

IOU Financial Inc.
Condensed Consolidated Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2013 and 2012

IOU FINANCIAL INC.

Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2013 and 2012 (unaudited)

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IOU Financial INC.

Interim Condensed Consolidated Statements of Financial Position
as at September 30, 2013 and December 31, 2012

	<i>(unaudited)</i> September 30, 2013 \$	<i>(audited)</i> December 31, 2012 \$
Assets		
Current assets		
Cash	1,645,754	1,919,626
Cash held in trust (Note 4)	1,023,361	286,115
Sales taxes receivable	154,422	48,370
Subscriptions receivable	-	665,000
Commercial loans receivable -net (Note 5)	13,815,732	5,483,574
Servicing asset (Note 5)	308,889	-
Other assets	57,500	34,371
Prepays and deposits	10,308	58,113
Total current assets	17,015,966	8,495,169
Equipment (Note 6)	38,152	25,020
Intangible asset (Note 7)	77,863	133,185
Total non-current assets	116,015	158,205
Total assets	17,131,981	8,653,374
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	504,562	614,089
Loan contracts in transit (Note 5)	868,380	88,920
Funds held in trust for third party lender (Note 5)	473,843	125,577
Financing credit facility (Note 9)	7,856,949	2,576,673
Total current and total liabilities	9,703,734	3,405,259
Shareholders' Equity		
Share capital (Note 10)	13,838,067	11,594,097
Contributed surplus	2,780,138	1,983,784
Foreign currency translation reserve	75,217	(87,108)
Deficit	(9,265,175)	(8,242,658)
Total Shareholders' Equity	7,428,247	5,248,115
Total liabilities and Shareholders' Equity	17,131,981	8,653,374

Contingency (Note 17)

Events after the reporting date (Note 18)

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

Approved by the Board:

Phil Marleau (*signed*), Director

Mayco Quiroz (*signed*), Officer

IOU Financial INC.

Interim Condensed Consolidated Statements of Comprehensive Loss
for the Three and Nine Month period Ended September 30, 2013 and 2012 (unaudited)

	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
	\$	\$	\$	\$
Financial Revenue				
Financing revenue (Note 12)	1,110,992	273,580	2,041,132	638,552
Other fees and servicing income (Note 12)	161,260	4,233	291,447	9,611
Gain recognized on servicing asset (Note 5)	237,950	-	431,481	-
Total Financial Revenue	1,510,202	277,813	2,764,060	648,163
Financial expenses				
Interest expense	(226,172)	(82,918)	(430,787)	(87,052)
Provision for loan losses – net of recoveries (Note 5)	(531,077)	(82,204)	(853,640)	(123,188)
Amortization of servicing asset (Note 5)	(80,458)	-	(125,463)	-
Total Financial expenses	(837,707)	(165,122)	(1,409,890)	(210,240)
Net financial income before operating and other expenses	672,495	112,691	1,354,170	437,923
Operating expenses (Notes 9 and 13)	(717,444)	(496,499)	(2,376,687)	(1,626,348)
Operating loss	(44,949)	(383,808)	(1,022,517)	(1,188,425)
Loss before income tax	(44,949)	(383,808)	(1,022,517)	(1,188,425)
Income taxes	-	-	-	-
Total net loss for the period	(44,949)	(383,808)	(1,022,517)	(1,188,425)
Other comprehensive loss:				
Items that may be reclassified subsequently to net loss:				
Currency translation differences	(145,089)	(121,009)	162,325	(100,607)
Total comprehensive loss for the period	(190,038)	(504,817)	(860,192)	(1,289,032)
Comprehensive loss attributable to:				
Common shareholders	(190,038)	(504,817)	(860,192)	(1,289,032)
Net loss attributable to:				
Common shareholders	(44,949)	(383,808)	(1,022,517)	(1,188,425)
Loss per share:				
Basic and diluted loss per share	(0.01)	(0.02)	(0.04)	(0.04)

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

IOU Financial INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
for the Nine Months Ended September 30, 2013 and 2012 (unaudited)

