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 May 30, 2023, should be read in conjunction with, and is qualified in its entirety by reference to, the condensed consolidated financial statements and related notes as at and for the three-month period ended March 31, 2023 and 2022, 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$1.4 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 March 31, 2023, our customers had been in business an average 11.3 years (based on their incorporation date) at the time of application. These businesses borrowed, on average, approximately US$96,000 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, fees that we charge to borrowers, fees we charge to loan purchasers for collections made on delinquent loans by our internal collections team and referral fees earned by ZING Funding (ZING), 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 84 full-time employees as at March 31, 2023.

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 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.

For the quarter ended	March 31			
	2023	2022	Change	
	$	$	$	%
Loan originations ($US)	**48,353,015**	59,564,614	(11,211,599)	-18.8%
Loans under management	**198,621,882**	140,621,791	58,000,091	41.2%
Revenue	**4,519,598**	4,838,901	(319,303)	-6.6%
Operating expenses	**5,825,159**	3,779,844	2,045,315	54.1%
Net income (loss)	**(1,487,010)**	1,117,404	(2,604,414)	nm
Net income (loss) per share	**(0.01)**	0.01	(0.02)	nm
Adjusted revenue (1)	**4,061,776**	4,130,855	(69,079)	-1.7%
Adjusted operating expenses (1)	**5,794,882**	3,696,207	2,098,675	56.8%
Adjusted net income (loss) (1)	**(1,914,555)**	492,995	(2,407,550)	nm
Adjusted net income (loss) per share	**(0.02)**	-	(0.02)	nm
Servicing yield (1)	**4.7%**	7.5%	-2.8%	
Adjusted operating expense ratio (1)	**11.0%**	11.2%	-0.2%	
Total assets	**24,211,992**	27,667,803	(3,455,811)	-12.5%
Total liabilities	**8,350,440**	11,342,269	(2,991,829)	-26.4%

(1) For each non-IFRS measures presented, please see the sections below entitled revenue, operating expenses and net income for discussion of these non-IFRS measures and reconciliation to the related IFRS measure

Q1 2023 PERFORMANCE HIGHLIGHTS

Economic uncertainty caused by rising interest rates, inflation and concerns about the stability of regional banks in the United States has significantly impacted the operating environment for small businesses. 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. In response to this rise in delinquency, we took decisive action to tighten our underwriting criteria and reduce our risk appetite in several of the industries that we serve.

The increased delinquencies and the risk reduction actions we implemented had several impacts on the first quarter of 2023. First, our reduced risk appetite significantly curtailed loan originations in the first quarter of 2023 as compared to the first quarter of 2022. Further, the rise in delinquencies has reduced collection rates on loans originated in 2022 and we have reduced the rate at which we recognize servicing revenue on those collections. These ongoing impacts led to relatively flat servicing revenue and lower servicing yield (a measure of the revenue recognized on our loans under management) from our portfolio in the first quarter of 2023 as compared to the first quarter of 2022.

In order to improve expected collections and revenue accrual rates for the remainder of 2023 the Company has:

- exited specific lines of business that contributed to greater than expected delinquencies on loans originated in 2022;
- established new minimum credit score requirements for borrowers;
- increased pricing by 300 basis points on new originations across the product spectrum;
- focused sales efforts on those products that have historically had positive loss and yield attributes.

We expect the net result of these actions will drive increased revenues in the latter part of 2023 as an increasing portion of the company's collections will come from 2023 originations.

While we have taken steps to reduce our growth in operating expenses from Q4 2022, we continue to maintain our commitment to investing in our strategic growth initiatives, including continuing to enhance our data analytics capabilities through our Business Intelligence Portal. We leverage our Business Intelligence Portal to make data driven decisions to refine our underwriting, pricing and risk selection criteria to manage risk in the short term and position us to take advantage of opportunities in the marketplace when the economic headwinds begin to subside for small business. As a result of our continued commitment to our strategic growth initiatives combined with the growth in our loans under management, operating expenses have increased 54.1% compared to the first quarter of 2022 while revenue for the first quarter of 2023 was down 6.6% compared with the prior year.

