IOU Financial Inc.

Annual Report
2013

Contents

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 April 17, 2014, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements for the years ended December 31, 2013 and 2012 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRIC interpretations.

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 December 31, 2013, IOU Financial's customers had been in business an average 11.5 years (based on their incorporation date) at the time of application. These businesses borrowed on average US$41,015 for an average term of 11.2 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 that are referred to and funded by other third-party lenders.

IOU Financial's common shares trade on the TSX Venture Exchange under the symbol "IOU". Since commencing commercial lending operations in December of 2009 until December 31, 2013, the Company has lent approximately US$63.9 million. IOU Financial had 31 full-time employees as of December 31, 2013.

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 for all years has been presented in Canadian dollars (except where noted) and has been prepared in accordance with International Financial Reporting Standards (IFRS).

	For the Year Ended December 31, 2013	**For the Year Ended December 31, 2012**
Loan originations ($US)	49,527,525	11,530,100
Commercial loans receivable	12,723,813	5,583,503
Financial revenue	4,047,105	937,530
Net loss attributable to common shareholders	1,444,702	1,797,456
Net loss per share(1)	0.03	0.06
Total assets	15,921,263	8,653,374
Total current and total liabilities	8,688,312	3,405,259

(1) The 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.

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 year ended December 31, 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.

During the year ended December 31, 2013, IOU Financial originated (funded) approximately US$49.5 million in loans (2012: US$11.5 million), representing an increase of 330% over the previous year. On December 31, 2013, IOU Financial's commercial loans receivable (loan portfolio) amounted to approximately $12,723,813 (December 31, 2012 $5,583,503), representing an increase of 126% over the previous year. This increase is attributable to an increase in the number of loans funded in 2013 compared to 2012.

Through a series of debt assignment agreements concluded during the year ended December 31, 2013, IOU Financial sold some of its commercial loans receivable to third-party purchasers on a non-recourse basis for total proceeds of $26.4 million (December 31, 2012: $1.4 million) and retained the servicing rights (payment collections) for these loans in exchange for a servicing fee. As of December 31, 2013, the principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of a third-party) amounted to approximately $14.7million (December 31, 2012: $1.5million), representing an increase of 880% over the previous year.

Financial revenues, comprised of financing revenue, net gains recognized on loan sales as well as fees and servicing income, totalled $4,047,105 for the year ended December 31, 2013 (2012: $937,530), representing an increase of 332% over the previous year.

For the year ended December 31, 2013, IOU Financial had a net loss attributable to common shareholders of $1,444,702 or $0,03 per share (2012: $1,797,456 or $0.06 per share).

Total assets increased by $7,267,889 from $8,653,374 at December 31, 2012 to $15,921,263 at December 31, 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 $6,236,531 (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 year ended December 31, 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).

Condensed Consolidated Statement of Comprehensive Loss		
	For the year ended December 31, 2013	For the year ended December 31, 2012
	$	$
Financial revenue	**4,047,105**	**937,530**
Financial expenses	**(2,028,526)**	**(435,910)**
Operating expenses	**(3,463,281)**	**(2,299,076)**
Total net loss	**(1,444,702)**	**(1,797,456)**
Currency translation differences	**361,745**	**78,780**
Total comprehensive loss	**(1,082,957)**	**(1,876,236)**
Total net loss attributable to common shareholders	**(1,444,702)**	**(1,797,456)**
Net loss per share	**(0.03)**	**(0.06)**

Financial Revenue

IOU Financial's financial revenue consists of financing revenue earned on loans it has funded and servicing fees on loans sold to third party purchasers. Financial revenue also includes net gains recognized on the sale of loans.
The following table summarizes financial revenues by category.

Total Financial Revenue by Category		
	For the year ended December 31, 2013	For the year ended December 31, 2012
	$	$
Financial Revenue		
Financing revenue	**3,223,238**	**907,775**
Other fees and servicing income	**290,417**	**29,755**
Net gain recognized on sale of loans	**533,450**	**-**
Total Financial Revenue	**4,047,105**	**937,530**

Financial revenue for the year ended December 31, 2013 was $4,047,105 (2012: $937,530). The increase of $3,109,575 is attributable to the following: Financing revenue increased by $2,315,463 from $907,775 earned during the 2012 financial year to $3,223,238 in 2013 due to an increase in the number of loans funded, while fee and servicing income increased by $260,662 from $29,755 in 2012 to $290,417 in 2013 mainly due to the sale of loans and subsequent servicing thereof in the 2013 period. A net gain on loan sales of $533,450 was recognized in 2013 relating to the sale of loans receivable and subsequent recognition of a servicing asset, representing IOU Financial's continued 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 and provisions for loan losses (net of recoveries). The following table summarizes financial expenses by category.

Total Financial Expenses by Category		
	For the year ended December 31, 2013	**For the year ended December 31, 2012**
	$	**$**
Financial Expenses		
Interest expense	**670,790**	**162,399**
Provision for loan losses – net of recoveries	**1,357,736**	**273,511**
Total Financial Expenses	**2,028,526**	**435,910**

Financial expenses for the year ended December 31, 2013, compared to the same period of 2012, increased by $1,592,616, from $435,910 in 2012 to $2,028,526 in 2013. This increase is attributable to an increase of $508,391 in interest expense, from $162,399 in 2012 to $670,790. 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 $1,084,225 in 2013, from $273,511 in 2012 to $1,357,736 in 2013. This increase can be attributed to the increase in the loans receivable balance in 2013 as well as a review of the Company's loan portfolio which was conducted by management for the purpose of determining any specific and general allowances for loans receivable. For the year ended December 31, 2013, IOU Financial wrote off (net of recoveries) $532,715 of commercial loans receivable (2012: $173,608).

Operating Expenses:

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 $1,164,205 during 2013 compared to the same period of 2012, from $2,299,076 to $3,463,281 in 2013. This increase can be attributed to the following: an increase of $889,187 in wages and salaries as management significantly increased its operating and personnel capacity to support its growth and expand its presence in the market and an increase of $231,833 in data services, IT costs and other due to the increased level of operating activity.

Currency Translation Differences:

A currency translation gain of $361,745 was recognized in 2013 (2012: $78,780). Currency translation differences arise from the translation of the Company's foreign subsidiary into the reporting currency of the Canadian dollar.

Total Comprehensive Loss:

For the year ended December 31, 2013, IOU Financial had a total comprehensive loss of $1,082,957 (2012: $1,876,236).

Total Net Loss attributable to common shareholders:

For the year ended December 31, 2013, IOU Financial had a net loss attributable to common shareholders of $1,444,702 or $0.03 per share (2012: $1,797,456 or $0.06 per share).

CONSOLIDATED FINANCIAL POSITION

The following table presents IOU Financial's condensed consolidated statement of financial position as at December 31, 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).

	December 31, 2013	December 31, 2012
Assets		
Commercial loans receivable	**12,723,813**	5,583,503
Allowance for loan losses	**(1,019,545)**	(99,929)
Commercial loans receivable - net	**11,704,268**	5,483,574
Non-portfolio assets	**4,216,995**	3,169,800
Total assets	**$15,921,263**	**$8,653,374**
Liabilities		
Credit facility	**6,236,531**	2,576,673
Other liabilities	**2,451,781**	828,586
Total liabilities	**$8,688,312**	**$3,405,259**
Shareholders' equity	**$7,232,951**	**$5,248,115**

Total Assets

Total assets increased by $7,267,889 in 2013, from $8,653,374 at December 31, 2012 to $15,921,263 at December 31, 2013. This increase is primarily attributable to an increase of $6,220,694 in net commercial loans receivable due to an increase in the number of loans funded in 2013 as well as an increase of $1,722,862 in cash held in trust is mainly the result of the 2013 loan sales resulting in higher levels of cash being held in trust for third parties.