	Common Shares (#)	Capital Stock (\$)	Contributed Surplus (\$)	Deficit (\$)	Foreign currency translation reserve (\$)	Total Equity(\$)
Balance as at January 1, 2012	26,904,936	7,944,983	1,087,600	(6,445,202)	(8,328)	2,579,053
Conversion of convertible debt	1,027,267	343,659	-	-	-	343,659
Stock based compensation	-	-	176,946	-	-	176,946
Warrants issued	-	(5,883)	5,883	-	-	-
Equity component of debt	-	-	9,963	-	-	9,963
Broker Warrants	-	-	14,713	-	-	14,713
Private Placement First tranche	900,000	283,667	52,380	-	-	336,047
Private Placement Second Tranche	2,192,500	732,181	67,529	-	-	799,710
Net loss and comprehensive loss	-	-	-	(1,188,425)	(100,607)	(1,289,032)
Balance as at September 30, 2012	31,024,703	9,298,607	1,415,014	(7,633,627)	(108,935)	2,971,059

	Common Shares (#)	Capital Stock (\$)	Contributed Surplus (\$)	Deficit (\$)	Foreign currency translation reserve (\$)	Total shareholders' equity(\$)
Balance as at December 31, 2012	38,809,453	11,594,097	1,983,784	(8,242,658)	(87,108)	5,248,115
Private Placement -Third tranche (Note 10 (i))	3,957,250	1,112,297	347,891	-	-	1,460,188
Private Placement - Fourth Tranche (Note 10 (ii))	2,447,000	697,016	192,586	-	-	889,602
Private Placement - Fifth tranche (Note 10 (iii))	987,500	302,157	65,773	-	-	367,930
Warrants exercised (Note 10)	250,000	132,500	(7,500)	-	-	125,000
Net loss and comprehensive loss	-	-	-	(1,022,517)	162,325	(860,192)
Stock based compensation	-	-	197,604	-	-	197,604
Balance as at September 30, 2013	46,451,203	13,838,067	2,780,138	(9,265,175)	75,217	7,428,247

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

IOU Financial INC.

Interim Condensed Consolidated Statements of Cash Flows
for the Nine Months ended September 30, 2013 and 2012 (unaudited)

	2013	2012
	\$	\$
Operating Activities		
Net loss for the period	(1,022,517)	(1,188,425)
Adjustments for:		
Currency translation differences	162,325	(100,607)
Depreciation of equipment	8,487	5,621
Amortization of intangible asset	64,511	66,621
Amortization of servicing asset	125,463	-
Increase in provision for minimum finance costs payable	-	32,106
Servicing asset gain	(431,481)	-
Stock-based compensation	197,604	176,946
Unrealized foreign exchange loss	(2,872)	7,742
Amortization of transactions costs- financing credit facility	114,939	44,073
	(783,541)	(955,923)
Net change in non-cash working capital items (Note 14)	(22,110,498)	(1,972,079)
Cash used in operating activities	(22,894,039)	(2,928,002)
Financing Activities		
Funds held in trust for third party	348,266	3,426
Warrants exercised	125,000	-
Issuance of loan payable	-	300,000
Repayment of loan payable	-	(300,000)
Issuance of equity, net of transaction costs	3,382,721	1,150,470
Transaction costs associated with financing credit facility	(154,330)	(149,688)
Issuance of financing credit facility	5,319,667	1,424,430
Cash generated from financing activities	9,021,324	2,428,638
Investing Activities		
Sale of commercial loans	14,366,897	131,707
Additions to intangible asset	(9,189)	(97,610)
Additions to equipment	(21,619)	(23,145)
Cash held in trust	(737,246)	(5,805)
Cash generated from investing activities	13,598,843	5,147
Decrease in cash	(273,872)	(494,217)
Cash beginning of year	1,919,626	1,107,465
Cash end of the period	1,645,754	613,248

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

IOU Financial Inc.

**Notes to the Condensed Interim Consolidated Financial
Statements (unaudited)**

September 30, 2013 and 2012

1. General information

IOU Financial Inc. (“IOUF”, “IOU Financial”, the “Company”) (formerly MCO Capital Inc.) (“MCO”) is incorporated under Part 1A of the Business Corporations Act (Quebec). The registered office of IOU Financial Inc. is located at 1 Place Ville-Marie, Suite 1812, Montreal, Quebec, Canada. Until February 28, 2011, the business of IOU Financial Inc. was to identify and evaluate business assets with a view to a potential acquisition.

On February 28, 2011, IOU Central Inc. (“IOUC”, “IOU Central”) entered into a share exchange agreement with IOU Financial Inc. for the acquisition by IOUF of all the issued and outstanding shares of IOUC.

IOUC was incorporated under the laws of the Canadian Business Corporations Act on August 10, 2006 and presently operates an Internet based commercial lending business in the United States of America, through its subsidiary, IOU Central Inc. (USA) (“IOU USA”), located in the state of Georgia in the United States of America (Incorporated in Delaware on August 16, 2006).

