IOU FINANCIAL INC.

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

INTRODUCTION

The following management's discussion and analysis ("MD&A") of IOU Financial Inc ("IOU Financial" or the "Company"), prepared as of August 22, 2013, should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited condensed consolidated interim financial statements for the three and six month period ended June 30, 2013 and 2012 and related notes which have been prepared in accordance with International Accounting Standard 34 "Interim Financial reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

All amounts are expressed in Canadian dollars unless otherwise indicated.

OVERVIEW

IOU Financial is the continuation of Matco Ravary Inc. ("Matco Ravary"), a company founded in 1960, 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 Central Inc. ("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."

IOU Financial, via its subsidiary, IOU USA, operates an internet-based lending platform in the United States aimed at owner-operated businesses with daily sales, such as medical and dental practices, grocery and retail stores, restaurants and hotels, franchisees and ecommerce companies. IOU Financial allows these businesses to apply for six or twelve month loans of up to US$100,000, that are repaid daily over the term of the loan directly out of the business' bank account, and that are personally guaranteed by their owner(s). As of June 30, 2013, IOU Financial's customers had been in business an average 11.43 years (based on their incorporation date) at the time of application. These businesses borrowed on average US$46,045 for an average term of 11.26 months and generally used the funds to purchase new equipment, invest in an increased workforce, attend to repairs, expand their business, purchase more inventory or increase marketing efforts**.**

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

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", which can be identified by the use of the conditional or forward-looking terminology such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. IOU Financial cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

Many factors and assumptions could have an impact on the materialization of IOU Financial's projections, including, but not limited to, risks inherent in growing a new business, dependence on third-party service providers, competition, regulatory risk, dependence on key personnel, risks related to rapid growth of the Company, security and confidentiality risk, risk related to inability to attract borrowers and lenders, technological development risk, IT disruptions, maintenance of client relationships, litigation risk, volatility of stock price, and other factors that are beyond its control. IOU Financial cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties and assumptions that would cause the company's actual results to differ from current expectations, please refer to the section "Risks and Uncertainties" of this MD&A. The forward-looking statements in this MD&A reflect IOU Financial's expectations as at the date of this MD&A. IOU Financial does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

OVERALL PERFORMANCE AND SELECTED FINANCIAL INFORMATION

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

Summarized Financial Data ($)	For the six month period ended June 30, 2013	For the six month period ended June 30, 2012	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Loan originations ($US)	18,962,600	4,194,500	11,530,100	2,427,425
Commercial loans receivable-gross	11,582,376	3,739,035	5,581,231	1,894,861
Financial revenue	2,126,730	470,521	1,284,102	141,606
Net loss attributable to common shareholders	670,154	784,215	1,876,236	2,502,436
Net loss per share(1)	0.01	0.03	0.06	0.12
Total assets	14,269,278	4,983,125	8,653,374	3,255,090
Total current and total liabilities	6,691,047	1,540,849	3,405,259	676,037

(1) The net loss per share has been calculated using the weighted average number of shares outstanding during each period. Diluted loss per share were not presented as the effect would be anti-dilutive.

IOU Financial's innovative lending platform continues to emerge as a viable solution to the challenges small businesses face when trying to obtain financing. For the six month period ended June 30, 2013, IOU Financial continued its trend of strong growth in loan originations. IOU Financial believes that a large opportunity exists to expand its presence in what it believes is a significantly underserved market.

Between January 1, 2010 and June 30, 2013, IOU Financial surpassed US$33.3 million in loan originations (loans funded by the Company). During the six month period ended June 30, 2013, IOU Financial originated approximately US$18.9 million in loans. This compares to US$4.2 million for the same period of 2012; US$11.5 million in all of 2012 and US$2.4 million in all of 2011.

On June 30, 2013, IOU Financial's commercial loans receivable (loan portfolio) amounted to approximately $11,582,376 versus $3,739,035 at June 30, 2012; $5,581,231 at December 31, 2012 and $1,894,861 at the end of 2011. This increase is primarily attributable to an increase in the number of loans funded in 2013 compared to 2012 and 2011. Loans are normally written off when there is no realistic prospect of collecting the amounts outstanding. For the six month period ended June 30, 2013, IOU Financial wrote off (net of recoveries) $133,017 of commercial loans receivable versus $4,914 for the same period of 2012 and $173,608 for the year ended December 31, 2012 and $15,855 for the year ended December 31, 2011.