Total Liabilities

IOU Financial's total liabilities increased by $5,283,053 in 2013, from $3,405,259 at December 31, 2012 to $8,688,312 at December 31, 2013. The increase is primarily due to an increase of $3,659,858 in the financing credit facility to finance the increased number of loans accepted for funding; an increase of $1,364,048 in cash held and payable to a third party lender as a result of the additional loan sales during 2013; an increase of $449,579 in loans accepted for funding at period end but for which funds are yet to be disbursed partially offset by a decrease of $190,432 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 Consolidated Annual 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 commenced in late 2012.

On March 14, 2013, the Company renewed and increased the finance credit facility from CAD$3 million to US$10 million for an additional one year term. The lender had an option to extend the contract by an additional year by providing IOU with an increase in the financing credit 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 was equal to or greater than US$6.0 million, the interest on the facility would 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 was equal to or greater than US$10.0 million, the interest on the facility would 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 agreement was further amended and renewed on 24 February 2014, see “subsequent developments” below.

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

	Total	**Less than 1 year**	**1-3 years**
Operating lease(1)	**$140,295**	**$83,507**	**$56,788**
Credit facility(2)	**$6,236,531**	**$6,236,531**	**-**
Total contractual obligations	**$6,376,826**	**$6,320,038**	**$56,788**

(1) 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.

(2) The credit facility has a term of one year and is payable within the next 12 months. On February 24, 2014, the credit facility was renewed for a further one-year term.

Flow of Funds

The following table presents a summary of cash flows for the years ended December 31, 2013 and December 31, 2012.

	For the year ended December 31, 2013	For the year ended December 31, 2012
	$	$
Cash used in operating activities	**(32,967,473)**	(5,936,727)
Cash generated from financing activities	**34,113,949**	7,146,903
Cash used in investing activities	**(1,758,081)**	(398,015)
Net (decrease)/increase in cash	**(611,605)**	812,161

Cash used in operating activities: The $27,030,746 increase in cash used for operating activities for the year ended December 31, 2013, compared to the same period in 2012, was primarily related to an increase in the cash outflow from net change in working capital items: a increase in cash out flows related to commercial loans receivable of $27,122,507 (2013: 32,112,210 compared to 2012: $4,989,703); an increase in cash outflows relating to accounts payable and accruals of $550,247; partially offset by an increase in cash inflows related to loan contracts in transit of $436,542 (2013: $449,570 compared to 2012: $13,037) all directly attributable to the increase in lending activities and growth of the portfolio.

Cash generated from financing activities: The $26,967,046 increase in cash generated by financing activities for the year ended December 31, 2013 compared to the same period in 2012 was primarily due to an increase of $25,022,611 in cash inflows from the sale of commercial loans; an increase of $1,028,610 in cash inflows from the financing credit facility issued as well as an increase of $1,238,471 in cash inflows relating to funds held in trust for third parties due to the loan sales and subsequent servicing of these portfolios.

Cash generated in investing activities: The $1,360,066 increase in cash used in investing activities for the year ended December 31, 2013, compared to the same period in 2012, is attributable to an increase of $1,458,867 in cash held in trust partially offset by a decrease in additions to the intangible asset of $100,194.

SUMMARY OF QUARTERLY RESULTS

Quarterly Results				
For the quarters ended	**Dec 31/13**	**Sept 30/13**	**Jun 30/13**	**Mar 31/13**
	$	$	$	$
Financial revenue (1)	1,300,399	1,537,853	732,188	476,665
Net loss attributable to common shareholders	422,185	44,949	561,761	415,807
Net loss per share (2)	0.01	0.01	0.01	0.01
For the quarters ended	**Dec 31/12**	**Sept 30/12**	**Jun 30/12**	**Mar 31/12**
	$	$	$	$
Financial revenue (1)	289,367	277,813	226,592	143,758
Net loss attributable to common shareholders	609,031	383,808	430,231	374,386
Net loss per share (2)	0.02	0.02	0.01	0.02

(1) Comparative information for the quarterly periods presented prior to the fourth quarter of 2013, has been reclassified to conform to the presentation utilized in the 2013 annual consolidated financial statements.
(2) 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

CONSOLIDATED FOURTH QUARTER RESULTS

Financial revenue for the fourth quarter of 2013 amounted to $1,300,399 representing an increase of $1,011,032 from $289,367 in the fourth quarter of 2012. This is due to an increase in financing revenue due to the number of loans funded in 2013 versus 2012, as well as an increase in loan sales which translated into an increase in servicing fee revenue for 2013.

Financial expenses for the fourth quarter amounted to $744,099, an increase of $518,429 from $225,670 in the fourth quarter of 2012. The increase can be attributed to the following: an increase of $353,773 in the provision for loan losses and an increase of $164,656 in interest expense relating to the financing credit facility.

Operating expenses for the fourth quarter amounted to $1,086,594, an increase of $413,866 from $672,728 for the same period in 2012. The increase can be attributed to the following: an increase of $270,485 in payroll costs; an increase of $103,949 in data services, IT costs and other due to the increased level of operating activity.
A currency translation gain of $199,420 was recognized in the fourth quarter of 2013 (2012: loss of $21,827). Currency translation differences arise from the translation of the Company's foreign subsidiary into the reporting currency of the Canadian dollar.

For the fourth quarter, IOU Financial had total comprehensive loss of $222,765 (2012: $587,204). For the same period, IOU Financial had a net loss attributable to common shareholders of $422,185 or $0.01 per share (2012: $609,031 or $0.02 per share).

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 year-end 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 $44,972 has been included in Professional service fees for the 2012 period. 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 year relating to this lease amounts to $57,800 excluding applicable taxes (2012: $ 54,400). The terms of this operating lease are similar to those that would have been present for an arm's length transaction.

c) On April 4, 2012, IOUF issued 1,090,000 share options to the board of directors and key management personnel as compensation for their services.

d) 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. Palos Management Inc also received agency fees of USD$2,728 (2012: Nil) relating to USD$ 2,195,316 of loans sold to a third party purchaser.

e) At year end, unsecured officer loans owed to the Company amounted to $50,699 (USD$47,668) and have no fixed terms of repayment.

f) Key Management Compensation

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

	2013 **$**	2012 $
Salaries and other short-term employee benefits	**463,418**	380,552
Share-based payments	**210,555**	175,642
	673,973	556,194

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 December 31, 2013, the average principal loan balance in the portfolio was approximately US$29,369. 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 December 31, 2013.

INDUSTRY	%
Casual Dining Restaurant	5.5%
Automotive Garage	4.7%
Automotive parts, Accessories, & Tire Stores	4.6%
Dentists	4.2%
Hardware and Home Improvement Stores	4.0%
Physicians and Medical Clinics	4.0%
Plumbing, Heating, & Air Conditioning Contractors	4.0%
Gasoline Stations (incl convenience stores w/gas)	3.9%
Home Health Care Services and Wellness Center	3.4%
Clothing Stores	2.3%
Furniture and Home Appliance Stores	2.2%
Printing, Advertisement, Marketing, PR Services	2.1%
Trucking and Towing Services	2.0%
Medical Labs and Services	2.0%
Barber Shops, Beauty Salons, Nail Salons	1.8%
Other	49.3%
Total	100%

California	19%
Florida	12%
Texas	7%
New York	6%
New Jersey	5%
Georgia	4%
Pennsylvania	4%
Ohio	3%
Virginia	3%
Arizona	3%
Other	33%
Total	100%

SUBSEQUENT DEVELOPMENTS

- During the first four months of 2014, the Company sold part of its commercial loans on a non-recourse basis, at no gain or loss, for total proceeds of $25,532,705 to third parties. 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.

- 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'). Palos Management Inc received agency fees of USD$7,044 relating to USD$ 2,358,960 of the loans sold to a third party purchaser. A fund managed by Palos Management Inc also purchased USD$4,251,981 of loans receivable during the first four months of 2014. These loans also met the derecognition criteria contained in IAS 39 as above.