IOU Financial Inc. is a public company listed on the Canadian National Stock Exchange (CNSX).

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 28, 2013.

2. Basis of preparation

The condensed interim consolidated financial statements of IOU Financial Inc have been prepared in accordance with International Accounting Standard 34 “Interim Financial reporting” (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Other measurement bases used are described in the applicable notes.

There is no cyclicity of the Company’s operations.

3. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as described below.

Commercial loans receivable

Commercial loans receivable are recognized initially at fair value and subsequently measured at amortized cost, less impairment losses, using the effective interest rate method. Commercial loans receivable are classified as current assets as collection is expected in one year or less.

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When a loan is considered to be impaired, the original expected timing and amount of future cash flows is revised to reflect new loan circumstances. The revised cash flows are discounted using the original effective interest rate to determine the impaired carrying value of the loan. Interest income is thereafter recognized on this impaired carrying value using the effective interest rate.

In the normal course of business, the Company may sell its interests in loans receivable or discharge the borrower from its loan for certain proceeds. The Company derecognizes loans receivable sold only when it has transferred substantially all the risks and rewards of ownership of the assets, which occurs when the Company no longer considers itself to have any significant exposure to the variability in the present value of the future cash flows from the loans receivable. Outstanding proceeds of sold or discharged loans receivable are reported separately from other loans receivable, and measured at their realizable value, net of expected sales costs.

Where the Company retains the servicing rights of loans sold, the benefits of servicing are assessed against market expectations. When the benefits of servicing are more than adequate, a servicing asset is recognized. Servicing assets are carried at amortized cost. Amortization is calculated on a straight line basis over the term of the servicing agreement which approximates one year. When the benefits of servicing are less than adequate, a servicing liability is recognized.

Changes in accounting policies

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.

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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.

Presentation

The presentation of the consolidated statement of comprehensive loss was changed for the 2012 financial year end and therefore the quarterly results, for comparative purposes with 2013, have also been reclassified into new categories from previously issued 2012 quarterly results. Management has determined that the new presentation provides information that is reliable and more relevant to users of the financial statements. The reclassifications were as follows:

2012 Classification	Amount previously disclosed		New classification
	For the three month period ended 30 September, 2012	For the nine month period ended 30 September, 2012	
Finance Costs (1)	(95,404)	(117,026)	Operating expenses
Administrative expenses (2)	(642,922)	(1,896,438)	Operating expenses

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- (1) Previously included in total finance costs for the three and nine month period of 2012 is an amount of \$82,918 and \$87,052 respectively relating to interest expensed on the financing credit facility. These have been reclassified as “financial expenses”.
- (2) Previously included in total administrative expenses for the three and nine month period of 2012 is an amount of \$76,705 and \$176,876 respectively relating to commissions amortized. These have been reclassified as “financial income” and offset against “financing revenue” as transaction costs that are an integral part of the effective interest rate. Also previously included in total administrative expenses for the three and nine month period of 2012 is an amount of \$82,204 and \$123,188 relating to the provision for loan losses net of recoveries. These have been reclassified as “financial expenses”.

Management has presented a new category of expense in 2012, “financial expenses”, which include all expenses directly related to the generation of revenues and therefore include interest paid on the financing credit facility introduced in 2012. All other interest expense has been included in “Operating expenses”.

Use of Estimates and judgements

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from management’s best estimates as additional information becomes available in the future.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2012.

4. Cash held in trust

Cash held in trust amounted to \$1,023,361 (December 31, 2012: \$286,115). Cash held in trust comprises funds held on behalf of a third party loan purchaser, bonding insurance collateral and cash held as security for lending activities.

IOU Financial Inc.

**Notes to the Condensed Interim Consolidated Financial
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5. Commercial loans receivable

As at September 30, 2013 and December 31, 2012, the Company held commercial loans receivable as part of its regular operations.

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
	\$	\$
Commercial loans receivable	13,903,051	5,581,231
Unamortized fees and transactions costs	391,316	2,272
Less allowance for loan losses	(478,635)	(99,929)
Commercial loans receivable -net	13,815,732	5,483,574

The loans bear fixed interest at rates ranging between 12.99% - 21.10% (2012: 12.99% - 34.00%) and mature no later than 12 months after each balance sheet date. Guarantee fees charged on each loan range between 0.00% and 14.00% (2012: 0.00% - 11.50%) of the original loan amount. The loans are being repaid daily over their terms. Loans are not collateralized, but are backed by a general security agreement against all of the assets of the business and are personally guaranteed by the owner(s) of the business. The commercial loans receivable are denominated in US dollars. Transaction costs and unamortized fees comprise broker commissions and loan closing fees and are deferred over the term of the loan in accordance with the Company's accounting policy. An origination fee of 4.95% of the original loan amount is charged on each loan and this revenue is deferred and amortized to income over the term of the loan in accordance with the Company's accounting policy.

