific commercial loans portfolios being serviced and economic conditions in place at the initial recognition dates.
- We evaluated management's assumption of the current market rate for loan servicing services by comparing the current market rate to publicly available information from other entities providing the same services.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those financial statements on April 27, 2022.

Other Information

Management is responsible for the other information. Other information comprises the information:

- Included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- Other than the financial statements and the auditor's report thereon, included in a document entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Philippe Grubert.



Montréal, Canada

April 25, 2023

IOU FINANCIAL INC.

Consolidated Financial Statements

For the Years Ended
December 31, 2022 and 2021

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IOU FINANCIAL INC.

Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(in Canadian dollars)

	Note	2022 \$	2021 \$
Assets			
Cash and cash equivalents		4,154,133	7,358,752
Restricted cash		-	1,205,688
Sales taxes receivable		110,104	152,559
Commercial loans receivable, net	5	7,222,270	6,789,281
Servicing assets, net	6	3,294,577	3,092,164
Service fees receivable	7	4,635,429	1,368,210
Other receivables	8	3,684,665	4,553,282
Prepaid expenses and deposits		314,725	440,077
Equipment and leasehold improvements, net	9	182,505	118,416
Intangible assets	10	1,698,209	763,782
Lease receivable	11	432,302	507,570
Right-of-use assets	11	80,221	213,955
Total Assets		25,809,140	26,563,736
Liabilities			
Accounts payable and accrued liabilities	12	3,586,968	2,654,698
Convertible debentures	13	4,359,670	7,619,634
Lease liabilities	11	550,122	783,846
Total Liabilities		8,496,760	11,058,178
Shareholders' Equity			
Share capital	15	28,957,553	28,929,953
Contributed surplus		4,925,093	4,764,941
Accumulated other comprehensive income		3,291,686	1,711,442
Accumulated deficit		(19,861,952)	(19,900,778)
Total Shareholders' Equity		17,312,380	15,505,558
Total Liabilities and Shareholders' Equity		25,809,140	26,563,736

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

Approved by the Board on April 25, 2023

Robert Gloer (*signed*), Director
Neil Wolfson (*signed*), Director

IOU FINANCIAL INC.

Consolidated Statements of Comprehensive Income For the Years Ended December 31, 2022 and 2021 (in Canadian dollars)

		2022	2021
	Note	\$	\$
Revenue			
Interest income	5	87,054	986,092
Servicing income and other fees	6	3,923,852	2,835,939
Gain on sale of loans	5	15,129,185	9,096,036
Gross Revenue	18	19,140,091	12,918,067
Cost of Revenue			
Debenture interest expense	13	802,134	1,278,677
Net recovery of loan losses	5	(185,153)	(925,548)
Total Cost of Revenue		616,981	353,129
Net Revenue		18,523,110	12,564,938
Operating expenses	19	18,365,973	8,824,958
Income Before Income Taxes		157,137	3,739,980
Income tax expense	17	118,311	17,912
Net Income		38,826	3,722,068
Currency translation differences		1,580,244	(17,476)
Comprehensive Income		1,619,070	3,704,592
Earnings per Share:			
Basic	14	0.00	0.04
Diluted	14	0.00	0.03

Net Income and Comprehensive Income are entirely attributable to the shareholders of the Company. Other Comprehensive Income is entirely subject to be reclassified to Net Income.

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

IOU FINANCIAL INC.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021
(in Canadian dollars, except as otherwise noted)

	Note	Common Shares (#)	Share Capital (\$)	Contributed Surplus (\$)	Accumulated OCI ⁽¹⁾ (\$)	Income/ (Deficit) (\$)	Shareholders' Equity (\$)
Balance as at January 1, 2021		104,643,928	28,887,186	4,614,728	1,728,918	(23,622,846)	11,607,986
Comprehensive income for the year					(17,476)	3,722,068	3,704,592
Exercise of Stock Options	15	346,668	42,767				42,767
Stock-based compensation	15			150,213			150,213
Balance as at December 31, 2021		104,990,596	28,929,953	4,764,941	1,711,442	(19,900,778)	15,505,558
Comprehensive income for the year					1,580,244	38,826	1,619,070
Exercise of Stock Options	15	345,000	27,600				27,600
Stock-based compensation	15			160,152			160,152
Balance as at December 31, 2022		105,335,596	28,957,553	4,925,093	3,291,686	(19,861,952)	17,312,380

¹ OCI: Other Comprehensive Income

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

IOU FINANCIAL INC.

Consolidated Statements of Cash Flows For the Years Ended December 31, 2022 and 2021 (in Canadian dollars)

	Note	2022 \$	2021 \$
Operating Activities			
Net Income for the year		38,826	3,722,068
Adjustment for non-cash items included in net income	20	(4,222,748)	(3,826,757)
Interest expense	13	802,134	1,278,677
Origination of commercial loans		(353,142,380)	(204,204,159)
Proceeds from sale of commercial loans	5	356,664,591	201,520,850
Interest received		132,221	1,453,129
Interest paid		(636,469)	(1,039,851)
Change in other assets/liabilities	20	188,253	2,901,450
Cash(used)/generated in operating activities		(175,572)	1,805,407
Investing Activities			
Additions to equipment and leasehold improvements	9	(138,575)	(79,305)
Additions to intangible assets	10	(1,119,855)	(781,942)
Reductions to restricted cash		1,205,688	85,958
Cash used in investing activities		(52,742)	(775,289)
Financing Activities			
Redemption of convertible debentures	13	(3,583,576)	(3,456,931)
Cash received on exercise of stock options	15	27,600	42,767
Lease payments received	11	75,268	21,401
Decrease in lease liabilities	11	(240,430)	(214,728)
Cash used in financing activities		(3,721,138)	(3,607,491)
Net Decrease in Cash		(3,949,452)	(2,577,373)
Exchange rate differences on cash		744,833	(22,852)
Cash			
Beginning of period		7,358,752	9,958,977
End of period		4,154,133	7,358,752