- On February 24, 2014, the Company renewed and increased its finance credit facility with a third party lender from US$10 million to US$15 million for an additional one year term. Under the renewed agreement with the lender, interest on the facility will be reduced by two percent to a per annum rate of 10 percent above US base rate in any month where the average outstanding balance on the facility is equal to or greater than US$6.0 million, the interest on the facility will be further reduced by one percent to a per annum rate of 9 percent above US base rate in any month where the average outstanding balance on the facility is equal to or greater than US$10.0 million. The terms of the renewal will come into effect on June 14, 2014 for a period of one year.

- On March 17, 2014, the Company voluntarily delisted from the Canadian Stock Exchange and listed its shares on the TSX Venture Exchange.

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at April 17, 2013:

Outstanding Share data	
Ordinary shares issued and outstanding:	**Number of shares issued**
31 December 2012	**38,809,453**
Shares issued during the period	**9,565,070**
Shares outstanding at April 17, 2014	**48,374,523**
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	**(2,541,116)**
Warrants outstanding on April 17, 2014	**11,166,744**

Options issued and outstanding:	Number of Options issued
December 31, 2012	1,971,242
Options issued	1,489,000
Options forfeited	(120,000)
Options expired	306,242
Options exercised	(250,000)
Options outstanding on April 17, 2014	2,784,000

BUSINESS OUTLOOK

IOU Financial's focus for 2014 will be to continue to grow its business in a sustainable manner while focusing on maintaining acceptable levels of delinquencies and credit losses. Management will continue to routinely review and monitor its credit and collection policies and makes changes when and if required. IOU Financial expects that its financial and operating expenses will increase through-out the year, due to its significant ramp-up in personnel, debt financing and infrastructure during 2013. Emphasis will continue to be on growing the number of loans that the Company will make.

For the year 2014, IOU Financial will maintain its core strategy of identifying, recruiting, and partnering with business loan brokers throughout the United States while continuing to focus its efforts on building long-term partnerships with its existing broker base by investing time in offering great service through dedicated account executives. As of December 31, 2014, IOU Financial's broker network consisted of approximately 1,200 independent brokers distributed across the United States. During 2014, IOU Financial also intends to explore a number of opportunities for loan origination growth including geographic expansion, direct marketing, and new loan products that cater to different customer needs.

For the year 2014, after taking into account IOU Financial's economic outlook, planned investments in personal and systems, refinements to the underwriting platform, access to capital, as well as the competitive landscape, IOU Financial is targeting US$115 million in loan originations. This represents a 130% increase over the prior year's US$50 million.

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

Future changes in accounting policies include:

IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 (and amended in November 2013) 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. The effective date for IFRS 9 (as amended) is yet to be determined. 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.

Amendments to IAS 36, Impairment of assets, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendments to IAS 36 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, other receivables 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, deferred revenue, funds held in trust for third party lender, Financing credit facility and convertible demand promissory notes 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 December 31, 2013:

Cash $ 1,195,607

Cash held in trust $1,888,846

Other receivable $47,668

Loan investment receivable- Net $10,759,130

Accounts payable and accrued liabilities $ (243,289)

Credit facility $ (5,863,606)

Funds held in trust for third party lender $ (1,400,550)

The exchange rate applied as at December 31, 2013 was 1.0636 (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 $62,513 (2012: $39,541), 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 subsequent to year-end. Refer to Subsequent developments.

As at December 31, 2013 $538,499 of commercial loans were in transit (2012: $88,920).

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 2012 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 year.

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, 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 l'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.

On December 2, 2013, GBR Funding, Inc., a merchant cash advance company based in Atlanta, Georgia filed a lawsuit against IOU Financial, Inc., IOU Central, Inc., and four individual defendants – two current IOU Central employees, one former broker for IOU Central, and one current broker for IOU Central – in the Superior Court of Cherokee County, Georgia seeking up to 10 million US Dollars in damages. IOU Central was served with a copy of GBR Funding's complaint and related papers, through its registered agent, on December 16; IOU Financial was not served.

At the February 4, 2014 hearing on GBR Funding's emergency petition for temporary restraining order and preliminary injunction, GBR Funding agreed to (i) dismiss all claims against IOU Financial and one of the IOU Central employee defendants; (ii) withdraw its temporary restraining order/preliminary injunction request; and (iii) consent to the transfer of the remaining claims to the Superior Court for Cobb County, Georgia. In exchange, IOU Central agreed (i) to withdraw its motion to dismiss; (ii) to not accept loan applications from the former broker; and (iii) that the two IOU Central employee defendants would not solicit GBR Funding customers or brokers. The parties' agreement was read into the court record at the hearing and a stipulated order was entered by the court on February 24. The case has been transferred to the Superior Court for Cobb County, Georgia and the parties will move forward in that court. IOU Central will continue to actively defend against the remaining claims in this lawsuit.

In management's opinion, the lawsuit is without merit and the outcome of the lawsuit and the amount, if any, which the Company may be required to pay, is not determinable at this time. Consequently, no provision is accounted for in the financial statements.

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

(Signed) Mayco Quiroz

April 17, 2014

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Philippe Marleau, Director, President & CEO

Mayco Quiroz, Chief Financial Officer, Treasurer and Secretary

Evan Price – Director

Guy Charette – Director

David Cynn - Director

AUDITORS

BDO Canada LLP

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

HEAD OFFICE

IOU Financial Inc.
1 Place Ville-Marie
Suite 1812
Montreal, Quebec
H3B 4A9
Telephone: (514) 789-0694
Fax: (514) 789-0542

SUPPLEMENTARY INFORMATION

Supplementary documents regarding the Company are available on SEDAR's website (www.sedar.com) or upon written request to the Company's principal business centre:
1 Place Ville-Marie, Suite 1812, Montreal, Quebec, H3B 4A9.

MANAGEMENT'S REPORT

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

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

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

In the opinion of management, these financial statements incorporate, within reasonable limits, all important elements and data available as at April 17, 2014.

Mayco Quiroz
CFO of the Company
Montreal, April 17, 2014

Independent Auditor's Report

To the Shareholders of
IOU Financial Inc.

We have audited the accompanying consolidated financial statements of IOU Financial Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IOU Financial Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP/S.R.L./S.E.N.C.R.L. [1]

Montréal, Québec
April 17, 2014

[1] CPA auditor, CA public accountancy permit no. A106501

IOU Financial Inc.
Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012

IOU FINANCIAL INC.

Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012

PAGE

Tel: 514 931 0841
Fax: 514 931 9491
www.bdo.ca

BDO Canada s.r.l./S.E.N.C.R.L./LLP
1000, rue De La Gauchetière O.
Bureau 200
Montréal QC H3B 4W5 Canada

Independent Auditor's Report

To the Shareholders of
IOU Financial Inc.

We have audited the accompanying consolidated financial statements of IOU Financial Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Tel: 514 931 0841
Fax: 514 931 9491
www.bdo.ca

BDO Canada s.r.l./S.E.N.C.R.L./LLP
1000, rue De La Gauchetière O.
Bureau 200
Montréal QC H3B 4W5 Canada

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IOU Financial Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP/s.r.l./S.E.N.C.R.L. [1]

Montréal, Québec
April 17, 2014

IOU Financial INC.