At September 30, 2013, \$868,380 (December 31, 2012: \$88,920) of commercial loans receivable had been closed for funding but the funds were yet to be dispersed. This amount has been presented in "Current liabilities."

Impaired loans and allowances for loan losses:

At period end, the Company performed a comprehensive review of its loan portfolio for the purposes of determining any specific allowances for each loan.

If it is determined that no objective evidence of impairment exists for an individually assessed loan, this loan will be included in a group of loans with similar credit risk characteristics and the group is then collectively assessed for impairment. Future cash flows for the group are estimated on the basis of their contractual cash flows and historical loss experience for loans with credit risk characteristics similar to the group. Any estimates of loss rates contained within the model used to calculate the impairment are reviewed regularly and compared to actual results and adjusted as required to accurately reflect the operations of the Company.

The fair value of the loans (net of allowance), at September 30, 2013 and December 31, 2012 was \$13,424,416 and \$5,481,302 respectively.

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September 30, 2013 and 2012

Movements in the allowance for loan losses are as follows:

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
	\$	\$
Allowance at January 1	99,929	-
Provision for receivables impairment	900,786	273,511
Receivables written off during the year as uncollectible	(527,312)	(173,608)
Foreign exchange	5,232	26
Allowance at the end of the period	478,635	99,929

Amounts charged to the allowance are written off, when there is no expectation of recovering additional cash. Included in "Financial Expenses" is a recovery of \$47,146 (2012- \$Nil) for loans previously written off as uncollectible.

A summary of the collective and individual components of the allowance for loan losses is as follows:

	September 30, 2013 \$ (unaudited)	December 31, 2012 \$ (audited)
Allowance for loan losses - collective	81,385	-
Allowance for credit losses - individual	397,250	99,929
	478,635	99,929

Age and Credit Quality:

An analysis of the age of the loans receivable in each period presented is as follows:

	September 30, 2013 (unaudited)		December 31, 2012 (audited)	
Age	\$		\$	
Current	13,030,820	93.73%	5,113,921	91.63%
Payments in arrears:				
1 to 21 payments	336,405	2.42%	321,754	5.76%
22- 63 payments	190,004	1.37%	58,384	1.05%
64 + payments	345,822	2.48%	87,172	1.56%
Total	13,903,051	100%	5,581,231	100%

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An analysis of the credit quality of the loans receivable in each period presented is as follows:

	September 30, 2013 (unaudited)		December 31, 2012 (audited)	
Credit Quality	\$		\$	
Neither past due nor impaired	13,030,820	93.73%	5,113,921	91.63%
Past due but not impaired:				
1 to 21 payments	99,771	0.72%	321,754	5.76%
22-63 payments	243,660	1.75%	8,689	0.16%
Impaired	528,800	3.80%	136,867	2.45%
Total	13,903,051	100%	5,581,231	100%

Past due but not impaired balances relate to financial assets which are contractually overdue but are not deemed to be impaired. Based on historical information on borrower default rates, management considers the credit quality of loan receivables that are neither past due nor impaired to be satisfactory.

Loan sales and servicing asset:

During the nine months ended September 30, 2013, the Company sold some of its commercial loans receivable, on a non-recourse basis, at no gain or loss, for total proceeds of \$14,366,897 (USD\$ 13,962,651). 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. In accordance with the Company's accounting policy, the Company recognized a servicing asset gain on disposal of the commercial loans of \$431,481 for the nine month period ended September 30, 2013 (2012: Nil), along with a servicing asset that will be amortized to the statement of comprehensive loss over the term of the sold loans. At September 30, 2013, the carrying amount of this asset amounted to \$308,889 (December 31, 2012 – Nil). At September 30, 2013, there was \$473,843 (December 31, 2012: \$125,577) held in trust on behalf of this party.