Through a series of debt assignment agreements concluded during the six month period ended June 30, 2013, IOU Financial sold approximately US$6.8 million (December 31, 2012: US$1.4 million) of its commercial loans receivable to a third-party purchaser on a non-recourse basis and retained the servicing rights (payment collections) for these loans in exchange for a servicing fee. As of June 30, 2013, IOU Financial's servicing portfolio (loans being serviced on behalf of a third-party) amounted to approximately US$ 4.6 million (December 31, 2012: US$0.89 million.)

Revenues, comprised of financing revenue, gains on servicing assets as well as fees and servicing income, totalled $2,126,730 for the six month period ended June 30, 2013. This compares to revenues of $470,521 for the six month period ended June 30, 2012 and total annual revenues of $1,284,102 for 2012 and $141,606 for 2011.

For the six months ended June 30, 2013, IOU Financial had a net loss attributable to common shareholders of $670,154 or $0.01 per share compared to $784,215 or $0.03 per share for the same period of 2012 and an annual net loss of $1,876,236 or $0.06 per share for the year ended December 31, 2012 and $2,502,436 or $0.12 per share for the year ended December 31, 2011. Included in the net loss for 2011 is a one-time, non-cash (except for $227,073) listing expense amounting to approximately $1.4 million relating to the reverse acquisition that occurred in February 2011.

Total assets increased by $5,615,904 from $8,653,374 at December 31, 2012 to $14,269,278 at June 30, 2013. For a discussion on this increase, refer to section "Consolidated Financial Position" below.

Total current and total liabilities include a credit facility obtained in 2012 in the amount of $4,995,054 (December 31, 2012: $2,576,673) to fund the Company's growing loan originations.

RESULTS OF OPERATIONS

The following table presents IOU Financial's condensed consolidated statement of comprehensive loss for the three and six month periods ended June 30, 2013 and 2012. The financial information is presented in Canadian dollars (except where noted) and was prepared in accordance with International Financial Reporting Standards (IFRS).

Interim Condensed Consolidated Statement of Comprehensive Loss				
	For the three month period ended June 30, 2013	For the three month period ended June 30, 2012	**For the six month period ended June 30, 2013**	For the six month period ended June 30, 2012
	$	$	**$**	$
Financial revenue	**1,324,999**	284,810	**2,126,730**	470,521
Financial expenses	**(963,341)**	(103,336)	**(1,445,055)**	(145,289)
Operating expenses	**(923,419)**	(611,705)	**(1,659,243)**	(1,129,849)
Other gains	**233,582**	70,516	**307,414**	20,402
Total comprehensive loss attributable to common shareholders	**(328,179)**	(359,715)	**(670,154)**	(784,215)

Operating Results for the Three Months ended June 30, 2013

Financial Revenue: IOU Financial's financial revenue consists of interest payments and guarantee fees it receives on loans it has funded, origination fees IOU Financial charges its borrowers at the time of funding as well as non-sufficient funds, referral and servicing fees. Loan origination fees are amortized to income over the term of the loan. On June 30, 2013, deferred origination fees amounted to $564,874 compared to $185,690 at June 30, 2012. Financial revenue also includes gains recognized on loan servicing assets.

Financial revenue for the three months ended June 30, 2013 was $1,324,999 compared to $284,810 for the same period in 2012. The increase is attributable to an increase in the number of loans funded during the period. Financing revenue consisting of interest, guarantee fee income and origination fees increased by $827,363 from $280,296 earned during the three month period ending June 30, 2012 to $1,107,659 in 2013, while fee and servicing income increased by $84,627 from $4,514 in 2012 to $89,141 in 2013 mainly due to the sale of loans and subsequent servicing thereof in the 2013 period. Also included in financial revenue is a gain of $128,199 for the three month period ended June 30, 2013 (2012: Nil) relating to the sale of loans receivable and subsequent recognition of a servicing asset, representing IOU Financial's continuing involvement in the sold loans.