IOU took additional steps during the Quarter ended March 31, 2023 to reduce operating expenses for the balance of 2023. The Company has:

- established a freeze on hiring and backfilling for natural attrition, resulting in a total headcount of 94 as at March 31, 2023 (vs. 104 on December 31, 2022) including contractors and staff;
- renegotiated certain contracts;
- reduced spending on external consultants; and
- reduced discretionary expenditures such as travel and entertainment.

We expect these actions to result in significantly lower operating expenses in the second, third and fourth quarters of fiscal 2023 as compared to the quarter ended March 31, 2023.
Selected performance highlights from the quarter include:

1. Reduced risk appetite moderated loan origination volume in Q1 2023; loan originations of $48.4 million represent a decrease of 18.8% compared to Q1 2022

Demand from borrowers remained strong as we as we experienced increased application levels compared to the first quarter of 2022. However, the steps we have taken to tighten our underwriting criteria and reduce our risk appetite in certain industries have resulted in reduced originations compared to the prior year. We continue to enhance our Business Intelligence Portal in order to better evaluate risk and to target those market segments that are likely to meet or exceed our risk adjusted return targets while satisfying investor demand for high quality loans. We have also implemented strategies within our portfolio to better price risk on the loans we originate.

Loans under management grew 41.2% compared to Q1 2022 from the record origination volume in 2022. However, LUM declined 8.6% as compared to December 31, 2022, reflecting the reduced originations volume in Q1 2023 and the delinquencies experienced in Q4 2022, as non-performing loans begin to be charged off.

2. Adjusted Q1 2023 net loss of $1.9 million reflects impact of delinquencies on collections and revenue accrual rates

Adjusted revenue declined 1.7% compared to 2022 as the growth in loans under management was offset by lower first quarter 2023 originations, lower than expected collections on 2022 originations, and lower revenue accrual rates on collections made. The reduced collections and revenue accrual rates were a continuation of a trend from fourth quarter of 2022, when we initially revised our estimates of future collections and thus the servicing revenue we expect to earn on those collections. We expect increased revenues in the latter part of 2023 as an increasing portion of the company's collections will come from 2023 originations.

We grew adjusted operating expenses throughout 2022 to support the growth in our business and the investments we made in our technology. While we have taken steps to reduce our growth in operating expenses from Q4 2022, we continue to maintain our commitment to investing in our strategic growth initiatives, with a continued focus on enhancing our data analytics capabilities, including development of our Business Intelligence portal. As a result, while adjusted revenue for the first quarter of 2023 was relatively flat compared with the prior year, adjusted operating expenses have increased with the growth in loans under management. We expect significantly lower operating expenses in the second, third and fourth quarters of fiscal 2023 as compared to the quarter ended March 31, 2023. We are committed to taking additional actions to further reduce operating expenses in the event that revenues are below our current expectations.

3. Significant progress on Strategic Growth Initiatives

- **Technology innovation:** Q1 2023 saw significant progress in the development of our proprietary IOU360 platform to better support brokers, merchants, investors and internal stakeholders, and support the long-term scalability of the business. Several important milestones were achieved:
  - Continued enhancement to our Business Intelligence Portal. We can currently leverage over 18 million data points to mine and visualize data, identify trends and inform business strategy. We continue to prioritize development of our Business Intelligence Portal in order to inform underwriting and risk selection decisions in light of recent delinquencies.
  - the successful transition to the Fixed Interest method of calculating loan amortization and payment schedules, which simplifies how we price and sell our loan products and creates new opportunities for product innovation.
  - the internal deployment and beta testing of the next generation Broker Portal, designed to empower Brokers with a streamlined application process and enhanced customization of offers

We remain committed to continuing to make the necessary investments in the IOU360 platform development throughout 2023 to support growth and scalability through enhanced data analytics capabilities, user experiences and greater efficiencies for loan processing.