Consolidated Statements of Financial Position
as at December 31, 2013 and December 31, 2012

	Note	**December 31, 2013** **$**	December 31, 2012 $
Assets			
Current assets			
Cash		**1,308,021**	1,919,626
Cash held in trust	4	**2,008,977**	286,115
Sales taxes receivable		**27,493**	48,370
Subscriptions receivable		**-**	665,000
Commercial loans receivable -net	5	**11,704,268**	5,483,574
Servicing asset	5	**571,954**	-
Other assets		**86,250**	34,371
Prepaids and deposits		**62,188**	58,113
Total current assets		**15,769,151**	8,495,169
Equipment	6	**38,876**	25,020
Intangible asset	7	**62,537**	133,185
Other loan	18	**50,699**	-
Total non-current assets		**152,112**	158,205
Total assets		**15,921,263**	8,653,374
Liabilities and Shareholders’ Equity			
Current liabilities			
Accounts payable and accrued liabilities	8	**423,657**	614,089
Loan contracts in transit	5	**538,499**	88,920
Funds held in trust for third party lender	5	**1,489,625**	125,577
Financing credit facility	9	**6,236,531**	2,576,673
Total current and total liabilities		**8,688,312**	3,405,259
Shareholders' Equity			
Share capital	11	**14,022,542**	11,594,097
Contributed surplus		**2,623,132**	1,983,784
Accumulated other comprehensive income/(loss)		**274,637**	(87,108)
Deficit		**(9,687,360)**	(8,242,658)
Total Shareholders’ Equity		**7,232,951**	5,248,115
Total liabilities and Shareholders’ Equity		**15,921,263**	8,653,374

Commitments and Contingency (Note 20)

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

Approved by the Board:
Phil Marleau (*signed*), Director
Mayco Quiroz (*signed*), Officer

IOU Financial INC.

Consolidated Statements of Comprehensive Loss
For the Years Ended December 31, 2013 and 2012

	Note	For the year ended December 31, 2013	For the year ended December 31, 2012
		$	$
Financial Revenue			
Financing revenue	**14**	**3,223,238**	907,775
Other fees and servicing income	**14**	**290,417**	29,755
Net gain recognized on sale of loans	**5**	**533,450**	-
Total Financial Revenue		**4,047,105**	937,530
Financial expenses			
Interest expense		**670,790**	162,399
Provision for loan losses – net of recoveries	**5**	**1,357,736**	273,511
Total Financial expenses		**2,028,526**	435,910
Net financial income before operating and other expenses		**2,018,579**	501,620
Operating expenses	**16**	**3,463,281**	2,299,076
Operating loss		**1,444,702**	1,797,456
Loss before income taxes		**1,444,702**	1,797,456
Income taxes	**15**	**-**	-
Total net loss for the year		**1,444,702**	1,797,456
Other comprehensive loss:			
Items that may be reclassified subsequently to net loss:			
Currency translation differences		**(361,745)**	78,780
Total comprehensive loss for the year		**1,082,957**	1,876,236
Comprehensive loss attributable to:			
Common shareholders		**1,082,957**	1,876,236
Net loss attributable to:			
Common shareholders		**1,444,702**	1,797,456
Loss per share:			
Basic and diluted loss per share	**13**	**0.03**	0.06

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

IOU Financial INC.

Consolidated Statements of Changes in Shareholders' Equity
for the Years Ended December 31, 2013 and 2012

	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Accumulated other comprehensive loss ($)	Total shareholders' 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	-	-	207,784	-	-	207,784
Warrants issued	-	(5,883)	5,883	-	-	-
Equity component of debt	-	-	9,963	-	-	9,963
Broker Warrants	-	-	113,585	-	-	113,585
April Private Placement First tranche	900,000	283,667	52,380	-	-	336,047
April Private Placement Second Tranche	2,192,500	732,181	67,529	-	-	799,710
Net loss and comprehensive loss	-	-	-	(1,797,456)	(78,780)	(1,876,236)
December Private Placement First tranche	6,122,250	1,819,402	345,295	-	-	2,164,697
December Private Placement Second tranche	1,662,500	476,088	93,765	-	-	569,853
Balance as at December 31, 2012	38,809,453	11,594,097	1,983,784	(8,242,658)	(87,108)	5,248,115

	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Accumulated other comprehensive income ($)	Total shareholders' equity($)
Balance as at January 1, 2013	38,809,453	11,594,097	1,983,784	(8,242,658)	(87,108)	5,248,115
Private Placement -Third tranche (Note 11 (i))	3,957,250	1,112,297	347,891	-	-	1,460,188
Private Placement - Fourth Tranche (Note 11 (ii))	2,447,000	697,016	192,586	-	-	889,602
Private Placement - Fifth tranche (Note 11 (iii))	987,500	302,157	65,773	-	-	367,930
Warrants exercised	250,000	132,500	(7,500)			125,000
Cashless exercise of share warrants (Note 11(iv))	336,794	184,475	(184,475)	-	-	-
Net loss and comprehensive loss	-	-	-	(1,444,702)	361,745	(1,082,957)
Stock based compensation (Note 11)	-	-	225,073	-	-	225,073
Balance as at December 31, 2013	46,787,997	14,022,542	2,623,132	(9,687,360)	274,637	7,232,951

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

IOU Financial INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	Note	2013 $	2012 $
Operating Activities			
Net loss for the year		**(1,444,702)**	(1,797,456)
Non- cash items included in net loss	17	**(2,634,520)**	(577,954)
Net change in non-cash working capital items	17	**(31,938,839)**	(4,593,941)
Interest received		**2,379,798**	870,225
Interest expense		**670,790**	162,399
Cash used in operating activities		**(32,967,473)**	(5,936,727)
Financing Activities			
Funds held in trust for third party		**1,364,048**	125,577
Interest expense		**(670,790)**	(162,399)
Sale of commercial loans		**26,406,576**	1,383,965
Issuance of loan payable		**-**	300,000
Repayment of loan payable		**-**	(300,000)
Issuance of equity, net of transaction costs		**3,382,721**	3,318,892
Warrants exercised		**125,000**	-
Transaction costs associated with financing credit facility		**(154,330)**	(151,246)
Issuance of financing credit facility		**3,660,724**	2,632,114
Cash generated from financing activities		**34,113,949**	7,146,903
Investing Activities			
Additions to intangible asset		**(9,189)**	(109,383)
Additions to equipment		**(26,030)**	(24,637)
Cash held in trust		**(1,722,862)**	(263,995)
Cash used in investing activities		**(1,758,081)**	(398,015)
(Decrease)/Increase in cash		**(611,605)**	812,161
Cash beginning of year		**1,919,626**	1,107,465
Cash end of year		**1,308,021**	1,919,626

Supplemental cash flow information:

Non-cash transactions:

Shares issued and proceeds receivable	-	665,000

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

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 TSX Venture Exchange (TSX-V) as at March 17, 2014 (previously listed on the Canadian National Stock Exchange (CNSX)).

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 17, 2014.

2 Basis of preparation

The consolidated financial statements of IOU Financial Inc. have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRS Interpretations Committee (“IFRIC”) applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available–for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. Other measurement bases used are described in the applicable notes.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Use of Estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group’s accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described below:

1. Critical accounting estimates and assumptions

   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.

   1.1 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”.

1.2 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.

1.3 Deferred tax estimation

The recognition of deferred tax assets and liabilities involves making a series of assumptions including estimating the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future and the tax rates expected to apply to the period when the asset is realized or the liability is settled.

The realization of deferred tax assets ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised 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.

1.4 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 based on market conditions existing at the end of each reporting period. The Company has used discounted cash flow analysis to value debt.

1.5 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.

a. Servicing assets

The initial recognition of servicing assets requires the Company to make estimates of the fair value of the service to be provided which is based on market expectations at the time of the loan sale and may vary from the actual cash flows serviced.

2. Critical judgements in applying the company’s accounting policies

2.1 Investment tax credits

Management exercises judgment when accounting for investment tax credits due to the uncertainty associated with the government's final approval of the Company's claims. Credits are accounted for in the year when there is reasonable assurance of realization. Judgment is required in estimating the most likely recoverable amount based on the Company's history of investment tax credits received versus the amounts claimed. Further details on the estimates used are provided in the accounting policy "Investment tax credits".