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September 30, 2013 and 2012

6. Equipment

	Office Equipment	Computer Equipment	Total
Cost			
Balance at January 1, 2012	21,146	8,753	29,899
Additions	15,380	9,257	24,637
Balance at December 31, 2012	36,526	18,010	54,536
Additions	7,885	13,734	21,619
Balance at September 30, 2013	44,411	31,744	76,155
Accumulated depreciation			
Balance at January 1, 2012	18,432	3,568	22,000
Depreciation charge for the year	4,318	3,198	7,516
Balance at December 31, 2012	22,750	6,766	29,516
Depreciation charge for the period	3,328	5,159	8,487
Balance at September 30, 2013	26,078	11,925	38,003
Carrying amounts			
At December 31, 2012	13,776	11,244	25,020
At September 30, 2013	18,333	19,819	38,152

7. Intangible asset

Intangible assets are comprised of internal use software.

	September 30, 2013 \$ (unaudited)	December 31, 2012 \$ (audited)
Cost		
Beginning of Year	1,165,493	1,056,110
Investment tax credits applied	(28,840)	(28,064)
Acquisitions –Internally developed	38,029	137,447
Balance – End of the period	1,174,682	1,165,493
Accumulated amortization		
Balance - Beginning of Year	1,032,308	942,554
Amortization charge for the period	64,511	89,754
Balance – End of the period	1,096,819	1,032,308
Carrying amounts		
At December 31, 2012	133,185	
At September 30, 2013	77,863	

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September 30, 2013 and 2012

8. Accounts payable and accrued liabilities

	September 30, 2013 \$ (unaudited)	December 31, 2012 \$ (audited)
Trade Payables	446,616	507,132
Other payables and accruals	57,946	106,957
Total	504,562	614,089

9. Financing credit facility

At the end of the period, the carrying value of the liability amounted to:

	September 30, 2013 (unaudited) \$	December 31, 2013 (audited) \$
Financing credit facility	7,964,032	2,632,114
Less transaction costs (net of amortization)	(107,083)	(69,153)
Provision for minimum finance costs	-	13,712
Total	7,856,949	2,576,673

On April 30, 2012, the Company and its subsidiary entered into a financing credit facility agreement with a third party lender. In terms of this agreement, the lender had agreed to provide a one year, secured credit facility to the Company's subsidiary for up to \$3 million. Interest on the facility is calculated at the per annum rate of fourteen percent above US base rate. This credit facility is being repaid daily over its term and will automatically renew for one year periods unless either party gives termination notice.

On March 14, 2013, the Company renewed and increased the facility from \$3 million to US\$10 million for an additional one year term. The lender has 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 was reduced by two percent to a per annum rate of twelve percent above US base rate. In any month where the average 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 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.

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", transaction

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costs directly attributable to the acquisition of the above financial liability have been included in the initial measurement of the liability and are being amortized over the term of the agreement. Amortization of \$114,939 (September 30, 2012: \$44,073) has been included in "Operating expenses".

In terms of this agreement, all assets held by the company's subsidiary and IOUF are collateralized against the facility, up to a maximum amount of \$15 million.

Asset	Carrying Amount at September 30, 2013
Equipment	\$38,152
Commercial loans receivable-net	\$13,815,732
Intangible asset	\$77,863
Cash	\$2,195,272
Other assets	\$222,230

As part of the covenants, the Company shall either cause IOUC to file articles of dissolution and to distribute all of the assets thereof to IOUF or the Company will cause IOUC to be named a party to the agreement as a solidary co-borrower and to grant additional security agreements acceptable to the lender.

10. Capital stock

Authorized

Unlimited number of Class A subordinate shares, entitled to one vote per share, convertible under certain circumstances into Class B shares, without par value.

Unlimited number of Class B shares, entitled to one vote per share, convertible at the option of its holder into Class A subordinate shares at a rate of one Class B share for one Class A subordinate share, without par value.

Unlimited number of Class A preferred shares, 7% cumulative dividend on the redemption price, retractable at paid-up amount, without par value.

Unlimited number of Class B preferred shares, issuable in series and whose attributes can be determined by the Board of directors.

As at September 30, 2013, IOU Financial Inc. had 1,626,908 shares in escrow (December 31, 2012: 2,146,355).