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

IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements
For the Years Ended
December 31, 2022 and 2021
(in Canadian dollars, except as otherwise noted)

1. General Information

IOU Financial Inc. (“IOU Financial”, “We”, “us”, “our” or “the Company”) is a wholesale lender that provides small businesses quick and easy access to growth capital through a network of preferred brokers across the US. We also operate a commercial lending brokerage business through our wholly owned subsidiary, ZING Funding. As a marketplace lender we sell substantially all loans that we originate to institutional purchasers and retain the right to service those loans on behalf of the purchasers in exchange for servicing fees based on collections.

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

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and include the results of our wholly owned subsidiaries. These consolidated financial statements have been prepared under the historical cost basis except where indicated. There have been no new accounting standards adopted in the current year.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 25, 2023.

3. Use of Judgments and Estimates

In preparing the consolidated financial statements, management has made judgments and estimates that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements include:

- Servicing assets – Note 6 - The initial recognition of servicing assets and liabilities requires the Company to make estimates of the expected cash flows and compensation to be received over the expected term of the commercial loans receivable sold, based on expected collection rates on the commercial loans receivable sold. Actual cash flows received may be different than those initial expectations. We are also required to determine the fair value of the

IOU FINANCIAL INC.

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services provided to the loan purchasers, which is based on our assumption as to market expectations at the time of the sale of the loan.

- Service fees receivable- Note 7 - Management exercises judgment to determine the expected future cash flows from certain loan receivables sold for purposes of determining the expected servicing fees to be received over the term of the loan.
- Derecognition of commercial loans receivable – Management exercises significant judgment in assessing whether the criteria for derecognition of commercial loan receivables sold have been met.

4. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the previous financial year. No new standards were adopted in the current year and there are no standards yet to be adopted that are expected to have a significant effect on the consolidated financial statements of the Company.

Basis of Consolidation

The consolidated financial statements include the accounts of IOU Financial and its wholly owned subsidiaries. The Company consolidates an entity when it is deemed to control the entity. Control is obtained when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An entity is deconsolidated from the date that control ceases.

All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

Financial Instruments

Financial assets are classified in the financial statements either at (i) amortized cost; (ii) fair value through profit or loss ("FVTPL"); or (iii) fair value through other comprehensive income ("FVOCI"). Such classification is based on the contractual cash flow characteristics of the financial assets and the manner in which we manage these financial assets.

The contractual cash flows associated with the financial asset must be solely payments of principal and interest on the outstanding principal amount for the asset to be classified at amortized cost or for a debt instrument held to be classified as FVOCI; otherwise, it must be classified and measured at FVTPL.

In addition, debt instruments held that would otherwise be measured at amortized cost or

IOU FINANCIAL INC.

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at FVOCI can be designated upon initial recognition using the fair value option. Equity instruments held are always measured at FVTPL unless they are designated upon initial recognition at FVOCI, whereby subsequent changes in fair value would be recorded in OCI and would never be reclassified to net income.

The following table presents the Company's classification of its financial assets and liabilities. The Company has no financial assets at FVOCI and does not utilize the fair value option for the subsequent accounting of financial assets.

Financial Assets	Classification	Carrying Amounts (\$)
Cash	Amortized cost	4,154,133
Originate-to-hold commercial loan receivable	Amortized cost	483,728
Originate-to-sell commercial loans receivable	FVTPL	6,738,542
Service fees receivable	Amortized cost	4,635,429
Other receivables	Amortized cost	3,684,665

Financial Liabilities	Classification	Carrying Amounts (\$)
Accounts payable and accrued liabilities	Amortized cost	3,586,968
Convertible debentures	Amortized cost	4,359,670

Commercial Loans Receivable

Initial Measurement

The Company recognizes a commercial loan receivable when a borrower signs a promissory note, giving the Company the contractual right to receive payments on the loan. Commercial loans receivable are initially recognized at the funded amount of the loan plus the cost to originate the loan, which primarily consists of external and internal commissions paid in connection with the successful origination of the loan. The loan is then designated as either held for investment (OTH) or held for sale (OTS). Substantially all loans originated in 2022 and 2021 were designated as OTS in connection with our transition to a marketplace lending model.

OTH loans are those loans intended to be held by the Company for their duration and are subsequently measured at amortized cost using the effective interest method. Interest income earned from OTH loans is recognized as interest income in the consolidated statements of comprehensive income.

OTS loans are those loans that the Company intends to sell to certain loan purchasers at, or shortly after, the origination date. OTS loans are subsequently measured at fair value until such time as the sale process is completed, with the resulting gain or loss being recognized as a component of gain on sale of loans in the consolidated statements of

IOU FINANCIAL INC.

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comprehensive income.

Reclassifications

The portfolio of commercial loans designated as OTS at initial recognition would be reclassified as OTH only in rare situations in which a loan purchaser elects ultimately to not purchase a loan or we subsequently elect to hold the loan for investment. Such a reclassification would be applied prospectively from the reclassification date. No such reclassifications occurred in the current or prior year.