2.2 Impairment of long-lived assets

The Company tests annually whether long-lived assets have suffered any impairment, in accordance with the accounting policy. Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows. Management must first determine the cash-generating units ("CGU's") to which the long-lived asset belongs based on the smallest identifiable group of assets that generates cash inflows. Management has determined that it has one CGU because all activities of the Company are centered on the commercial loans generated by its long-lived assets. Management must also assess annually whether there are any indicators of impairment, based on review of budgets versus actual results, or other factors that would indicate the need to assess impairment. In addition, judgment is required to estimate the discounted expected future cash flows that will be generated by the lending activities.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company has control. The group controls an entity when the group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

IOU Financial Inc. indirectly owns 100% of the issued share capital and 100% of the issued preferred share capital of IOU Central Inc. (Delaware). IOU Financial Inc. also owns 100% of the issued share capital of IOU Central Inc.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

Equipment

Equipment is stated at historical cost less residual value, accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The depreciation rate, residual value and useful life of equipment are reviewed annually and adjusted if appropriate. Depreciation based on the estimated useful life of the asset is calculated as follows:

Office equipment	20% straight line method
Computer equipment	30% straight line method

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

Investment tax credits

Investment tax credits are incentives from the Federal and Provincial governments to conduct research and development in Canada. The Company has incurred research and development expenditures that are eligible for investment tax credits.

The Company earns research and development investment tax credits by engaging in qualified research and development activities. The Company's policy is to recognize investment tax credits, in the year when there is reasonable assurance of their realization, due to the uncertainty associated with the government's final approval of the Company's claims. Investment tax credits received are recorded against the asset, to which previously capitalized research and development cost had been allocated.

Intangible asset (Internal use software)

The costs to develop software for the Company's website and online loan platform are capitalized when management has authorized and committed project funding, preliminary development efforts are successfully completed, and it is probable that the project will be completed and the software will be used as intended. Capitalized software development costs primarily include fees paid to outside consultants and salaries for employees directly involved in the development efforts. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed. Costs incurred for upgrades and enhancements that are considered to be probable to result in additional functionality are capitalized. The Company capitalizes expenditures for betterments and expenses amounts for maintenance, repairs and renewals as they are incurred.

Software development costs are reduced by related government assistance and tax incentives.

Internal use software is stated at cost less accumulated amortization. Amortization and useful lives are reviewed annually. Capitalized costs are amortized using the straight-line method over their expected lives which presently approximate three years.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following categories: loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Management determines the classification of its financial instruments at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. The classification of financial assets and financial liabilities is as follows:

	Classification	Measurement
Financial assets:		
Commercial loans receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost
Other loan	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Funds held in trust for third party lender	Other financial liabilities	Amortized cost
Financing credit facility	Other financial liabilities	Amortized cost

Recognition and measurement

Loans and receivables and other financial liabilities

Loans and receivables and other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost, less impairment losses, using the effective interest rate method.

Fair value

The fair value of financial instruments on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

Impairment of commercial loans receivable

The Company assesses on an ongoing basis whether a loan is impaired and an impairment loss is only incurred when objective evidence of impairment exists. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows. Individual impairment is identified at the end of each reporting period by making judgments about the probability of an account going into default based upon information known by management.

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 payment performance of customers could be different from the assumptions used to determine the impairment and there can be no assurance that expected future cash flows will be realized. As such, the measurement of impairment of loans receivable is subject to a high level of uncertainty and changes in estimates, assumptions, or circumstances may cause future assessments to be significantly different than current assessments and may require an increase or decrease in the allowance. All assumptions are reviewed regularly.

Any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of the allowance for loan losses and the amount of the loss is recognized in the consolidated statement of comprehensive loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive loss, or as a reversal to the allowance for loan losses.

Loan sales

In the normal course of business, the Company may sell its interests in commercial loans receivable. 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.

Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the consolidated statement of comprehensive loss.

Transaction costs

Transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and deducted from Equity, net of any related income tax benefit. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. Transaction costs for all financial instruments not at fair value through profit and loss are added to the carrying amount of the instrument.

Provisions

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

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

Revenue recognition

IOU Financial's revenue comprises the fair value of the consideration received or receivable for services provided in the ordinary course of business.

The Company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company.

a) Financing Revenue

Financing revenue is recognized in the statement of comprehensive loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows though the expected life of the financial asset back to the net carrying amount. This calculation takes into account all contractual terms of the financial instrument including fee income charged to the borrower on the origination of the financial asset ("loan origination fees"), net of any transaction costs that are directly attributable to the financial asset but not future credit losses. Under the effective interest method, the interest realized is not necessarily the same as the stated loan interest rate. The application of this method has the effect of recognizing revenue on the financial asset evenly in proportion to the amount outstanding over the period of repayment.

When a loan is classified as impaired, the original expected timing and amount of future cash flows may be revised to reflect new loan circumstances. Financing revenue continues to be recognized using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. This is offset by a corresponding adjustment to the loan loss provision charge to reflect the fact that this additional revenue may not be collectible.

Interest income and guarantee fee income is thereafter recognized on this impaired carrying value using the effective interest rate. Additional changes to the amount or timing of future cash flows could result in further loan losses, or the reversal of prior loan losses, which would also impact the amount of subsequent income recognized.

b) Other fees and servicing income

Fee income that is integral to the effective yield of a financial asset is recognized as an adjustment to the effective interest rate calculation and is included in financing revenue.

Fee and servicing revenue comprises of service fees, non-sufficient funds fees and referral fees.

Service fees are charged on loans sold to third parties where the Company retains the servicing rights on the loans.

Non-sufficient funds fee revenue is charged and collected on all missed payments and recognized as it is earned.

Referral fee revenue is collected upon the successful referral and funding of unfunded loan applications to third parties. This revenue is recognized when it is earned.

All fee and servicing revenue is recognized as services are provided and when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and cash held in trust on behalf of third parties.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Share Capital

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

Contributed surplus

Contributed surplus is used to record the accumulated fair value of stock options recognized as share based payments and warrants issued. Contributed surplus is increased by the fair value of these items on vesting and is reduced by corresponding amounts when the options and warrants are exercised, cancelled or expire.

Foreign exchange

a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Canadian dollars. The functional currency of IOU Central Inc. (Delaware) is the U.S. dollar, while the rest of the group has a functional currency of the Canadian dollar.

b) Group companies

The assets and liabilities of subsidiaries with a U.S. dollar functional currency are translated at the exchange rate prevailing on the reporting date, and revenues and expenses at the average rates during the reporting period. Foreign currency gains or losses resulting from the translation of these subsidiaries is recorded in other comprehensive loss with a corresponding increase or decrease to foreign currency translation reserve, which is a component of the Company's equity.

Share-based compensation

The Company operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employeeand others providing similar services received in exchange for the grant of options is recognized as an expense with a corresponding increase to contributed surplus. The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date.

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital. Any amounts previously credited to contributed surplus relating to the original stock-based compensation is also allocated to share capital.

The grant by the Company of options over its equity instruments to employees of a subsidiary of the company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit (loss).

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Earnings/(loss) per share

Earnings/(loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is computed using the treasury stock method, giving effect to the exercise of all stock options, warrants and convertible debts. The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of these elements.

Current and future changes in accounting policies

The company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 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. However, this resulted in additional disclosures in Note 5.

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 12 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.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 (and amended in November 2013) 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. The effective date for IFRS 9 (as amended) is yet to be determined. 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.

Amendments to IAS 36, Impairment of assets, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendments to IAS 36 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.

4. Cash held in trust

Cash held in trust amounted to $2,008,977 (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.

5. Commercial loans receivable

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

	December 31, 2013	December 31, 2012
	$	$
Principal balance of commercial loans receivable	**12,351,031**	5,581,231
Unamortized fees and transactions costs	**372,782**	2,272
Commercial loans receivable	**12,723,813**	5,583,503
Less allowance for loan losses	**(1,019,545)**	(99,929)
Commercial loans receivable -net	**11,704,268**	5,483,574

The loans bear fixed interest at rates ranging between 12% - 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. At December 31, 2013, $538,499 (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 in accordance with the Company’s accounting policy.

The fair value of the loans (net of allowance), at December 31, 2013 and December 31, 2012 was $11,331,486 and $5,481,302 respectively.