Financial Expenses: IOU Financial's financial expenses consist primarily of interest costs incurred in connection with the financing of its lending activities, commissions paid to business loan brokers, provisions for loan losses (net of recoveries) and the amortization of the servicing assets recognized on loans sold where the company has continued involvement. Commissions are amortized to the statement of comprehensive loss over the term of each loan.

Financial expenses for the three month period ended June 30, 2013, compared to the same period of 2012, increased by $860,005, from $103,336 in 2012 to $963,341 in 2013. This increase is attributable to an increase of $499,372 in commissions expensed, from $58,218 in 2012 to $557,590 in 2013, as a result of an increase in the volume of loans funded in 2013 as well as an increase in the percentage of commission paid compared to 2012.

Interest expense increased by $117,751, from $4,134 in 2012 to $121,885. This increase relates to interest paid on the credit facility obtained in April 2012 which is used to finance lending activities. The provision for loan losses (net of recoveries) increased by $207,661 in 2013, from $40,984 in 2012 to $248,645 in 2013. This increase can be attributed to the increase in the loans receivable balance in 2013 as well as a comprehensive review of the Company's loan portfolio which was conducted by management for the purpose of determining any specific allowances for each loan. Also included in financial expenses in 2013 is amortization of $35,221 (2012: $nil) relating to servicing assets recognized on loan sales.

Operating (Expenses)/Gains: IOU Financial's operating expenses consist primarily of compensation costs (excluding capitalized salaries and fees paid to employees and consultants directly involved with IOU Financial's software development efforts) and professional service fees, including consulting services, legal, audit and accounting fees as well as stock based compensation and other operating costs.

Operating expenses increased by $311,714 during the three month period ended June 30, 2013 compared to the same period of 2012, from $611,705 to $923,419 in 2013. This increase can be attributed to the following: an increase of $211,636 in wages and salaries as management significantly increased its operating and personnel capacity to support its growth and expand its presence in the market; an increase of $59,212 in legal fees mainly due to the finalization of the contingency previously disclosed; an increase of $31,452 in the amortization of transactions costs associated with the credit facility obtained in April 2012; an increase of $38,738 in advertising and promotion resulting from a public relations campaign in 2013; an increase of $22,299 in consulting fees as certain fees paid to IT developers acting as consultants no longer qualify to be capitalized in accordance with IFRS and an increase of $41,903 in data services, IT costs and other partially offset by a decrease in professional fees of $35,994 and a credit on qualifying wages of $28,750 accrued and receivable in 2013 relating to qualifying payroll expenses.

Other (Expenses)/Gains: A currency translation gain of $233,582 was incurred in 2013 compared to a gain of $70,516 in 2012. Currency translation differences arise from the translation of the Company's foreign subsidiary into the reporting currency of the Canadian dollar.

Total Comprehensive Loss Attributable to Common Shareholders: For the three months ended June 30, 2013, IOU Financial had a net loss attributable to common shareholders of $328,179 or $0.01 per share, compared to a net loss of $359,715 or $0.01 per share for 2012.

Operating Results for the Six months ended June 30, 2013

Financial revenue for the six month period ended June 30, 2013 was $2,126,730 compared to $470,521 for the same period in 2012. The increase is attributable to an increase in the number of loans funded in the first three months of the financial year. Financing revenue consisting of interest, guarantee fee income and origination fees increased by $1,337,869 from $465,143 during the first six months of 2012 to $1,803,012 for the same period of 2013, while fee and servicing income increased by $124,809 from $5,378 in 2012 to $130,187 in 2013 mainly due to the sale of loans and subsequent servicing thereof in the 2013 period. Also included in financial revenue is a gain of $193,531 for the six month period ended June 30, 2013 (2012: Nil) relating to the sale of loans receivable and subsequent recognition of a servicing asset, representing IOU Financial's continuing involvement in the sold loans.