Derecognition of commercial loans receivable

When we complete the sale of a commercial loan receivable, we transfer substantially all of the risks and rewards of ownership to the loan purchaser, other than the right to service the loan. The servicing activities we perform primarily consist of collecting payments of principal and interest due from the borrowers and remitting those amounts to the loan purchasers as well as collecting any fees due to us for the servicing activities.

We derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when we transfer the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which we neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

As these criteria are met at the time the sales process is completed, we derecognize the financial asset (the commercial loan receivable) and record a gain on sale. The gain on sale includes the recognition of a servicing asset or liability. The asset or liability recorded is based on the compensation we expect to receive for servicing the loan over the expected term of the loan, relative to the fair value of performing that service. When the compensation expected to be received is in excess of market expectations, a servicing asset is recognized and when expected compensation is less than market expectations, a servicing liability is recognized.

Presentation

OTH and OTS loan receivables are components of commercial loans receivable in the consolidated statement of financial position.

OTH loans are presented net of allowances for expected credit losses. The credit quality of the OTH loan portfolio is assessed on an ongoing basis principally through the monitoring of payment delinquencies and interactions with the borrowers. Management makes an assessment of the amount deemed to be ultimately collectible from the borrower and provides a reserve for the remaining balance.

OTS loans, which represent commercial loans receivable for which the sales process has not yet been completed, are presented at fair value in the consolidated statements of financial position.

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Servicing assets and liabilities are presented net of accumulated amortization in the consolidated statement of financial position and the related gain/loss upon recognition of the servicing asset or liability is recognized as a component of gain on sale of loans in the consolidated statements of comprehensive income.

Revenue Recognition

We generate revenue primarily through the origination and sale of commercial loans receivable to loan purchasers and the servicing of those loan receivables on behalf of the loan purchasers. We also generate revenue from referral fees generated by our commercial lending brokerage subsidiary (Zing Funding).

Servicing Revenue

We recognize servicing revenue as we make collections on loans sold to institutional purchasers for which we retain the servicing rights. The servicing fees we charge are contractually based and generally expressed as a percentage of the amount that we collect on behalf of the loan purchasers. In certain instances, the percentage that we ultimately earn is dependent on the total amount collected from the loans sold to the institutional purchaser. In these instances, we recognize revenue based on our estimates of total future collections on those loans that were sold and the amount of revenue we recognize is subject to adjustment based on changes in these estimates. Revenue recognized in these instances is reflected as service fees receivable in our consolidated balance sheets.

Our estimates of future collections are dependent on estimated future performance of the commercial loans receivable sold, including our estimate of delinquencies to occur on those loans. Our estimates of future delinquencies include consideration of historical loss experience in our portfolio as well as current macroeconomic factors and our estimate of their impacts over the expected terms of the commercial loan receivables sold.

In the fourth quarter of 2022, we revised our estimates of total future collections (and thus servicing revenue we will ultimately realize) for certain loans originated in 2021 and 2022. As a result of this change in estimate, we reduced the rate at which we recognized servicing revenue on collections made in the fourth quarter related to these loans.

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Gain on Sale of Loans

We record gain on sale of a loan in an amount equal to the fair value of the loan less the carrying amount of the commercial loan receivable (which include the funded amount of the loan and the costs to originate the loan). The gain on sale is then adjusted for initial recognition of servicing assets or liabilities recognized at the date of sale.

Other Fees

Other fees comprise administrative fees, referral commission and certain fees earned from loan purchasers on efforts by our internal collections team. Administrative fees are charged and collected at the time of origination or missed payment and are recognized as revenue when the underlying transaction occurs. Referral fee revenue is collected upon the successful referral and funding of unfunded loan applications by ZING Funding and is recognized in the period the loan is funded. Fees from loan purchasers for our internal collection efforts are earned at the time when the collection is made from the delinquent borrower.

Servicing Assets/Liability

We amortize the asset or liability on a straight-line basis over the contractual term of the loan receivable sold, which approximates the timing of the expected cash flows to be received on the loan. Amortization is accelerated when collections are received in advance of the contractual terms of the loan, or when no further payments are expected to be received in accordance with the contractual payment schedule on a loan. Any impairment of the servicing asset or liability, which occurs when there are changes to the expected compensation to be received over the term of the loan, is also included as a component of servicing asset amortization at the time the impairment occurs.

Segment Reporting

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") for purposes of allocating resources and evaluating financial performance. Our CODM has been identified as our Chief Executive Officer. Based upon the way our CODM reviews financial information and makes operating decisions and considering that our CODM reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance, our operations constitute a single operating (and thus reportable) segment for the years ended December 31, 2022 and 2021.

Substantially all revenue was generated and substantially all assets were held in the United States during the years ended December 31, 2022 and 2021.

IOU FINANCIAL INC.

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Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. The depreciation rate, residual value and useful life of equipment are reviewed annually and adjusted if appropriate. The estimated useful lives of equipment and leasehold improvements for current and comparative periods are as follows:

Office Equipment	5 years
Computer Equipment	3 years
Leasehold Improvements	The lesser of 15 years or the remaining lease term

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

Intangible Assets

The costs to develop software for the Company's website and loan platform are capitalized when management has authorized and committed project funding, preliminary development efforts are successfully completed, and it is probable that the project will be completed and the software will be used as intended. Capitalized software development costs primarily include fees paid to outside consultants and salaries and overhead costs for employees directly involved in the development efforts. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed.