- **Product expansion:** We are committed to introducing innovative loan products to meet the needs of more small business owners as well as to achieve further differentiation in the market. Since August 2021 we have introduced several innovative and unique term loan products to the market including the Cash-Back Loan, the 24-Month Loan, and the Premier PLUS term loan for loan amounts of up to US$1.5 million and with terms up to 36 months. With the successful transition to the Fixed Interest method of calculating loan amortization and payment schedules, IOU has laid the groundwork for further product innovation in 2023 and beyond.

- **Distribution:** IOU's wholesale and retail distribution channels are poised to maximize exposure to growth opportunities as the current economic headwinds subside, with the creation of a new VP Sales role and an updated team structure for IOU (wholesale) and the implementation of new marketing automation and lead evaluation tools for ZING (retail).

OUTLOOK

We continue to target loan originations in the range of US$200M to US$240M and anticipate modest revenue in 2023 based on lower expected origination volume and the continuing impact of delinquencies on loans originated in 2022. While we expect reduced operating expenses for the remainder the year, we expect operating expense growth in the range of 13-17% on a full-year basis.

DISCUSSION AND ANALYSIS OF Q1 2023 RESULTS

REVENUE

For the quarter ended	March 31,			
	2023	2022	Change	
	$	$	$	%
Revenue				
Servicing income	**2,456,327**	2,419,477	36,850	1.5%
Referral fees	**226,290**	172,795	53,495	31.0%
Administrative and other fees	**419,694**	468,038	(48,344)	-10.3%
Gain on sale	**959,465**	1,070,545	(111,080)	-10.4%
Amortization of servicing assets	**(1,564,445)**	(1,695,792)	131,347	-7.7%
Servicing assets recognized	**2,022,267**	2,403,838	(381,571)	-15.9%
Total Revenue	**4,519,598**	4,838,901	(319,303)	-6.6%
Amortization of servicing assets	**1,564,445**	1,695,792	(131,347)	-7.7%
Servicing assets recognized	**(2,022,267)**	(2,403,838)	381,571	-15.9%
Adjusted Revenue (1)	**4,061,776**	4,130,855	(69,079)	-1.7%
Ratio				
Servicing Yield (2)	**4.7%**	7.5%	-2.9%	

(1) Adjusted revenue is a non-IFRS measure and is defined as 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 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) 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 it can assist in identifying trends 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 the first quarter of 2023 compared to 2022 is from higher collections driven by the 41.2% increase in loans under management. However, in connection with the rise in delinquencies in the fourth quarter of 2022, we reduced our estimates of future collections on loans originated in 2022 and reduced the rate at which we recognize servicing revenue on collections made on those loans. The result of this has been a reduction in servicing yield as compared to prior year as the majority of the collections made in Q1 2023 were on loans originated in 2022. However, the rate at which we are recognizing revenue on collections on loans originated in the first quarter of 2023 is approximately in line with historical expectations as the underwriting changes we made begin to bring delinquency more in line with expectations.

Referral fee revenue represents revenue earned by ZING. ZING is engaged in the commercial lending brokerage business where borrowers are sourced directly by ZING Business Growth Advisors 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 IOU and third-party lenders, with such fees typically expressed as a percentage of the originated amount of each loan. In Q1 2023, ZING facilitated approximately US$6.9 million in total loan origination volume, representing an increase of approximately 16% over first quarter 2022, and earned total referral fees from all lenders of $0.4 million. Of that total, US$3.7 million was facilitated through IOU and $0.15 million of fees were earned from IOU.

Administrative and other fee revenue primarily represents fees that we charge to borrowers on each loan originated and fees earned by our internal collections team for recoveries on delinquent loans made on behalf of loan purchasers. The decrease in revenue was from lower origination volume and lower collection fees earned by our internal collection teams as the timing of payment recoveries made by the internal team from delinquent borrowers is unpredictable.