Financial expenses for the first six months of 2013, compared to the same period of 2012, increased by $1,299,766, from $145,289 in 2012 to $1,445,055 in 2013. This increase is attributable to an increase of $772,701 in commissions expensed, from $100,171 during the 2012 period to $872,872 in 2013, as a result of an increase in the volume of loans funded in 2013 as well as an increase in the percentage of commission paid. Interest expense increased by $200,481 in 2013, from $4,134 in 2012 to $204,615. This increase relates to interest paid on the credit facility obtained in April 2012 which is used to finance growing lending activities. The provision for loan losses (net of recoveries) increased by $281,579 in 2013, from $40,984 in 2012 to $322,563 in 2013. This increase can be attributed to the increase in the loans receivable balance in 2013 as well as a comprehensive review of the Company's loan portfolio which was conducted by management for the purpose of determining any specific allowances for each loan. Also included in financial expenses in 2013 is amortization of $45,005 (2012: $nil) relating to servicing assets recognized on loan sales.

Operating expenses increased by $529,394 during the six months period ended June 30, 2013 compared to the same period of 2012, from $1,129,849 to $1,659,243 in 2013. This increase can be attributed to the following: an increase of $359,172 in wages and salaries as management significantly increased its operating and personnel capacity to support its growth and expand its presence in the market; an increase of $69,691 in the amortization of transactions costs associated with the credit facility obtained in April 2012; an increase of $32,120 in consulting fees as certain fees paid to IT developers acting as consultants no longer qualify to be capitalized in accordance with IFRS;

an increase of $72,757 in advertising and promotion resulting from a public relations campaign in 2013, an increase of $41,628 in legal and accounting fees; an increase of $80,394 in data services, IT costs and other partially offset by a decrease in professional fees of $122,609.

Other (Expenses)/Gains: A currency translation gain of $307,414 was incurred in 2013 compared to a gain of $20,402 in 2012. Currency translation differences arise from the translation of the Company's foreign subsidiary into the reporting currency of the Canadian dollar.

Total Comprehensive Loss Attributable to Common Shareholders: For the six months ended June 30, 2013, IOU Financial had a net loss attributable to common shareholders of $670,154 or $0.01 per share, compared to a net loss of $784,215 or $0.03 per share for 2012 period.

CONSOLIDATED FINANCIAL POSITION

The following table presents IOU Financial's condensed consolidated statement of financial position as at June 30, 2013 and December 31, 2012. The financial information is presented in Canadian dollars (except where noted) and was prepared in accordance with International Financial Reporting Standards (IFRS).

Condensed consolidated Statement of Financial Position

	June 30, 2013	December 31, 2012
Total assets	**$14,269,278**	$8,653,374
Total liabilities	**$6,691,047**	$3,405,259
Shareholders' equity (deficit)	**$7,578,231**	$5,248,115

Total Assets: Total assets increased by $5,615,904 in 2013, from $8,653,374 at December 31, 2012 to $14,269,278 at June 30, 2013. Net commercial loans receivable increased by $5,847,277 from $5,483,574 at December 31, 2012 to $11,330,851 at June 30, 2013. This increase is primarily attributable to an increase in the number of loans funded in 2013; an increase of $719,764 in cash held in trust from $286,115 in 2012 to $1,005,879 in 2013, due to an increase in a security deposit held by a bank for lending purposes and an increase in cash held in trust for a third party lender. This increase is partially offset by a decrease in subscriptions receivable of $665,000 and a decrease of $471,004 in cash when compared to December 31, 2012 (refer to "Flow of Funds" below).

Total Liabilities: IOU Financial's total liabilities increased by $3,285,788 in 2013, from $3,405,259 at December 31, 2012 to $6,691,047 at June 30, 2013. The increase is primarily due to an increase of $2,418,381 in the financing credit facility to finance the increased number of loans accepted for funding; an increase of $522,076 in cash held and payable to a third party lender as a result of the additional loan sales during 2013 compared to 2012;; an increase of $493,864 in loans accepted for funding at period end but for which funds are yet to be disbursed partially offset by a decrease of $148,533 in accounts payable and accruals.

LIQUIDITY AND CAPITAL RESOURCES

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

The Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Although IOU Financial has continued to report operating losses and used cash to fund its operations, it also has strengthened its financial position by raising additional equity financing and has successfully increased its revenue stream from the issuance of a growing number of commercial loans.

Until and unless IOU Financial's operations generate significant revenues and cash flow, management will attempt to continue to fund operations from cash on hand and through the sources of capital previously mentioned.