Internal use software is stated at cost less accumulated amortization. Capitalized costs are amortized using the straight-line method over their expected life of three years, with the useful lives reviewed annually or more frequently when conditions require.

Leases

As a Lessee

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities and right-of-use assets are initially measured on the lease commencement date. For leases of property, the Company has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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The right-of-use asset is measured at cost, which includes the initial lease liability, plus any direct costs to obtain the lease, less any lease incentives received. Right-of-use assets are amortized on a straight-line basis over the lease term.

The initial lease liability is measured as the present value of the lease payments payable over the lease term, discounted at the Company's incremental borrowing rate. The Company determines its incremental borrowing rate from various external sources, adjusted for the term and type of asset leased, as necessary.

As a Lessor

Leases in which we are the lessor are generally sub-leases for premises leased by the Company. We classify these leases as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. In a finance lease, the Company recognizes a lease receivable measured at the present value of lease payments receivable over the lease term, discounted at the Company's incremental borrowing rate. Each month, the lease payments for the period are apportioned between the reduction in the lease receivable and interest income. Lease income from operating leases is recognized on a straight-line basis over the lease term and recorded as an offset to rental expense in operating expenses in the consolidated statements of income. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense. When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased

IOU FINANCIAL INC.

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carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of comprehensive income.

Provisions

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

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

Cash and Cash Equivalents

Cash and cash equivalents include deposits held at regulated financial institutions and from time to time other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Convertible Debentures

No issuances of convertible debentures occurred in the years ended December 31, 2022 and 2021. The convertible feature on the existing convertible debentures expired in 2020. When an issuance of convertible debentures occurs, the fair value of the liability at the time of issue is determined based on an estimated interest rate of the liability at the time of issue is determined based on an estimated interest rate of the debenture without the conversion feature. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method.

Share Capital

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

Foreign Currency Translation

Our presentation currency is Canadian dollars, which is also the functional currency of the parent entity. The functional currency of the Company's subsidiaries in the United States is the U.S. dollar. The assets and liabilities of the subsidiaries with a US dollar functional

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

Stock-Based Compensation

The Company operates an equity-settled stock-based compensation plan under which we grant stock options that vest over a period of time (typically two years) to certain employees as part of their remuneration for providing services to the Company. The fair value of the options on the date of grant is recognized as an expense over the vesting term of the award with a corresponding increase to contributed surplus. If an award vests on multiple dates, a fair value is calculated for each tranche and expensed over the vesting period of the tranche.

The fair value of each grant is based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of comprehensive income, such that the cumulative expense reflects the revised estimate with a corresponding adjustment to contributed surplus.

Income Taxes

Income tax expense comprises current and deferred tax. Interest and penalties related to income taxes, including uncertain tax items, are accounted for under the guidance in IAS 37.

Current Tax

Current tax comprises the expected tax payable or receivable on taxable income or loss for the year, adjusted for any adjustment to the tax payable or receivable in respect to previous open tax years. The amount of the current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax is measured using tax rates that have been enacted or substantively enacted at the reporting date.

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Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted as of the reporting date that apply when the related deferred income tax asset is expected to be realized or the deferred income tax liability is expected to be settled.

Deferred tax assets are recognized for unused tax losses, unused tax credit and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences, and, if necessary, based on future forecasts of taxable income of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized outside of net income (whether in other comprehensive income or directly in equity), in which case the corresponding tax is also recognized outside of net income.

Basic and Diluted Earnings per Share

Earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, giving effect to the exercise of all stock options outstanding, unless the impact of such exercise would be anti-dilutive to the calculation.

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5. Commercial Loans Receivable

As at December 31, 2022 and 2021, the Company's commercial loans receivable balance consisted of the following:

	2022	2021
	\$	\$
OTH principal balance	868,400	2,647,198
Unamortized fees and transaction costs	-	49,160
Total OTH loans balance	868,400	2,696,358
Allowance for expected credit losses	(384,672)	(788,060)
Net carrying amount of OTH loans	483,728	1,908,298
OTS loans held for sale	6,738,542	4,880,983
Commercial loans receivable, net	7,222,270	6,789,281

Originate-to-Hold (OTH) Commercial Loans Receivable

All OTH loans remaining as of December 31, 2022 have an original maturity date of 18 months or less, are US dollar denominated, bear interest at a fixed rate of 9.25% and have guarantee fees charged on the original principal loan amount that range between 11.00% and 29.00%. The fair value of the OTH loans is estimated to be equivalent to their net carrying amount due to the residual short-term nature of these loans.

The following table presents the movements of the allowance for expected credit losses for the years ended December 31, 2022 and 2021:

	2022	2021
	\$	\$
Balance at January 1,	788,060	2,927,407
Activity:		
Reductions to allowance	(185,153)	(1,022,104)
Loans written off	(357,018)	(1,354,104)
Recoveries on loans previously written off	113,128	327,609
Translation differences	25,655	(90,748)
Balance at December 31	384,672	788,060

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Originate-to-Sell (OTS) Commercial Loans Receivable

Commercial loans receivable originated during the year ended December 31, 2022 were sold to certain loan purchasers on a non-recourse basis for total proceeds of \$356.7 million (2021: \$201.5 million). OTS loans classified as held for sale as at December 31, 2022 and 2021 represent loans originated for which the sale process had not yet been completed as of year end. The sale process for these loans was subsequently completed shortly after year end.