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Issued

	September 30, 2013 \$ (unaudited)	December 31, 2012 \$ (audited)
46,451,203 (December 31, 2012: 38,809,453) Class B shares	13,838,067	11,594,097

Warrants

A continuity schedule of outstanding common share purchase warrants for the periods presented are as follows:

Balance at January 1, 2012	14,847,427
Issued	10,032,717
Exercised	-
Forfeited	-
Expired	(13,128,907)
Balance at December 31, 2012	11,751,237
Granted	6,053,053
Expired	(4,096,430)
Exercised	(250,000)
Balance at September 30, 2013	13,457,860

- i) On February 19, 2013, IOU Financial closed the third tranche of a \$5 million private placement of units, each unit consisting of one Class B common share (a "Class B Share") and a 0.75 Class B Share purchase warrant (a "Warrant") (collectively referred to as the "Units"), for gross proceeds of \$1,582,900 and which resulted in a total issuance of 3,957,250 Class B Shares as well as 2,967,937 Warrants. Each Warrant entitles its holder to acquire one Class B Share at a price of \$0.60 until August 19, 2014. Transaction costs of \$23,830 have been offset against share capital.

The fair value of the above mentioned warrants was determined using the Black-Scholes option pricing model with a weighted average volatility of 78%, risk-free interest rate of 1.06%, dividend yield of nil and an expected life of 1.5 years. The fair value of these warrants was determined to be \$297,091

The Company paid to exempt market dealers a total of \$98,882 in commissions as well as additional consideration in the form of 247,206 warrants to purchase Class B Shares

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(the “Broker Warrants”). Each Broker Warrant entitles its holder to acquire one Class B Share at a price of \$0.40 for a period of three years from the date of its issuance and at a price of \$0.50 and \$0.60 respectively for the fourth and fifth years from the date of its issuance.

The fair value of the broker warrants was determined using the Black-Scholes option pricing model with a weighted average volatility range of 75% -76%, risk-free interest rate of 1.14%- 1.40%, dividend yield of nil and an expected life of 3-5 years. The fair value of these warrants was determined to be \$50,800. This amount has been offset against capital stock.

- ii) On March 14, 2013, IOU Financial closed the fourth tranche of a \$5 million private placement of units, each unit consisting of one Class B common share (a “Class B Share”) and a 0.75 Class B Share purchase warrant (a “Warrant”) (collectively referred to as the “Units”), for gross proceeds of \$978,800 and which resulted in a total issuance of 2,447,000 Class B Shares as well as 1,835,250 Warrants. Each Warrant entitles its holder to acquire one Class B Share at a price of \$0.60 until September 14, 2014. Transaction costs of \$8,484 have been offset against share capital.

The fair value of the abovementioned warrants was determined using the Black-Scholes option pricing model with a weighted average volatility of 78%, risk-free interest rate of 1.04%, dividend yield of nil and an expected life of 1.5 years. The fair value of these warrants was determined to be \$155,629

The Company paid to exempt market dealers a total of \$80,714 in commissions as well as additional consideration in the form of 201,785 warrants to purchase Class B Shares (the “Broker Warrants”). Each Broker Warrant entitles its holder to acquire one Class B Share at a price of \$0.40 for a period of three years from the date of its issuance and at a price of \$0.50 and \$0.60 respectively for the fourth and fifth years from the date of its issuance

The fair value of the broker warrants was determined using the Black-Scholes option pricing model with a weighted average volatility range of 75% -76%, risk-free interest rate of 1.05%- 1.31%, dividend yield of nil and an expected life of 3-5 years. The fair value of these warrants was determined to be \$36,957. This amount has been offset against capital stock.

- iii) On March 26, 2013, IOU Financial closed the fifth and final tranche of a \$5 million private placement of units, each unit consisting of one Class B common share (a “Class B Share”) and a 0.75 Class B Share purchase warrant (a “Warrant”) (collectively referred to as the “Units”), for gross proceeds of \$395,000 and which resulted in a total issuance of 987,500 Class B Shares as well as 740,625 Warrants. Each Warrant entitles its holder to acquire one Class B Share at a price of \$0.60 until September 26, 2014. Transaction costs of \$2,970 have been offset against share capital.

The fair value of the above mentioned warrants was determined using the Black-Scholes option pricing model with a weighted average volatility of 78%, risk-free

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interest rate of 1.03%, dividend yield of nil and an expected life of 1.5 years. The fair value of these warrants was determined to be \$55,621

The Company paid to exempt market dealers a total of \$24,100 in commissions as well as additional consideration in the form of 60,250 warrants to purchase Class B Shares (the "Broker Warrants"). Each Broker Warrant entitles its holder to acquire one Class B Share at a price of \$0.40 for a period of three years from the date of its issuance and at a price of \$0.50 and \$0.60 respectively for the fourth and fifth years from the date of its issuance

The fair value of the broker warrants was determined using the Black-Scholes option pricing model with a weighted average volatility range of 75% -76%, risk-free interest rate of 1.02%- 1.24%, dividend yield of nil and an expected life of 3-5 years. The fair value of these warrants was determined to be \$10,152. This amount has been offset against capital stock.