During the first three months of 2013, the Company raised an additional $2.96 million which concluded the private placement that was commenced in late 2012.

On March 14, 2013, the Company renewed and increased its finance credit facility with a third party lender from $3 million to US$10 million for an additional one year term. The lender will have an option to extend the contract by an additional year by providing IOU with an increase in the facility to US$15.0 million. Under the renewed agreement with the lender, interest on the facility will be reduced by two percent to a per annum rate of twelve percent above US base rate. In any month where the average oustanding balance of the facility is equal to or greater than US$6.0 million, the interest on the facility will be further reduced by two percent to a per annum rate of ten percent above US base rate. In any month where the average outstanding balance of the facility is equal to or greater than US$10.0 million, the interest on the facility will be further reduced by one percent to a per annum rate of nine percent above US base rate. The terms of the renewal came into effect on June 15, 2013. This facility has enabled the Company to meet and finance its growing loan demand.

The following table outlines the Company's future aggregate contractual obligations.

Contractual Obligations			
	Total	Less than 1 year	1-2 years
Operating lease(1)	**$173,059**	$75,019	$98,040
Credit facility(2)	**$4,995,054**	$4,995,054	-
Total contractual obligations	**$5,168,113**	$5,070,073	$98,040

(1) In June 2012, the Company's subsidiary began leasing its US office under an operating lease agreement. The term of the lease is 38 months and may be cancelled after 26 months upon the payment of a termination fee. The lease agreement is renewable at the end of the lease period for a similar term.

(2) The credit facility has a term of one year and is payable within the next 12 months. This facility is being repaid daily.

Flow of Funds

The following table presents a summary of cash flows for the six months ended June 30, 2013 and 2012.

Interim condensed Statement of Cash Flows		
	For the six months ended June 30, 2013	For the six months ended June 30, 2012
	$	$
Cash used in operating activities	**(12,867,637)**	(2,241,785)
Cash generated from financing activities	**6,372,133**	1,918,662
Cash generated from investing activities	**6,024,500**	30,822
Net increase in cash	**(471,004)**	(292,301)

Cash used in operating activities: The $10,625,852 increase in cash used for operating activities for the six month period ended June 30, 2013, compared to the same period in 2012, was primarily related to an increase in the cash outflow from the net change in working capital items, in particular an outflow of $12,644,027 (2012: $1,908,448) resulting from an increase in commercial loans receivable.

Cash generated from financing activities: The $4,453,471 increase in cash generated by financing activities for the six months ended June 30, 2013, compared to the same period in 2012, was primarily due to: the issuance of additional equity in 2013 of $3,382,721, compared to $1,150,470 in 2012; an inflow resulting from the financing credit facility of $2,496,666 in 2013 compared to $625,692 in 2012; a cash inflow of $125,000 resulting from the exercise of warrants during the period as well as an inflow of $522,076 in funds held in trust for a third party lender in 2013 compared to $6,782 in 2012, this increase is due to the increased level of loan sales during the 2013 period.

Cash generated in investing activities: The $5,993,678 increase in cash generated by investing activities for the six months ended June 30, 2013, compared to the same period in 2012, was primarily due to the sale of commercial loans amounting to $6,796,750 in 2013 compared to $131,707 for the same period in 2012, partially offset by a cash outflow of $719,764 in cash held in trust compared to $9,556 for the same period of 2012 resulting from the increased number of loan sales during the 2013 period.

SUMMARY OF QUARTERLY RESULTS

Quarterly Results				
For the quarters ended	**Jun 30/13**	**Mar 31/13**	**Dec 31/12**	**Sept 30/12**
	$	$	$	$
Total revenue	1,324,999	801,731	459,063	354,518
Net loss before taxes	328,179	341,975	587,204	504,817
Net loss and comprehensive loss	328,179	341,975	587,204	504,817
Basic and diluted loss per share (1)	0.01	0.01	0.02	0.02
For the quarters ended	**Jun 30/12**	**Mar 31/12**	**Dec 31/11**	**Sept 30/11**
	$	$	$	$
Total revenue	284,810	185,711	90,913	34,366
Net loss before taxes	359,715	424,500	403,705	171,400
Net loss and comprehensive loss	359,715	424,500	403,705	171,400
Basic and diluted loss per share (1)	0.01	0.02	0.02	0.01

(1) Net loss per share has been calculated using the weighted average number of shares outstanding during each year. Diluted earnings per share were not presented as the effect would be anti-dilutive.