The components of the total gain on sale of loans recognized in the consolidated statements of comprehensive income for the sale of commercial loans receivable is as follows:

	2022 \$	2021 \$
Servicing assets recognized	10,083,592	7,018,006
Fair value of OTS commercial loans receivable sold or held for sale in excess of carrying amount	5,045,593	2,078,030
Total gain on sale of loans sold	15,129,185	9,096,036

6. Servicing Assets

The following table presents the change in the carrying amount of servicing assets and accumulated amortization as at December 31, 2022 and 2021:

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	December 31, 2022	December 31, 2021
Cost	\$	\$
Balance at beginning of year	4,598,994	2,243,174
Translation differences	483,516	19,530
Servicing assets recognized	10,083,592	7,018,006
Derecognition of fully amortized assets	(9,845,735)	(4,681,716)
Balance at end of year	5,320,367	4,598,994
Accumulated Amortization		
Balance at beginning of year	1,506,830	1,005,624
Translation differences	178,500	5,525
Amortization	8,789,537	5,177,397
Impairment	1,396,658	-
Derecognition of fully amortized assets	(9,845,735)	(4,681,716)
Balance at end of year	2,025,790	1,506,830
Carrying Amount at end of year	3,294,577	3,092,164

In the fourth quarter of 2022, as part of our ongoing evaluation of the expected future cash flows to be received over the remaining contractual term of the loan receivables we service, we reduced our expectations of future cash flows due to the impact of the current economic environment on the portfolio of loans we are servicing. In making this evaluation, we made estimates of expected cash flows to be received from loans that are current (those that the borrower had made all expected payments in accordance with the contractual terms of the loan as at the evaluation date), delinquent (loans for which the borrower has not made all contractually scheduled payments as at the evaluation date) and for loans that have been placed with outside collection agencies in an effort to enhance recovery on the delinquent loan. We considered previous collections experience and adjusted it where necessary for current economic conditions in making these estimates.

As a result of the change in expected cash flows, we reduced our expectations of compensation to be received on loans originated and sold in the fourth quarter of 2022 and the servicing assets recognized (a component of total gain on sale of loans) reflects this reduced expectation. In addition, we recorded an impairment to previously recognized servicing assets of \$1.4 million, reflecting our reduced expectations of compensation on loans originated prior to the fourth quarter of 2022. This impairment charge has been included as a component of servicing asset amortization, which is a component of servicing income and other fees in the consolidated statements of comprehensive income.

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7. Service fees receivable

	2022	2021
	\$	\$
Service fees receivable	4,635,429	1,368,210

Service fees receivable relates to service fees recognized as revenue but not yet collected. These receivables are expected to be collected from the institutional purchaser over the term of the servicing arrangements once certain threshold levels of cash flows are received on the loans sold to the institutional purchaser.

8. Other Receivables

As at December 31, 2022 and 2021, the components of other receivables is as follows:

	2022	2021
	\$	\$
Purchase price receivable on loans sold	608,807	2,604,411
Other amounts due from loan purchasers	1,553,059	137,186
Employee retention and wage credits	1,350,608	1,567,962
Other	172,191	243,723
Total	3,684,665	4,553,282

Purchase price receivable represents proceeds to be collected on certain loan receivables sold in 2021 once certain thresholds of expected cash flows are received on the loans sold to the institutional loan purchaser.

Other amounts due from loan purchasers represent amounts owed to us by the loan purchasers for servicing fees not subject to threshold levels of cash flows and other amounts payable to us by the purchasers. Amounts due to loan purchasers primarily represents collections from borrowers yet to be unremitted to the loan purchasers.

We have collected \$2.7 million from loan purchasers subsequent to the December 31, 2022 that was receivable at the balance sheet date, including all of the purchase price receivable.

We recognized \$1.6 million of credits receivable under the US Employee Retention Credit (ERC) program in the year ended December 2021 as a reduction to operating expenses. We continue to anticipate receiving the remaining credits as they are released by the appropriate governmental authorities.

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9. Equipment and Leasehold Improvements

The following table presents the carrying amount of the equipment and leasehold improvements as at December 31, 2022 and 2021.

	Office Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Total \$
Cost				
Balance at January 1, 2021	179,312	205,273	213,534	598,119
Translation differences	(386)	(29)	(148)	(563)
Additions	-	79,305	-	79,305
Balance at December 31, 2021	178,926	284,549	213,386	676,861
Translation differences	6,020	17,588	2,384	25,992
Additions	2,004	96,133	40,438	138,575
Balance at December 31, 2022	186,950	398,270	256,208	841,428
Accumulated Depreciation				
Balance at January 1, 2021	176,482	178,882	139,034	494,398
Translation differences	(377)	(340)	(20)	(737)
Depreciation expense	1,594	28,473	34,717	64,784
Balance at December 31, 2021	177,699	207,015	173,731	558,445
Translation differences	6,199	11,637	1,940	19,776
Depreciation expense for the year	953	45,315	34,434	80,702
Balance at December 31, 2022	184,851	263,967	210,105	658,923
Carrying Amounts				
At December 31, 2021	1,227	77,534	39,655	118,416
At December 31, 2022	2,099	134,303	46,103	182,505

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10. Intangible Assets

The following table presents the carrying amount of the intangible assets as at December 31, 2022 and 2021. Disposals represent the write-off of fully depreciated assets in the current year.