Movements in the allowance for loan losses are as follows:

	December 31, 2013	December 31, 2012
	$	**$**
Allowance at January 1	**99,929**	-
Provision for receivables impairment	**1,416,645**	273,511
Receivables written off during the year as uncollectible	**(532,715)**	(173,608)
Foreign exchange	**35,686**	26
Allowance at the end of the period	**1,019,545**	99,929
Recoveries of previously charged off loans	**58,909**	-

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

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

	December 31, 2013	December 31, 2012
	$	$
Allowance for loan losses - collective	**50,542**	-
Allowance for credit losses - individual	**969,003**	99,929
	1,019,545	99,929

Age and Credit Quality:

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

	December 31, 2013		December 31, 2012	
Age	$		$	
Current	**11,223,612**	**88.21%**	5,116,193	91.63%
Payments in arrears:				
1 to 21 payments	**246,646**	**1.94%**	321,754	5.76%
22- 63 payments	**463,877**	**3.65%**	58,384	1.05%
64 + payments	**789,678**	**6.20%**	87,172	1.56%
Total	**12,723,813**	**100%**	5,583,503	100%

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

	December 31, 2013		December 31, 2012	
Credit Quality	$		$	
Neither past due nor impaired	**11,223,612**	**88.21%**	5,116,193	91.63%
Past due but not impaired:				
1 to 21 payments	**204,726**	**1.61%**	321,754	5.76%
22-63 payments	**271,320**	**2.13%**	8,689	0.16%
Impaired	**1,024,155**	**8.05%**	136,867	2.45%
Total	**12,723,813**	**100%**	5,583,503	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 year ended December 31, 2013, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $26,406,576 (2012: $1,383,965). 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 net gain recognized sale of the commercial loans of $533,450 for the year ended December 31, 2013 (2012: Nil), along with a servicing asset that will be amortized to the statement of comprehensive loss over the term of the servicing asset. At December 31, 2013, the carrying amount of this asset amounted to $571,954 (December 31, 2012 – Nil). The servicing asset is determined by comparing the actual expected cash flows to be received to the fair value of providing such services. The fair value of the servicing was determined by using readily available third-party pricing for a similar type of service, which is around 1% of the total principal and interest collected over the term of the servicing period.

At December 31, 2013, there was $1,489,625 (December 31, 2012: $125,577) held in trust on behalf of these purchasers.

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	18,145	26,030
Balance at December 31, 2013	44,411	36,155	80,566
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 year	4,581	7,593	12,174
Balance at December 31, 2013	27,331	14,359	41,690
Carrying amounts			
At December 31, 2012	13,776	11,244	25,020
At December 31, 2013	17,080	21,796	38,876

7. Intangible asset

Intangible asset is comprised of internal use software.

	December 31, 2013 $	December 31, 2012 $
Cost		
Beginning of Year	**1,165,493**	1,056,110
Investment tax credits applied	**(28,840)**	(28,064)
Additions –Internally developed	**38,029**	137,447
Balance – End of Year	**1,174,682**	1,165,493
Accumulated amortization		
Balance - Beginning of Year	**1,032,308**	942,554
Amortization charge for the year	**79,837**	89,754
Balance – End of Year	**1,112,145**	1,032,308
Carrying amount		
December 31, 2012	**133,185**	
December 31, 2013	**62,537**	

8. Accounts payable and accrued liabilities

	December 31, 2013 $	December 31, 2012 $
Trade Payables	**247,106**	507,132
Other payables and accruals	**176,551**	106,957
Total	**423,657**	614,089

9. Financing credit facility

At December 31, 2013 and December 31, 2012, the carrying value of the liability amounted to:

	2013 $	2012 $
Financing credit facility	**6,308,059**	2,632,114
Less transaction costs (net of amortization)	**(71,528)**	(69,153)
Provision for minimum finance costs	**-**	13,712
Total	**6,236,531**	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 CAD$3 million. Interest on the facility was 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 CAD$3 million to US$10 million for an additional one year term. The lender had 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 was equal to or greater than US$6.0 million, the interest on the facility would 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 was equal to or greater than US$10.0 million, the interest on the facility would 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 agreement was further amended and renewed on 24 February 2014, see "Events of the reporting date" note 21.

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", transaction 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 $153,464 (December 31, 2012: $82,093) has been included in "Operating expenses" (Note 16).
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 December 31, 2013 ($)**	**Carrying Amount at December 31, 2012 ($)**
Equipment	38,876	25,020
Commercial loans receivable-net	11,704,268	5,483,574
Intangible asset	62,537	133,185
Cash	1,936,167	2,128,216
Subscriptions receivable	-	665,000
Other assets	226,630	143,854

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. Convertible Promissory Note

On February 12, 2010, the Company's subsidiary signed a convertible promissory note agreement with a third party investor. The face value of the note was USD$350,000. The note was convertible at the option of the holder into shares of IOU Financial at a price of USD$0.34 per share.

On February 12, 2012, the holder requested conversion of the note and unpaid interest of USD$4,012 into 1,027,267 Class B common shares of the Company.

11. 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.

Issued

	December 31, 2013 $	December 31, 2012 $
46,787,997 (2012: 38,809,453) Class B shares	**14,022,542**	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	(954,590)
Balance at December 31, 2013	12,753,270

As at December 31, 2013 outstanding share purchase warrants are:

Exercise Price	Expiry Date	#	Note
$0.50	03-Apr-14	12,000	
$0.40	05-Apr-14	22,500	
$0.40	13-Apr-14	151,250	
$0.40	30-May-14	30,000	
$0.60	21-Jun-14	4,591,687	
$0.60	28-Jun-14	1,246,875	
$0.60	19-Aug-14	2,967,937	**(i)**
$0.60	14-Sept-14	1,835,250	**(ii)**
$0.60	26-Sept-14	740,625	**(iii)**
$0.40	30-May-17	60,000	
$0.40	21-Dec-17	459,155	
$0.40	28-Dec-17	126,750	
$0.40	19-Feb-18	247,206	**(i)**
$0.40	14-Mar-18	201,785	**(ii)**
$0.40	26-Mar-18	60,250	**(iii)**
TOTAL		**12,753,270**	

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 (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 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 share capital.

iv) On December 16, 2013 704,590 warrants were exercised under a cashless exercise provision, resulting in the issue of 336,794 Class B common shares for nil consideration.

Stock-Based Compensation:

Employee Stock Option Plan:

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

The employee options granted in 2012 and 2013 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.

Share options awarded during the year ended December 31, 2013 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 December 31, 2013	3,034,000	0.40

The following summarizes information about share options outstanding at December 31, 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	

Out of the 3,034,000 outstanding options (2012: 1,971,242) 1,609,666 options (2012: 888,848) were exercisable.

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.

	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.

	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 year ended December 31, 2013, the Company recognized a stock based compensation cost relating to the above employee stock option plan of $225,073 (December 31, 2012: $193,412).

12. Financial risk management

12.1 Financial risk factors

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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. 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 year.

a) 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.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company establishes an allowance for losses that corresponds to the credit risk of its specific customers, historical trends and economic circumstances. The Company does not believe it is exposed to an unusual level of customer credit risk. The Company’s maximum credit risk is the carrying value of the cash, cash held in trust, other receivables and commercial loans receivable. As of December 31, 2013, $1,024,155 (2012 - $136,867) of the commercial loans receivable were impaired and an allowance for expected losses of $1,019,545 (2012 - $99,929) has been established (Refer to Note 5).

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.

b) Liquidity Risk

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

The Company manages liquidity risk through the management of its capital structure. The Company has been financed mainly through equity offerings, loan sales, and the use of its credit facility. In order to meet its liabilities when they come due the Company is dependent on the continued availability of such financing activities..

As at December 31, 2013 $538,499 of commercial loans were in transit (2012: $88,920).