As at September 30, 2013 outstanding share purchase warrants are:

Exercise Price	Expiry Date	#	Note
\$0.27 USD	11-Dec-13	704,590	
\$0.40	05-Apr-14	22,500	
\$0.40	13-Apr-14	151,250	
\$0.50	03-Apr-14	12,000	
\$0.40	30-May-17	60,000	
\$0.40	30-May-14	30,000	
\$0.60	21-Jun-14	4,591,687	
\$0.40	21-Dec-17	459,155	
\$0.60	28-Jun-14	1,246,875	
\$0.40	28-Dec-17	126,750	
\$0.60	19-Aug-14	2,967,937	(i)
\$0.40	19-Feb-18	247,206	(i)
\$0.60	14-Sept-14	1,835,250	(ii)
\$0.40	14-Mar-18	201,785	(ii)
\$0.60	26-Sept-14	740,625	(iii)
\$0.40	26-Mar-18	60,250	(iii)
TOTAL		13,457,860	

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Stock-Based Compensation:

Employee Stock Option Plan:

There have been no significant changes in the employee stock option plan during the 9 month period ending September 30, 2013. Share options awarded during the periods presented are as follows:

	Options Outstanding	Average exercise price per share option (\$)
Balance at January 1, 2012	306,242	0.40
Granted	1,665,000	0.41
Exercised	-	-
Forfeited	-	-
Expired	-	-
Balance on December 31, 2012	1,971,242	0.41
Granted	1,489,000	0.40
Forfeited	(120,000)	0.40
Expired	(306,242)	0.40
Balance on September 30, 2013	3,034,000	0.40

The following summarizes information about share options outstanding at September 30, 2013:

Exercise price	Number of options	Number exercisable	Expiry Date
0.45	250,000	250,000	Jan-2014
0.40	1,295,000	863,333	Apr-2017
0.40	1,384,000	461,333	Apr-2018
0.41	105,000	35,000	May,2018
	3,034,000	1,609,666	

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On April 29, 2013 the Company granted options entitling certain directors, officers and employees of the Company to acquire up to an aggregate of 1,384,000 Class B common shares of the Company at an exercise price of \$0.40 per share. These options vest over a three year period, with one third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

	Tranche 1	Tranche 2	Tranche 3
Number of options	461,333	461,333	461,334
Exercise price	0.40	0.40	0.40
Expected volatility	71%	69%	68%
Risk free interest rate	0.98%	0.98%	0.98%
Expected life (years)	5	4	3
Dividend yield	0%	0%	0%
Grant-date fair value (per option)	\$0.19	\$0.17	\$0.15

On May 31, 2013 the Company granted options entitling certain directors of the Company to acquire up to an aggregate of 105,000 Class B common shares of the Company at an exercise price of \$0.41 per share. These options vest over a three year period, with one third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

	Tranche 1	Tranche 2	Tranche 3
Number of options	35,000	35,000	35,000
Exercise price	0.41	0.41	0.41
Expected volatility	71%	69%	68%
Risk free interest rate	1.10%	1.10%	1.10%
Expected life (years)	5	4	3
Dividend yield	0%	0%	0%
Grant-date fair value (per option)	\$0.24	\$0.21	\$0.19

For the period ended September 30, 2013 the Company recognized a stock based compensation cost relating to the above employee stock option plan of \$197,604 (September 30, 2012: \$162,793).

11. Financial risk management

The Company is exposed to a variety of financial risks including credit risk, liquidity risk, and market risk (including foreign exchange and interest rate). The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's annual financial statements as at 31 December 2012. There have been no changes in the Company's risk management policies since year end.

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a) Credit Risk

The Company's maximum credit risk is the carrying value of the cash, cash held in trust, other receivables and commercial loans receivable. As of September 30, 2013, \$528,800 (December 31, 2012 - \$136,867) of the commercial loans receivable were impaired and an allowance for expected losses of \$344,925 has been established (December 31, 2012: \$99,929) (Refer to Note 5).

b) Liquidity Risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

c) 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 foreign denominated future commercial transactions and recognized assets and liabilities.