The decrease in gain on sale is a function of the lower origination volume in the current quarter. 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 decrease in servicing assets recognized is due to the decreased loan origination volume in Q1 2023 as compared to prior year. The reduction of servicing asset amortization is due primarily to the write down of $1.4 million of previously recognized servicing assets in the fourth quarter of 2022, as well as lower levels of servicing asset recognition in the fourth quarter of 2022.

We expect to see increased revenues in the latter part of 2023 as an increasing portion of the company's collections will come from 2023 originations.

OPERATING EXPENSES

For the quarter ended	**March 31,**			
	2023	2022	Change	
	$	$	**$**	**%**
Operating Expenses	**5,825,159**	3,779,844	2,045,315	54.1%
Stock-based compensation	**(30,277)**	(24,597)	(5,680)	23.1%
Non-recurring gain/(loss), net [(2)]	**-**	(59,040)	59,040	-100.0%
Adjusted Operating Expenses [(3)]	**5,794,882**	3,696,207	2,098,675	56.8%
Ratio				
Adjusted Operating Expense Ratio [(1)]	**11.0%**	11.2%	-0.2%	

(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. We believe this measure is useful to investors as it can assist in identifying trends 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 that can fluctuate at different times and at various amounts and therefore are not closely correlated with our recurring performance. The non-recurring loss in 2022 was primarily related to losses recognized upon redemption of convertible debentures.

(3) 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.

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 our data analytics capabilities, and other general operating expenses to support the operations of our business.

We grew operating expenses throughout 2022 to support the growth in our business and the investments we made in our technology. While we have taken steps to reduce our growth in operating expenses from Q4 2022, we continue to maintain our commitment to investing in our strategic growth initiatives, with a continued focus on enhancing our data analytics capabilities.

The increase in operating expenses compared to first quarter 2022 can be primarily attributed to the following:

- $1.1 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
- $0.1 million in marketing expenses as we increase the visibility of the IOU and ZING brands and to attract additional brokers and merchants
- $0.3 million in data services to support the functionality of, and enhancements to, the IOU360 technology platform and our data analytics capabilities
- $0.5 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 data analytics capabilities; we also increased collection related expenses in connection with the growth in the serviced loan portfolio
- $0.1 million in amortization expense in connection with increased investment in the IOU technology platform

We expect recent expense reduction actions to result in significantly lower operating expenses in the second, third and fourth quarters of fiscal 2023 as compared to the quarter ended March 31, 2023.

OTHER (INCOME)/EXPENSE

For the quarter ended	**March 31,**			
	2023	2022	Change	
	$	$	$	%
Other (Income)/Expense				
Interest income	**(22,615)**	(35,777)	13,162	nm
Loan loss provision/(recovery)	**60,409**	(261,404)	321,813	nm
Debenture interest expense	**143,655**	238,834	(95,179)	-39.9%
Other (Income)/Expense	**181,449**	**(58,347)**	**239,796**	nm

Interest income decreased compared to the prior year due to the continued wind down of our on-balance sheet loan portfolio.

Changes in loan loss provision/(recovery) is reflective of the wind down of our on-balance sheet loan portfolio. We have not originated any new loans in 2022 or 2023 that we held for investment and we continue our collection efforts on delinquent loans that were originated prior to the marketplace transition, with such collections being the primarily driver of the net recovery on loan losses. First quarter 2023 was impacted by reserves taken on on-balance sheet loans that ceased paying.

Interest expense decreased compared to prior year due to the reduction in the convertible debenture balance, as we redeemed $3.6 million of debentures in the year ended December 31, 2022. The remaining debentures are due to be redeemed on December 31, 2023.

NET INCOME AND ADJUSTED NET INCOME

The following table presents adjusted and IFRS net income/(loss) for the three-month periods ended March 31, 2023 and 2022.