OFF-BALANCE SHEET ARRANGEMENTS

IOU Financial does not engage in any off-balance sheet financing activities. IOU Financial does not have any interest in 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

a) On April 1, 2011, IOU Central Inc (USA), a wholly-owned subsidiary of the Company entered into a consulting agreement with an officer of IOU Central Inc (USA). In terms of this agreement, the officer would provide sales and operational services to the Corporation in addition to his duties as officer. The agreement had a fixed 6 month term and could have been terminated at any time by the Corporation. The fee amounted to USD$7,500 monthly payments over the term of the agreement. An amount of $45,253 (USD$45,000) has been included in Professional service fees for the 2012 period (2013: Nil). This agreement was terminated by the Company in June 2012.

b) In May 2011, the Company began renting its Canadian office space from a company under common control. This lease is renewable every 12 months under similar terms and may be cancelled by IOU Financial Inc. upon a given notice period of 6 months prior to the end of the lease term. The amount expensed as rent for the 6 month period relating to this lease amounts to $24,500 excluding applicable taxes (2012: $ 25,200). The terms of this operating lease are similar to those that would have been present for an arm's length transaction.

c) The CEO and director of IOUF is a shareholder in a company that owns a significant stake in Palos Capital Corporation, the parent company of Palos Management Inc ('Palos'), one of IOUF's co-lead brokers in the private placement that commenced in December 2012. Palos received commissions and warrants relating to the $5million private placement amounting to $70,217 (2012: $119,424) and 175,543 (2012: 298,561) respectively.

d) Key Management Compensation

Key Management Compensation				
	For the three month period ended June 30, 2013	For the three month period ended June 30, 2012	**For the six month period ended June 30, 2013**	For the six month period ended June 30, 2012
	$	$	**$**	$
Salaries and other short-term employee benefits	**80,006**	70,384	**142,313**	125,307
Share-based payments	**87,352**	98,236	**110,426**	100,192
	167,358	168,620	**252,739**	225,499

COMMERCIAL LOANS RECEIVABLE

IOU Financial's commercial loan receivable portfolio is composed of a large number of loans, and as such, no individual loan comprises a significant portion of the portfolio. As of June 30, 2013, the average loan balance in the portfolio was approximately US$33,168. In addition to limiting its exposure to any single loan, IOU Financial maintains a geographically and industry diversified loan portfolio which reduces the risk of loss arising from adverse regional or industrial economic conditions.

The following tables present the portfolio by geography and industry as at June 30, 2013.

Industry Category	Portfolio %
Retail Trade	21%
Health Care and Social Assistance	17%
Wholesale Trade	15%
Accommodation and Food Services	13%
Other Services	6%
Manufacturing	6%
Construction	5%
Professional, Scientific, and Technical Services	4%
Arts, Entertainment, and Recreation	4%
Transportation and Warehousing	3%
Other	6%
Total	100%

State	Portfolio %
California	14%
Florida	14%
New York	11%
Illinois	5%
Pennsylvania	5%
Missouri	4%
North Carolina	3%
Arizona	3%
Texas	3%
New Jersey	3%
Other	35%
Total	100%

SUBSEQUENT DEVELOPMENTS

- During the months of July and August of 2013, the Company sold part of its commercial loans receivable, on a non-recourse basis, at no gain or loss, for total proceeds of $4,550,282 (USD$ 4,363,281). At the time of the sale, the Company transferred to the purchaser of such loans all rights and risks associated with the loans sold and the Company determined that the criteria for derecognition contained in IAS 39 Financial Instruments had been met. However, as per the debt assignment agreements, the Company retained the servicing rights (payment collections) to the loans and the purchaser agreed to be charged a servicing fee over the term of the loans.