The following are the contractual maturities of financial liabilities, as at December 31, 2012:

	Carrying amount	0 to 12 months	1 to 2 years
	$	$	$
Accounts payable and accrued liabilities	614,089	614,089	-
Loan contracts in transit	88,920	88,920	-
Funds held in trust for third party lender	125,577	125,577	-
Financing credit facility	2,576,673	2,576,673	-

The following are the contractual maturities of financial liabilities, as at December 31, 2013:

	Carrying amount	0 to 12 months	1 to 2 years
	$	$	$
Accounts payable and accrued liabilities	423,657	423,657	-
Loan contracts in transit	538,499	538,499	-
Funds held in trust for third party lender	1,489,625	1,489,625	-
Financing credit facility	6,236,531	6,236,531	-

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

The Company's foreign exchange exposure as at December 31, 2013 and 2012 relates to US dollar commercial loans receivable, cash, accounts payable and accrued liabilities and Financing credit facility. The exchange rate applied as at December 31, 2013 was 1.0636 (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 $62,513 (2012: $39,541), 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.

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

12.2 Capital risk management

The Company defines Capital to be total shareholder's equity, which includes share capital, and certain debt, specifically the financing credit facility.

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

Since inception, the Company has financed its liquidity needs primarily through private placements, the sale of loans and issuance of commercial loans and convertible notes. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including research and development tax credits. During the current year, the Company has met its objectives by raising additional capital of $3,382,721 (2012:$3,318,892) net of transaction costs. The capital management objectives listed above have not changed since the previous fiscal year.

The Company is not subject to externally imposed capital requirements.

13. Loss per share

	For the years ended December 31	
	$	$
	2013	2012
Basic and diluted loss per share		
Net loss	**(1,444,702)**	(1,797,456)
Less: loss attributable to non-controlling interest	**-**	-
Loss used in the calculation of basic loss per share	**(1,444,702)**	(1,797,456)
Weighted average number of ordinary shares for the purposes of basic loss per share	**45,166,810**	30,211,213
Basic and diluted loss per share	**(0.03)**	(0.06)

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

	For the years ended December 31	
	$	$
	2013	2012
Stock options	**3,034,000**	1,971,242
Warrants	**12,753,270**	11,751,237
Number of shares	**15,787,270**	13,722,479

14. Revenue by category

	For the years ended December 31	
	$	$
	2013	2012
Analysis of revenue by category:		
- Financing revenue	**3,223,238**	907,775
Total financing revenue	**3,223,238**	907,775
Other fees and servicing income:		
- Non- sufficient funds fees	**20,796**	3,158
- Referral fees	**8,370**	15,016
- Servicing fees	**558,694**	11,581
- Amortization of servicing asset	**(297,443)**	-
Total other fees and servicing income	**290,417**	29,755

(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. In 2012, some of these fees were presented separately in the statement of comprehensive income, however the Company has presented these fees net as management believes this presentation to be more relevant.

15. Income Tax

Tax expense comprises:

	Year ended 12/31/2012 $	Year ended 12/31/2011 $
Current tax expense	-	-
Deferred tax expense	-	-
Total tax expense	-	-

Current tax expense

Income taxes reported differ from the amount computed by applying the statutory rates to the net loss. The reasons are as follows:

	2013	2012
Canadian statutory tax rates	**26.90%**	**26.90%**
Statutory income taxes	**(291,315)**	**(504,708)**
Permanent differences	**(57,075)**	**103,118**
Stock-based compensation	**60,545**	**55,894**
Difference in foreign tax rates	**(46,169)**	**(119,487)**
Foreign exchange	**(97,084)**	**-**
Net change to unrecognized tax assets	**489,303**	**528,415**
Adjustment to prior year estimates and other	**(58,205)**	**(63,232)**
Effective Income Taxes	**$ -**	**$ -**

Deferred tax balances

2013	Opening balance $	Recognized in profit (loss) $	Closing Balance $
Temporary differences			
Equipment and intangible asset	365,364	2,191	367,555
Financing and legal fees	166,398	(40,725)	125,673
Allowance for doubtful accounts and other	53,504	331,113	384,617
Servicing asset	-	(219,167)	(219,167)
	585,266	73,412	658,678
Unused tax losses and credits			
Tax losses	1,641,209	399,484	2,040,693
Research and development expenses	81,373	16,406	97,779
	2,307,848	489,302	2,797,151
Unrecognized deferred tax assets	(2,307,848)	(489,302)	(2,797,151)
	-	-	-

2012	**Opening balance $**	**Recognized in profit (loss) $**	**Closing Balance $**
Temporary differences			
Equipment and intangible asset	389,105	(23,741)	365,364
Financing and legal fees	103,028	63,370	166,398
Convertible debentures	2,709	(2,709)	-
Allowance for doubtful accounts and other	-	53,504	53,504
	494,842	90,424	585,266
Unused tax losses and credits			
Tax losses	1,220,504	420,705	1,641,209
Research and development expenses	64,087	17,286	81,373
	1,779,433	528,415	2,307,848
Unrecognized deferred tax assets	(1,779,433)	(528,415)	(2,307,848)
	-	-	-

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income under U.S. jurisdiction in which the Company operates.

As at December 31, 2013, there were approximately $1,217,000 Federal, $1,217,000 Provincial and $4,282,000 U.S. tax losses that may be applied against earnings of future years, not later than as follows:

	Federal $	**Provincial $**	**U.S $**
2027			
2028			34
2029	13	13	92
2030			74
2031	36	36	66
2032	37	37	1,255
2033	25	25	35

The possible income tax benefits have not been recognized in the accounts.

For U.S. tax purposes, as a result of a change in ownership in 2011, the Company is only allowed to utilize a maximum of $200,000 US of losses carried forward per year that arose prior to the change in ownership. The losses that were incurred after the change in ownership are excluded from this restriction.

As at December 31, 2013, the Company had approximately $272,939 Federal and $477,630 Provincial in unclaimed research and development expenditures available to be deducted for tax purposes. Those expenses may be deducted in any year in the determination of income for tax purposes. The deferred income tax benefit of these deductions is not recognized in the accounts.

16. Operating expenses

	2013 $	2012 $
Operating expenses:		
Wages and Salaries	**1,646,586**	757,399
Credit on qualifying wages	**(86,250)**	-
Stock based compensation	**225,073**	207,784
Consulting fees	**75,813**	19,464
Sales Taxes	**(78,353)**	42,753
Rental Expense	**114,486**	92,773
Insurance	**52,701**	59,130
Amortization of transactions costs – credit facility (Note 9)	**153,464**	82,093
Interest and bank charges	**38,401**	21,081
Professional Fees	**134,032**	309,019
Legal and accounting fees	**414,452**	269,955
Business Fees and Licenses	**42,481**	31,663
Travel and Entertainment	**85,247**	62,305
Telecommunications	**31,759**	17,281
Data services, IT costs and other	**344,492**	112,659
Advertising and Promotion	**176,886**	106,390
Depreciation and amortization	**92,011**	97,364
Interest Accretion	**-**	9,963
Total Operating Expenses	**3,463,281**	2,299,076

17. Supplemental cash flow information

Cash flows from operations include interest paid of $670,790 (2012 - $183,480)

Non-cash items included in net loss:

	2013 $	2012 $
Currency translation differences	**361,745**	(78,780)
Depreciation of equipment	**12,174**	7,516
Amortization of intangible asset	**79,837**	89,754
Amortization of servicing asset	**297,443**	-
Increase in provision for minimum finance costs payable	**-**	13,712
Stock-based compensation	**225,073**	207,784
Financing revenue	**(3,223,238)**	(907,775)
Net gain on sale of loans	**(533,450)**	-
Unrealized foreign exchange loss (gain)	**(7,568)**	7,742
Amortization of transactions costs- financing credit facility	**153,464**	82,093
	(2,634,520)	(577,954)

Net change in non-cash working capital items is comprised of the following:

	2013 $	2012 $
Sales taxes receivable	**20,877**	(9,126)
Other assets and loan	**(102,578)**	283
Commercial loans receivable	**(32,112,210)**	(4,952,153)
Prepaid and deposits	**(4,075)**	(5,797)
Loan contracts in transit	**449,579**	13,037
Accounts payable and accrued liabilities	**(190,432)**	359,815
	(31,938,839)	(4,593,941)