The Company's foreign exchange exposure as at September 30, 2013 and December 31, 2012 relates to the US dollar commercial loans receivable, cash, accounts payable and accrued liabilities and Financing credit facility. The exchange rate applied as at September 30, 2013 was 1.0303 (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 by approximately \$67,318 (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.

d) 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.

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 finance credit facility issued at a variable rate. During 2012 and 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.

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12. Revenue by category

	For the three months ended September 30		For the nine months ended September 30	
	\$	\$	\$	\$
	2013	2012	2013	2012
Analysis of revenue by category:				
- Financing Revenue	1,110,993	273,580	2,041,132	638,552
Total financing revenue	1,110,993	273,580	2,041,132	638,552
Other fees and servicing income:				
- Non- sufficient funds fees	6,316	1,501	11,861	3,643
- Referral fees	1,204	2,201	5,020	3,319
- Servicing fees	153,740	531	274,566	2,649
Total other fees and servicing income	161,260	4,233	291,447	9,611

- (1) The calculation of financing revenue takes into account all contractual terms of the financial instrument including fee income charged to the borrower on the origination of the loan net of any transactions costs that are directly attributable to the financial instrument. These fees are amortized over the period of the loan.

13. Operating expenses

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Operating expenses:				
Wages and Salaries	454,575	195,045	1,115,739	497,037
Credit on qualifying wages	(28,750)	-	(57,500)	-
Stock based compensation	40,054	33,600	197,604	176,946
Consulting fees	23,630	-	59,838	4,088
Sales Taxes	(122,714)	3,624	(93,691)	26,953
Rental Expense	32,750	11,560	79,231	61,805
Insurance	10,270	10,711	42,306	43,266
Amortization of transactions costs – credit facility	38,894	37,719	114,939	44,073
Interest and bank charges	6,682	7,811	25,762	27,086
Professional Fees	26,717	43,331	119,901	259,124
Legal and accounting fees	60,852	41,887	269,729	209,136
Business Fees and Licenses	9,233	3,120	32,117	18,526
Travel and Entertainment	16,365	4,224	48,212	37,795
Telecommunications	7,700	4,877	23,149	11,799
Data services, IT costs and other	66,172	18,682	190,633	62,749
Advertising and Promotion	43,713	44,384	135,721	63,635
Depreciation and amortization	31,301	28,470	72,997	72,367
Interest accretion	-	7,454	-	9,963
Total Operating Expenses	717,444	496,499	2,376,687	1,626,348

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14. Supplemental cash flow information

- a) Cash flows from operations include interest paid of \$430,787 (2012 - \$107,063)
- b) Net change in non-cash working capital items is comprised of the following:

	2013 \$	2012 \$
Sales taxes receivable	(106,052)	22,200
Investment tax credit receivable	-	(23,817)
Other assets	(23,129)	(18,372)
Commercial loans receivable	(22,699,055)	(2,059,204)
Prepaid and deferred expenditure	47,805	34,217
Loan contracts in transit	779,460	69,430
Accounts payable and accrued liabilities	(109,527)	3,467
	(22,110,498)	(1,972,079)

15. Related party transactions

Except as disclosed elsewhere, the Company had the following transactions with 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 nine month period relating to this lease amounts to \$43,100 excluding applicable taxes (2012: \$ 37,800). 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.

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d) Key Management Compensation

	For the three month period ended September 30, 2013	For the three month period ended September 30, 2012	For the nine month period ended September 30, 2013	For the nine month period ended September 30, 2012
	\$	\$	\$	\$
Salaries and other short-term employee benefits	112,236	92,155	318,053	217,462
Share-based payments	71,647	33,781	175,062	147,728
	183,883	125,936	493,115	365,190

Key management compensation amounted to \$493,115 for the nine months ended September 30, 2013 (September 30, 2012: \$365,190).

16. Commitments

i) Operating lease commitments – subsidiary company as lessee

In June 2012, The Company's subsidiary began leasing its US office under a non cancellable operating lease agreement. The term of the lease is 38 months and may be cancelled only 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.

The future aggregate minimum lease payments under the non-cancellable operating lease are as follows:

	2013 \$
No later than 1 year	80,198
Later than 1 year and no later than 2 years	75,639
	155,837

17. Contingency

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

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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 at reporting date.

18. Events after the reporting date

- During the months of October and November 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 \$7,883,070 (USD\$ 7,574,798). 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. Palos Management Inc received agency fees of USD\$300 relating to USD\$ 1,167,799 of the loans sold to a third party purchaser. 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').