- Management disclosed a contingency in the 2012 annual financial statements, relating to a lawsuit that was brought against several parties including MCO, now the Company during 2006. The Company signed a letter agreement in April 2013 with one of the defendants (“Defendant”), whereby the Defendant agreed to indemnify the Company for damages that the Company could be ordered to pay the Plaintiffs pursuant to the lawsuit, should those damages be in relation to the structural components and related advice that was furnished to the Plaintiffs by the former Matco Ravary. Although the agreement excludes indemnification for damage payments ordered pursuant to the personal fault or negligence of Matco Ravary’s representatives, no evidence of such fault or negligence was submitted at trial, and the Plaintiffs made no such allegations. In return, and in order to avoid any unnecessary actions between the Defendant and the Company flowing from the recourse in warranty by the Company against the Defendant, the Company agreed to desist itself from its action in warranty against the Defendant. On July 12, 2013 this matter was closed by the court and no contingency exists.

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at August 22, 2013:

Outstanding Share data	
Ordinary shares issued and outstanding:	**Number of shares issued**
December 31, 2012	38,809,453
Shares issued during the period	7,641,750
Shares outstanding at August 22, 2013	**46,451,203**
Warrants issued and Outstanding:	**Number of warrants issued**
December 31, 2012	11,751,237
Warrants expired	(4,096,430)
Warrants issued	6,053,053
Warrants exercised	(250,000)
Warrants outstanding on August 22, 2013	**13,457,860**
Options issued and outstanding:	**Number of Options issued**
December 31, 2012	1,971,242
Options issued	1,489,000
Options forfeited	(120,000)
Options outstanding on August 22, 2013	**3,340,242**

BUSINESS OUTLOOK

IOU Financial's focus for the rest of 2013 will be to continue to grow its business in a reasonable and sustainable manner while focusing on maintaining acceptable levels of delinquencies and credit losses. Management constantly reviews and monitors its credit and collection policies and makes changes when and if required. IOU Financial expects that its operating and financial expenses will increase through-out the year, due to its significant ramp-up in personnel, debt financing and infrastructure during the last few months of 2012 and 2013. Emphasis will continue to be on growing the number of loans that IOU will make and on raising additional capital to finance its operations.

CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1. Valuation of commercial loans

   Management exercises judgment to determine whether indicators of loan impairment exist based on historical loss experience, and if so, management must estimate the timing and amount of future cash flows from loans receivable. Specifically, management must assess at which point a loan is deemed to be uncollectible in order to write it off. Further details on the estimates used to determine any allowance for impaired loans receivable are provided in the accounting policy "Commercial loans receivable".

2. Useful lives of equipment and intangible assets

   The Company considers annually whether the estimate of the useful lives of equipment and intangible assets is still appropriate. The estimated useful lives are determined by reviewing historical information about the useful lives of previous additions to equipment and intangible assets and the estimate is prospectively adjusted if appropriate.

3. Deferred Tax Estimation

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

   With respect to deferred tax assets, their realization ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax asset can be utilized and it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the Company making assumptions within its overall tax-planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the entity expects to recover the asset's carrying value or settle the liability.

4. Derivatives and financial instruments

   The fair value of financial liabilities not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select techniques and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company has used discounted cash flow analysis to value debt.

5. Stock-based compensation

   The Company measures the cost of equity-settled transactions with employees of the Company and share warrants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or share warrant, volatility and dividend yield and making assumptions about them.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 - Consolidated Financial Statements ("IFRS 10") was issued by the IASB on May 12, 2011 and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 13 - Fair Value Measurement ("IFRS 13"), provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that the market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Company has adopted the amendments to IAS 1 – Presentation of financial statements (“IAS 1”) effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12"), issued by the IASB on May 12, 2011, is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off balance sheet vehicles. The adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 7 – Financial Instruments: Disclosures were issued by the IASB in December 2011 and addresses inconsistencies in practice when applying offsetting criteria for financial assets and liabilities. The adoption of the amendments to IFRS 7 did not have an impact on the Company’s financial information.