18. Related party transactions

Except as disclosed elsewhere, the Company had the following transactions with related parties:

g) 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 $44,972 has been included in Professional service fees for the 2012 period. This agreement was terminated by the Company in June 2012.

h) 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 year relating to this lease amounts to $57,800 excluding applicable taxes (2012: $ 54,400). The terms of this operating lease are similar to those that would have been present for an arm's length transaction.

i) 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 $5 million private placement amounting to $70,217 (2012: $119,424) and $175,543 (2012: $298,561) respectively. Palos Management Inc. also received agency fees of USD$2,728 (2012: Nil) relating to USD$ 2,195,316 of loans sold to a third party purchaser.

j) At year end, unsecured officer loans owed to the Company amounted to $50,699 (USD$ 47,668) and have no fixed terms of repayment.

k) Key Management Compensation

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

	2013 $	2012 $
Salaries and other short-term employee benefits	**463,418**	380,552
Share-based payments	**210,555**	175,642
	673,973	556,194

19. Segment information

During the year, the Company reviewed its reportable operating segments according to the manner in which the information is used by the chief operating decision maker and determined that it operates in two reportable operating segments: Lending and Servicing. These segments have been identified on the basis of services provided. There has been no aggregation of segments and all revenues from these segments are attributed to the United States of America. There were no separately reportable operating segments at December 31, 2012.

The Company's Lending segment originates and retains loans as part of its loans receivable portfolio. The Company's Servicing segment services loans that have been sold to third party purchasers on a non-recourse basis in exchange for a servicing fee.

The chief operating decision maker assesses segment performance based on segment operating loss/income which is defined as operating loss before certain non cash items, corporate expenses and depreciation and amortization.

Substantially all of the Company's non-current assets are located in the USA.

There are no sales between segments and all transactions with third parties are carried out on an arm's length basis. The accounting policies of the segments reported are the same as those described in Note 3 of these consolidated financial statements.

Revenues and expenses for the year ended December 31, by segment are as follows:

			2013			**2012**
	Lending	**Servicin**	**Total**	**Lending**	**Servicin**	**Total**
Financial revenue						
Financing revenue	3,223,238	-	3,223,238	907,775		907,775
Fee income	29,166	-	29,166	18,174		18,174
Servicing income	-	558,694	558,694		11,581	11,581
Accelerated recognition of transaction costs on loans sold	-	(328,379)	(328,379)			
Total segment revenue	3,252,404	230,315	3,482,719	925,949	11,581	937,530
Financial expenses						
Interest expense	670,790	-	670,790	162,399	-	162,399
Provision for loan losses	1,357,736	-	1,357,736	273,511	-	273,511
Total financial expenses	2,028,526	-	2,028,526	435,910		435,910
Net financial income before operating and other expenses	1,223,878	230,315	1,485,129	490,039	11,581	501,620
Operating expenses	990,488	1,181,260	2,171,748	1,013,855	162,229	1,176,084
Total segment operating gain/(loss)	233,390	(950,945)	(717,555)	(523,816)	(150,648)	(674,464)

Reconciliation to total financial revenue and total net loss for the year ended December 31, is as follows:

	2013 Total	2012 Total
Total segment revenue	3,482,719	937,530
Amortization of servicing asset	(297,443)	
Gain on servicing asset	861,829	-
Total financial revenue as reported	4,047,105	937,530

	2013 Total	2012 Total
Total segment operating loss	717,555	674,464
Corporate allocation	820,984	735,752
Non-cash items:		
Gain on servicing asset	(861,829)	-
Depreciation and amortization	542,919	179,456
Stock based compensation	225,073	207,784
Total net loss for the period	1,444,702	1,797,456

Operating expenses are allocated to each segment based on the percentage of assets under management as follows:

	Lending	Servicing	Total	Lending	Servicin	Total
Assets under management	12,351,032	14,706,542	27,057,57	5,581,231	893,062	6,474,293
% distribution	46%	54%	100%	86%	14%	100%
Allocated operating expenses	990,488	1,181,260	2,171,748	1,013,855	162,229	1,176,084

Revenues from one customer of IOUF's servicing segment represents approximately $530,353 of the Company's total revenues

The assets and liabilities by segment are as follows:

	At December 31, 2013			At December 31, 2012		
	Lending	Servicing	Total	Lending	Servicin	Total
Asset:						
Cash held in trust	628,146	1,380,831	2,008,977	208,521	77,594	286,115
Other segment assets	13,340,332	-	13,340,332	8,367,259	-	8,367,25
Total segment assets	13,968,478	1,380,831	15,349,309	8,575,780	77,594	8,653,37

Reconciliation of total segment assets to total assets is as follows:

	At December 31, 2013 Total	At December 31, 2012 Total
Total segment assets	15,349,30	8,653,374
Servicing asset	571,954	-
Total reported assets	15,921,26	8,653,374

	At December 31, 2013			At December 31, 2012		
	Lending	**Servicing**	**Total**	**Lending**	**Servicin**	**Total**
Liabilities:						
Total liabilities	7,198,687	1,489,625	8,688,312	3,279,706	125,553	3,405,259

20. Commitments and Contingency

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	**83,507**
Later than 1 year and no later than 4 years	**56,788**
	140,295

ii) Contingency

On December 2, 2013, GBR Funding, Inc., a merchant cash advance company based in Atlanta, Georgia filed a lawsuit against IOU Financial, Inc., IOU Central, Inc., and four individual defendants – two current IOU Central employees, one former broker for IOU Central, and one current broker for IOU Central – in the Superior Court of Cherokee County, Georgia seeking up to 10 million US Dollars in damages. IOU Central was served with a copy of GBR Funding's complaint and related papers, through its registered agent, on December 16; IOU Financial was not served.

At the February 4, 2014 hearing on GBR Funding's emergency petition for temporary restraining order and preliminary injunction, GBR Funding agreed to (i) dismiss all claims against IOU Financial and one of the IOU Central employee defendants; (ii) withdraw its temporary restraining order/preliminary injunction request; and (iii) consent to the transfer of the remaining claims to the Superior Court for Cobb County, Georgia. In exchange, IOU Central agreed (i) to withdraw its motion to dismiss; (ii) to not accept loan applications from the former broker; and (iii) that the two IOU Central employee defendants would not solicit GBR Funding customers or brokers. The parties' agreement was read into the court record at the hearing and a stipulated order was entered by the court on February 24. The case has been transferred to the Superior Court for Cobb County, Georgia and the parties will move forward in that court. IOU

Central will continue to actively defend against the remaining claims in this lawsuit.

In management's opinion, the lawsuit is without merit and the outcome of the lawsuit and the amount, if any, which the Company may be required to pay, is not determinable at this time. Consequently, no provision is accounted for in the financial statements.

21. Events after the reporting date

- During the first four months of 2014, the Company sold part of its commercial loans on a non-recourse basis, at no gain or loss, for total proceeds of $24,133,410 to third parties. 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.

- 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'). Palos Management Inc received agency fees of USD$7,044 relating to USD$ 2,358,960 of the loans sold to a third party purchaser. A fund managed by Palos Management Inc also purchased USD$4,251,981 of loans receivable during the first four months of 2014. These loans also met the derecognition criteria contained in IAS 39 as above.

- On February 24, 2014, the Company renewed and increased its finance credit facility with a third party lender from US$10 million to US$15 million for an additional one year term. Under the renewed agreement with the lender, interest on the facility will be reduced by two percent to a per annum rate of 10 percent above US base rate in any month where the average outstanding balance on the facility is equal to or greater than US$6.0 million, the interest on the facility will be further reduced by one percent to a per annum rate of 9 percent above US base rate in any month where the average outstanding balance on the facility is equal to or greater than US$10.0 million. The terms of the renewal will come into effect on June 14, 2014 for a period of one year.

- On March 17, 2014, the Company voluntarily delisted from the Canadian Stock Exchange and listed its shares on the TSX Venture Exchange.