For the quarter ended	March 31,			
	2023	2022	Change	
	$	$	$	%
Adjusted Revenue [1]	**4,061,776**	4,130,855	(69,079)	-1.7%
Adjusted Operating Expenses [2]	**5,794,882**	3,696,207	2,098,675	56.8%
Other (Income)/Expense	**181,449**	(58,347)	239,796	nm
Income Tax Expense	**-**	-	-	-
Adjusted Net Income/(Loss) [3]	**(1,914,555)**	492,995	(2,407,550)	nm
Diluted Adjusted Net Income/(Loss) per Share [3]	**(0.02)**	-	(0.02)	nm
Non-cash amortization of servicing assets	**(1,564,445)**	(1,695,792)	131,347	-7.7%
Servicing assets recognized	**2,022,267**	2,403,838	(381,571)	-15.9%
Stock based compensation	**(30,277)**	(24,597)	(5,680)	23.1%
Non-Recurring Gain/(Loss), net [4]	**-**	(59,040)	59,040	-100.0%
Net Income (Loss)	**(1,487,010)**	1,117,404	(2,604,414)	nm
Diluted Net Income (Loss) per Share	**(0.01)**	0.01	(0.02)	nm

(1) Adjusted revenue is a non-IFRS measure and is defined as 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 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.

(4) 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 that can fluctuate at different times and at various amounts and therefore are not closely correlated with our recurring performance. The non-recurring loss in 2022 was primarily related to losses recognized upon redemption of convertible debentures

CONSOLIDATED FINANCIAL POSITION

The following table presents our consolidated statement of financial position as at March 31, 2023 and December 31, 2022.

	March 31, 2023	December 31, 2022	Change	
	$	$	$	%
Assets				
Cash and cash equivalents	**6,988,218**	4,154,133	2,834,085	68%
Commercial loans receivable, net	**5,467,707**	7,222,270	(1,754,563)	-24%
Servicing assets	**3,752,122**	3,294,577	457,545	14%
Due from loan purchasers	**3,749,458**	6,797,295	(3,047,837)	-45%
Other receivables	**1,421,176**	1,522,799	(101,623)	-7%
Other assets	**2,833,311**	2,818,066	15,245	1%
Total assets	**24,211,992**	25,809,140	(1,597,148)	-6%
Liabilities				
Convertible debentures	**4,390,559**	4,359,670	30,889	1%
Other liabilities	**3,959,881**	4,137,090	(177,209)	-4%
Total liabilities	**8,350,440**	8,496,760	(146,320)	-2%
Shareholders' equity	**15,861,552**	17,312,380	(1,450,828)	-8%

Total Assets

Cash increased with the collection of $2.7 million of amounts due from loan purchasers and the decline in loans held for sale (a component of commercial loans receivable) offset by our operating loss in the current quarter.

Total Liabilities

The change in liabilities is due to the normal variation and timing of operating expenses.

Shareholders' Equity

Shareholders' equity decreased primarily from current quarter operating loss and changes in the exchange rate of the Canadian and 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 operations and cash on hand. Our principal capital requirements have been to fund our operations and strategic initiatives, as well as the repurchases of convertible debentures.

As at March 31, 2023, we had approximately $7.0 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 $5.2 million of loans for sale as of March 31, 2023 that were sold shortly after quarter end.

As at March 31, 2023 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 substantially all loans originated to financial institutions.

Cash Flows

For the quarter ended March 31	2023	2022	Change	
	$	$	$	%
Cash generated in operating activities	**3,065,508**	5,602,720	(2,537,212)	-45%
Cash (used) generated in investing activities	**(246,473)**	851,264	(1,097,737)	-129%
Cash used in financing activities	**(29,432)**	(1,264,703)	1,235,271	-98%
Increase in cash	**2,789,603**	5,189,281	(2,399,678)	-46%
Exchange rate impact on cash	**44,482**	(165,448)	209,930	nm
Net increase in cash	**2,834,085**	5,023,833	(2,189,748)	-44%

Cash generated in operations was from the collection of $2.7 million in amounts due from loan purchasers in the first quarter, as well as a reduction in the balance of loans designated as held for sale at period end. These increases in cash were offset by cash used in operations and our net operating loss for the quarter.