Future changes in accounting policies

IFRS 9 - Financial Instruments (“IFRS 9”) was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Amendments to IAS 32 – Financial Instruments: Presentation was issued by the IASB in December 2011 and address inconsistencies in practice when applying offsetting criteria for financial assets and liabilities. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Under IFRS 7 “Financial instruments: Disclosures” Financial assets must be classified into one of four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale. Financial liabilities must be classified into one of two categories: at fair value through profit or loss or amortized cost. Cash, cash held in trust, commercial loans receivable, certain other assets and sales tax receivable have been classified as loans and receivables. Loans and receivables are accounted for at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, funds held in trust for third party lender and financing credit facility are classified as financial liabilities and are accounted for at amortized cost using the effective interest rate method.

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

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

Foreign exchange risk

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

The Company does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

Listed below are the relevant instruments and the amount of foreign currencies included in their balances (in US dollars) as at June 30, 2013:

Cash $1,310,475

Cash held in trust $956,341

Certain other assets $21,752

Commercial loans receivable $10,772,819

Accounts payable and accrued liabilities $ (123,528)

Credit facility $ (4,749,053)

Funds held in trust for third party lender $ (615,757)

Loan contracts in transit $ (554,082)

The exchange rate applied as at June 30, 2013 was 1.0518 (December 31, 2012: 0.9949).

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a one (1) percent strengthening of the Canadian dollar would have increased the net loss for the 6 months ended June 30, 2013 by approximately $73,826 (2012: $37,299), assuming that all other variables remained constant. An assumed one (1) percent weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk through the management of its capital structure. The Company has been financed mainly through equity offerings, loans and convertible notes. Furthermore, the Company completed several equity issuances in 2012 and 2013.

As at June 30, 2013 $582,784 (USD$554,082) of commercial loans where in transit (December 31, 2012: $88,726, USD$89,181).

Credit risk

Credit risk is managed on a Company basis and results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss. Even though there has been substantial growth in financial instruments, particularly commercial loans receivable, there has been no change in credit risk in 2013 as there has been no significant change in average loan sizes and credit policies for approval of loan applications from the prior year. There have been no changes in the management of risks arising from financial instruments during the current period.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company does not believe it is exposed to an unusual level of customer credit risk. The Company's maximum credit risk is the carrying value of the cash, cash held in trust and commercial loans receivable. The company has had a history of few bad debts and the allowance for loan losses is maintained at a level considered sufficient to cover all potential losses.

In addition, financial instruments that potentially subject the Company to significant concentrations of credit risk consist of deposits in the form of cash and cash held in trust. The Company invests with major North American financial institutions. The Company has investment policies that are designed to provide for the safety and preservation of principal, the Company's liquidity needs and appropriate yields. The Company has no exposure to any asset-backed securities.

Interest rate risk

The Company is subject to interest rate risk on its cash and cash held in trust. Sensitivity to a 1% change in interest rates would not have a material effect on the Company's results.

None of the Company's current commercial lending is based on variable interest rates. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. The Company mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to one year.

The Company is exposed to cash flow interest rate risk on its credit facility issued at a variable rate. During 2012 and the first six months of 2013, the borrowings at a variable rate were denominated in USD. The Company mitigates this risk by borrowing for a 12-month term and therefore the Company does not believe that its exposure to interest rate risk is significant.

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

RISKS AND UNCERTAINTIES

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

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

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

Dependence on Third Party Service Providers

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

Competition

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

Regulatory Risk

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

Dependence on Key Personnel

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

IOU Financial's growth could strain its personnel resources and infrastructure, and if it is unable to implement appropriate controls and procedures to manage its growth, it may not be able to successfully implement its business plan.

IOU Financial's expected 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. 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 expected 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. 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 it fails to successfully manage its growth, it will be unable to execute its business plan.

Security and Confidentiality Risk

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

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

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

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

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

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

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

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

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

The highly-automated nature of IOU Financial’s lending platform may make it an attractive target and potentially vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a computer “hacker” were able to infiltrate IOU Financial’s lending platform, users would be subject to an increased risk of fraud or identity theft, and IOU Financial may not receive the principal or interest payments that it expects to receive on any loans that it was fraudulently induced to make. Hackers might also disrupt the accurate processing and posting of payments to IOU Financial’s accounts on its lending platform, or cause the destruction of data and thereby undermine IOU Financial I’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.ioucentral.com