	2022	2021
Cost	\$	\$
Balance at beginning of year	2,491,346	1,710,478
Translation differences	230,880	(1,074)
Additions	1,119,855	781,942
Disposals	(1,418,147)	-
Balance at end of year	2,423,934	2,491,346
Accumulated Amortization		
Balance at beginning of year	1,727,564	1,710,478
Translation differences	146,173	(7,130)
Amortization expense for the year	270,135	24,216
Disposals	(1,418,147)	-
Balance at end of year	725,725	1,727,564
Carrying Amount at end of year	1,698,209	763,782

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11. Right-of-use assets, lease receivable, and lease liabilities

The following table presents the carrying amount of the right-of-use assets, lease receivable, and lease liabilities as at December 31, 2022 and 2021.

	December 31, 2022	December 31, 2021
	\$	\$
Right-of-use Assets		
Balance at beginning of year	213,955	672,456
Additions	-	270,223
Derecognition of right-of-use assets	-	(497,831)
Depreciation of right-of-use assets	(139,430)	(228,780)
Translation differences	5,696	(2,113)
Balance at end of year	80,221	213,955
Lease Receivable		
Balance at beginning of year	507,570	-
Additions	-	528,971
Depreciation of net investment	(75,268)	(21,401)
Balance at end of year	432,302	507,570
Lease Liabilities		
Balance at beginning of year	783,846	731,123
Additions	-	270,223
Principal payments	(240,430)	(214,728)
Translation differences	6,706	(2,772)
Balance at end of year	550,122	783,846

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12. Accounts Payable and Accrued Liabilities

	2022	2021
	\$	\$
Accounts payable	926,462	567,502
Commissions payable	576,708	619,961
Compensation related	530,838	466,212
Loan funding payable	460,564	-
Payable to loan purchasers	422,639	201,491
Other	669,757	799,532
Total	3,586,968	2,654,698

Commissions payable represent commissions owed to employees and external parties related to loans originated. Loan funding payable represent loans with borrowers that have been closed, but for which funding has not yet been remitted as of the balance sheet date. These funds are remitted to the borrowers shortly after the balance sheet date.

13. Convertible Debentures

The components of the liability recognized in the consolidated statements of financial position as at December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Par value of the Debentures	4,491,801	8,075,368
Unamortized discount and transaction costs	(132,131)	(455,734)
Convertible Debenture Liability	4,359,670	7,619,634

We initially issued the Convertible Debentures in 2015 at an interest rate of 10% per annum with a maturity date of December 31, 2020. In 2019, the Company amended the Debentures to extend the maturity date to December 31, 2023, among other amendments. The conversion period for the Debentures expired in 2020.

We redeemed \$3.6 million and \$3.7 million of Debentures for the years ended December 31, 2022 and 2021, respectively, and incurred a loss of \$157,040 and \$22,498, respectively upon redemption, primarily representing the unamortized discount and transaction costs on the redeemed Debentures.

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14. Earnings per Share

Basic and Diluted Earnings per Share		2022	2021
Net income	\$	38,826	\$ 3,722,068
Weighted average number of common shares for the purposes of basic earnings per share		105,165,939	104,747,738
Basic earnings per share	\$	0.00	\$ 0.04
Effect of dilutive securities: Options		2,655,738	2,147,265
Weighted average number of common shares for the purposes of diluted earnings per share		107,821,677	106,895,003
Diluted earnings per share	\$	0.00	\$ 0.03

We excluded stock options redeemable into 2.36 million and 3.52 million common shares for the years ended December 31, 2022 and 2021, respectively, from the weighted average number of common shares for the purposes of diluted earnings per share as the inclusion would have been anti-dilutive.

15. Equity, including Share-Based Compensation

Authorized, Issued and Outstanding Share Capital

We have authorized an unlimited number of common shares. As at December 31, 2022 and 2021, 105,335,596 and 104,990,596 common shares of the Company, respectively, were issued and outstanding.

Stock Option Plans

Movements in options for the years presented are as follows:

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	Options Outstanding (#)	Average Exercise Price (\$)
Balance as at January 1, 2021	7,566,500	0.13
Granted	2,695,000	0.12
Exercised	(346,668)	0.12
Forfeited/Expired	(539,832)	0.13
Balance as at December 31, 2021	9,375,000	0.12
Granted	2,705,000	0.16
Exercised	(345,000)	0.08
Forfeited/Expired	(1,278,333)	0.26
Balance as at December 31, 2022	10,456,667	0.14

On February 1, 2022, the Company granted options entitling a director of the Company to acquire up to an aggregate of 55,000 common shares of the Company at an exercise price of \$0.2005. These options have a contractual term of five years from the date of grant with one-third (1/3) vesting immediately and one-third (1/3) which will vest on each of the first and second anniversaries of the date of grant.

On August 8, 2022, the Company granted options entitling its senior officers, directors, and certain employees and consultants to acquire up to an aggregate of 2,650,000 Common Shares of the Company at an exercise price of \$0.16. These options have a contractual term of five years from the date of grant with one-third (1/3) vesting immediately and one-third (1/3) which will vest on each of the first and second anniversaries of the date of grant.