Cash used in investing activities is primarily from capital expenditures made in connection with development of the IOU360 platform. Restricted cash of approximately $1.0 million became available for general corporate purposes in 2022.

Cash used in financing activities in 2022 is primarily due to repurchases of convertible debentures. No repurchases occurred in 2023.

SUMMARY OF QUARTERLY RESULTS

For the quarters ended	Mar 31/23	Dec 31/22	Sept 30/22	Jun 30/22
	$	$	$	$
Revenue*	4,519,598	3,398,563	5,657,638	5,159,604
Net income/(loss)	(1,487,010)	(2,654,479)	652,034	923,444
Basic earnings/(loss) per share	(0.01)	(0.02)	0.01	0.01
Diluted earnings/(loss) per share	(0.01)	(0.02)	0.01	0.01

For the quarters ended	Mar 31/22	Dec 31/21	Sept 30/21	Jun 30/21
	$	$	$	$
Revenue*	4,838,901	3,098,178	4,421,079	2,754,135
Net income/(loss)	1,117,827	690,507	3,100,271	10,754
Basic earnings/(loss) per share	0.01	0.01	0.03	-
Diluted earnings/(loss) per share	0.01	0.01	0.03	-

*Revenue for each quarterly period in 2022 has been adjusted for the presentation changes described in Note 2 in the first quarter 2023 financial statements

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 $0.1 million to PMI in each of the three- month periods ended March 31, 2023 and 2022 under the terms of the lease. Future non-cancellable liabilities under the lease are $1.3 million as at March 31, 2023.

i) 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 three-month period ended March 31, 2023, the Company sold loans to NB in the amount of US$28.6 million (2022: US$35.8 million) and earned service fees of $1.2 million (2022: $1.2 million) from loans sold. The Company has approximately $3.8 million in receivables from NB as at March 31, 2023 (2022: $4.8 million) for servicing fees earned 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 March 31, 2023.

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	11%
Texas	11%
New York	6%
Georgia	5%
New Jersey	4%
Pennsylvania	3%
Ohio	3%
North Carolina	3%
Illinois	3%
Arizona	3%
Other US states	35%
Total	**100%**

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at May 30, 2023

Outstanding Share data

Ordinary shares issued and outstanding:	**Number of shares issued**
As at December 31, 2022	105,335,596
Shares issued between January 1, 2023 and March 31, 2023	200,000
Shares cancelled between January 1, 2023 and March 31, 2023	-
Shares issued after March 31, 2023	-
Shares cancelled after March 31, 2022	-
Shares outstanding on May 30, 2023	**105,535,596**

Options issued and outstanding:	**Number of Options issued**
As at December 31, 2022	10,456,667
Options granted between January 1, 2023 and March 31, 2023	-
Options exercised between January 1, 2023 and March 31, 2023	(200,000)
Options forfeited between January 1, 2023 and March 31, 2023	(66,667)
Options granted after March 31, 2023	-
Options exercised after March 31, 2023	-
Options forfeited after March 31, 2023	-
Options outstanding on May 30, 2023	**10,190,000**

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 related to the initial recognition of servicing assets, the derecognition of financial assets upon sale of commercial loan receivable, and the judgments involved in determining the expected servicing fees to be received over the term of the commercial loan receivables sold. Refer to the 2022 Annual report for additional information these estimates and assumptions.

CURRENT CHANGES IN ACCOUNTING POLICIES

The Company has not adopted any new or amended standards or interpretations since January 1, 2023.

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), due from loan purchasers, 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 loan receivables 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 amounts due from loan purchasers 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 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 a competitive environment. 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 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 also 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 could be severely damaged and it could incur significant financial 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.