The following summarizes information about stock options outstanding as at December 31, 2022:

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Exercise Price (\$)	Outstanding Options (#)	Exercisable (#)	Expiry Date
0.08	200,000	200,000	January 2023
0.27	500,000	500,000	July 2023
0.20	650,000	650,000	July 2023
0.08	525,000	525,000	July 2023
0.27	500,000	500,000	March 2024
0.22	650,000	650,000	March 2024
0.08	725,000	725,000	March 2024
0.08	1,675,000	1,570,000	July 2025
0.11	55,000	55,000	December 2025
0.12	2,271,667	1,453,334	May 2026
0.2005	55,000	18,333	January 2027
0.16	2,650,000	883,333	August 2027
Total	10,456,667	7,730,000	

Stock-based compensation expense of \$160,152 and \$150,213 has been recognized as a component of compensation within operating expenses for the years ended December 31, 2022 and 2021, respectively.

16. Financial Risk Management

The Company is exposed to a variety of financial risks including credit, liquidity, foreign exchange and interest rate risks. The Company's overall risk management seeks to minimize potential adverse effects of these risks on the Company's financial performance.

a) Credit risk

Credit risk primarily arises from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. We regularly monitor credit risk exposure and take steps to mitigate the likelihood that these exposures will result in an actual loss.

The Company's cash, commercial loans receivable (including loans held for sale), service fees receivable and other receivables expose us to credit risk, with the maximum credit risk exposure being the carrying value of these assets. The allowance for expected credit losses is maintained at a level considered sufficient to cover all potential losses related to the commercial loans receivable held by the Company at period end.

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To manage credit risk related to commercial loans receivable and servicing fee revenue posed by the Company's borrowers, we maintain policies that cover the approval of credit applications, attribution of risk ratings, risk-based pricing of our loans, as well as the management of delinquent loans. In connection with these policies, we monitor the financial condition of, and assess the credit risk posed by, borrowers both at the time of loan application and on an ongoing basis over the term of the loan. Also, we sell substantially all of our loan originations to institutional purchasers within a very short timeframe after origination, which further reduces our exposure to the credit risk posed by borrowers.

In addition these risk mitigation steps, we further manage our credit risk exposure on service fees receivable as these receivables are primarily short-term in nature and we are exposed only to our institutional loan purchasers, who are well known financial institutions.

Cash on deposit is held at major North American regulated financial institutions.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or will not have sufficient funds to originate loans. The Company manages liquidity risk through the management of its capital structure and through the sale of loans under our marketplace strategy to institutional purchasers. We have also historically obtained capital through equity and debt offerings and from time to time we may seek to raise additional capital to fund loan originations and for general corporate purposes.

c) Foreign Exchange risk

Due to our operations being conducted primarily in the United States, we are exposed to foreign exchange risk with respect to the US dollar as it relates to future commercial transactions and recognized assets and liabilities. We do not have significant US dollar denominated assets or liabilities in Canadian dollar functional currency entities or Canadian dollar denominated assets or liabilities in US dollar functional currency entities. We have historically not used derivative financial instruments to reduce foreign exchange exposure.

A 10% strengthening of the Canadian dollar in 2022 would have reduced net income by approximately \$0.3 million (2021: \$0.7 million), assuming that all other variables remained constant. An assumed 10% weakening of the Canadian dollar would have increased net income by an equal amount.

d) Interest rate risk

None of the Company's commercial lending is based on variable interest rates. The Company is 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 24 months and by

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its marketplace lending strategy, where we sell the loan at or shortly after origination.

e) Management of Capital

The Company defines capital to be total shareholders' equity, which includes share capital, and certain debt, specifically financing credit facilities (if any) and the Debentures.

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

Since inception, the Company has financed its liquidity needs primarily through private placements, the sale of loans, financing credit facilities and Debentures. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. The capital management objectives listed above have not changed since the previous fiscal year.

17. Income Tax

The components of income tax expense are as follows:

	2022	2021
	\$	\$
Current	118,311	17,912
Deferred	-	-
Total income tax expense	118,311	17,912

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The difference between the Company's income tax expense and the statutory tax is as follows:

Canadian statutory tax rates	26.50%	26.50%
Statutory income taxes	118,860	991,095
Non-deductible expenses (non-taxable income)	151,645	(170,217)
Difference in foreign tax rates	(380)	(80,562)
Net change to unrecognized tax assets	(151,814)	(722,404)
Income tax expense	118,311	17,912

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

Recognized Deferred Tax Assets and Liabilities

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

	For the Year Ended December 31, 2022		
	Opening Balance	Recognized in net income	Closing Balance
	\$	\$	\$
Temporary Differences			
Tax credit for salaries and wages	(57,008)	21,682	(35,326)
Fixed assets/ROU assets	(55,289)	16,554	(38,735)
Intangibles	10,397	18,281	28,678
Capital lease obligation	44,892	(34,835)	10,057
Convertible debentures	(120,770)	85,517	(35,253)
Total Temporary Differences	(177,778)	107,199	(70,579)
Tax Losses and Credits			
Tax Losses	177,778	(107,199)	70,579

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	For the Year Ended December 31, 2021		
	Opening Balance	Recognized in net income	Closing Balance
	\$	\$	\$
Temporary Differences			
Tax credit for salaries and wages	(26,232)	(30,776)	(57,008)
Fixed assets/ROU assets	(39,190)	(16,099)	(55,289)
Intangibles	-	10,397	10,397
Capital lease obligation	39,190	5,702	44,892
Convertible debentures	(228,239)	107,470	(120,770)
	(254,471)	76,694	(177,778)
Tax Losses and Credits			
Tax Losses	254,471	(76,694)	177,778

As at December 31, 2022, no deferred income tax asset has been recognized on approximately \$9,971,000 and \$10,175,000 of Federal and Provincial tax loss carryforwards, respectively, and on approximately \$2,991,000 of tax loss carryforwards in the United States (expressed in Canadian dollars). These tax loss carryforwards remain available for use in the future to reduce taxable income by the following expiration year:

	Federal \$	Provincial \$	United States \$
2032	333,000	333,000	-
2033	243,000	243,000	-
2034	502,000	502,000	-
2035	2,551,000	2,551,000	-
2036	1,465,000	1,465,000	-
2037	1,478,000	1,478,000	1,547,000
2038	1,288,000	1,492,000	-
2039	804,000	804,000	-
2040	945,000	945,000	1,444,000
2041	362,000	362,000	-
No expiry	-	-	-
Totals	9,971,000	10,175,000	2,991,000

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As at December 31, 2022, the Company had approximately \$98,000 of unused Federal tax and \$331,000 of unused United States tax credits that are not recognized in the consolidated financial statements. Those unused Federal tax credits will expire between 2026 and 2033 and those unused United States tax credits will expire between 2038 and 2042.

As at December 31, 2022, the Company had other deductible temporary differences of approximately \$1,136,000 for the Federal, \$1,138,000 for the Provincial and \$171,000 in the United States (expressed in Canadian dollars) for which no deferred income tax asset is recognized.

18. Revenue by Category

The following table provides the components of revenue for the years ended December 31, 2022 and 2021:

	2022	2021
Revenue	\$	\$
Servicing income	10,938,851	6,048,422
Administrative and other fees	3,171,196	1,964,914
Gain on sale	5,045,593	2,078,030
Amortization of servicing assets	(10,186,195)	(5,177,397)
Servicing assets recognized	10,083,592	7,018,006
Interest income	87,054	986,092
Total Gross Revenue	19,140,091	12,918,067

19. Operating Expenses

The following table provides additional information on operating expenses for the years ended December 31, 2022 and 2021 as follows:

	2022	2021
	\$	\$
Compensation	9,996,593	6,903,309
Marketing	1,435,623	686,398
Data Services	2,436,996	1,234,103
Professional Services	2,653,191	1,002,249
General & Administrative	1,351,926	1,268,479
Depreciation & Amortization	350,836	89,000
Non-recurring expense/(gain), net ⁽¹⁾	140,808	(2,358,580)
Total	18,365,973	8,824,958

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(1) For 2022, non-recurring expense primarily relates to loss on debenture redemptions in 2022, partially offset by a gain from the partial forgiveness of a loan upon repayment in the third quarter of 2022. For 2021, non-recurring net gain is comprised of PPP loan forgiveness, wage subsidies and employment retention credits less, offset by the loss on debenture redemptions.

20. Supplemental Cash Flow Information

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

	Note	2022 \$	2021 \$
Depreciation of equipment and leasehold improvements	9	80,702	64,784
Amortization of intangible assets	10	270,135	24,216
Amortization of servicing assets	6	10,186,195	5,177,397
Amortization of right-of-use assets	11	139,430	228,780
Stock-based compensation	15	160,152	150,213
Interest income	5	(87,054)	(986,092)
Servicing asset recognition	6	(10,083,592)	(7,018,006)
Fair value of OTS commercial loans receivable in excess of carrying amount	6	(5,045,593)	(2,078,030)
Loss on redemption of convertible debentures	13	157,040	22,498
Amortization of credit facility transaction costs		-	99,569
Other		(163)	487,914
Total non-cash items in net income		(4,222,748)	(3,826,757)

Changes in operating assets and liabilities for the years presented were as follows:

	2022 \$	2021 \$
Commercial loans receivable	1,864,787	8,030,445
Purchase price receivable	1,995,604	(2,604,411)
Service fees receivable	(3,117,279)	(1,084,994)
Other receivables	(1,008,358)	(1,626,157)
Accounts payable and accrued liabilities	274,368	637,156
Other	179,131	(450,589)
Total	188,253	2,901,450

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21. 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 Company leases its Canadian office space from Palos Management Inc (“PMI”). The terms of the lease are similar to those that would have been present for an arm’s-length transaction. PMI is indirectly owned by The Marleau Capital Corporation (“MCC”). Philippe Marleau, a director of the Company, holds a significant interest in MCC and therefore MCC is deemed to have significant influence over the Company. The Company made payments totaling approximately \$0.4 million and \$0.3 million to PMI for the years ended December 31, 2022 and 2021, respectively, under the terms of the lease. Future non-cancellable liabilities under the lease are \$1.38 million as at December 31, 2022.
- ii) The Company sells loans to funds managed by NB Specialty Finance Fund LP (“NB”). NB is deemed to have significant influence over the Company as they are a significant shareholder of the Company. For the year ended December 31, 2022, the Company sold loans to NB in the amount of US\$166.8 million (2021: US\$77 million) and earned service fees of \$5.4 million (2021: \$2.1 million) from loans sold. The Company has approximately \$5.8 million in receivables from NB as at December 31, 2022 (2021: \$4.0 million) for servicing fees earned and purchase price deferred on loans sold.

Key Management Compensation

Key management includes directors (executive and non-executive), the Chief Executive Officer, Chief Financial Officer who is also the Company Secretary, and (for 2022) the Chief Accounting Officer. The compensation paid or payable to key management for employee services is shown below:

	2022	2021
	\$	\$
Salaries and other short-term employee benefits	998,993	820,926
Stock-based payments	93,500	97,076
Total	1,092,493	918,002