**IOU Financial Inc.**
**Condensed Consolidated Financial Statements**
**For the Six Months Ended June 30, 2014 and 2013**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**The accompanying interim condensed consolidated financial statements of IOU Financial Inc for the six months ended June 30, 2014 and 2013 have not been reviewed or audited by the Company's auditors.**

# IOU FINANCIAL INC.

## Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2014 and 2013

PAGE

# IOU Financial INC.

Interim Consolidated Statements of Financial Position
as at June 30, 2014, December 31, 2013

| | Note | **June 30, 2014** **$** | December 31, 2013 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | **4,301,197** | 1,308,021 |
| Cash held in trust | **4** | **3,015,534** | 2,008,977 |
| Sales taxes receivable | | **42,720** | 27,493 |
| Commercial loans receivable -net | **5** | **10,946,738** | 11,704,268 |
| Servicing asset | **5** | **1,226,693** | 571,954 |
| Other assets | | **145,826** | 86,250 |
| Prepaids and deposits | | **27,682** | 62,188 |
| **Total current assets** | | **19,706,390** | 15,769,151 |
| Equipment | **6** | **55,305** | 38,876 |
| Intangible asset | **7** | **35,507** | 62,537 |
| Other loan | **15** | **50,861** | 50,699 |
| **Total non-current assets** | | **141,673** | 152,112 |
| **Total assets** | | **19,848,063** | 15,921,263 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **8** | **336,891** | 423,657 |
| Loan contracts in transit | **5** | **703,415** | 538,499 |
| Funds held in trust for third parties | **5** | **2,244,073** | 1,489,625 |
| Financing credit facility | **9** | **6,551,256** | 6,236,531 |
| **Total current and total liabilities** | | **9,835,635** | 8,688,312 |
| **Shareholders' Equity** | | | |
| Share capital | **10** | **17,720,761** | 14,022,542 |
| Contributed surplus | | **2,498,884** | 2,623,132 |
| Accumulated other comprehensive income/(loss) | | **319,456** | 274,637 |
| Deficit | | **(10,526,673)** | (9,687,360) |
| **Total Shareholders' Equity** | | **10,012,428** | 7,232,951 |
| **Total liabilities and Shareholders' Equity** | | **19,848,063** | 15,921,263 |

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.

Interim Consolidated Statements of Comprehensive Loss
for the Three and Six Month Period Ended June 30, 2014 and 2013

| | Note | **For the three months ended June 30, 2014** | For the three months ended June 30, 2013 | **For the six months ended June 30, 2014** | For the six months ended June 30, 2013 |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **Financial Revenue** | | | | | |
| Financing revenue | **12** | **653,754** | 581,551 | **1,398,779** | 998,441 |
| Other fees and servicing income | **12** | **253,874** | 53,920 | **454,913** | 85,182 |
| Net gain recognized on sale of loans | **5** | **586,178** | 96,717 | **984,515** | 125,230 |
| **Total Financial Revenue** | | **1,493,806** | 732,188 | **2,838,207** | 1,208,853 |
| **Financial expenses** | | | | | |
| Interest expense | | **187,932** | 121,885 | **370,100** | 204,615 |
| Provision for loan losses – net of recoveries | **5** | **55,260** | 248,645 | **278,824** | 322,563 |
| **Total Financial expenses** | | **243,192** | 370,530 | **648,924** | 527,178 |
| **Net financial income before operating and other expenses** | | **1,250,614** | 361,658 | **2,189,283** | 681,675 |
| Operating expenses | **13** | **1,675,143** | 923,419 | **3,028,596** | 1,659,243 |
| **Operating loss** | | **424,529** | 561,761 | **839,313** | 977,568 |
| **Loss before income taxes** | | **424,529** | 561,761 | **839,313** | 977,568 |
| Income taxes | | **-** | - | **-** | - |
| **Total net loss for the period** | | **424,529** | 561,761 | **839,313** | 977,568 |
| **Other comprehensive loss:** | | | | | |
| **Items that may be reclassified subsequently to net loss:** | | | | | |
| Currency translation differences | | **211,524** | (233,582) | **(44,819)** | (307,414) |
| **Total comprehensive loss for the period** | | **636,053** | 328,179 | **794,494** | 670,154 |
| **Comprehensive loss attributable to:** | | | | | |
| Common shareholders | | **636,053** | 328,179 | **794,494** | 670,154 |
| **Net loss attributable to:** | | | | | |
| Common shareholders | | **424,529** | 561,761 | **839,313** | 977,568 |
| **Loss per share:** | | | | | |
| Basic and diluted loss per share | | **0.01** | 0.01 | **0.02** | 0.01 |

# IOU Financial INC.

Interim Consolidated Statements of Changes in Shareholders' Equity
for the Six Months Ended June 30, 2014 and 2013

| | Commons Shares (#) | Capital Stock ($) | Contributed Surplus ($) | Deficit ($) | Foreign currency translation reserve ($) | Total shareholders' equity($) |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2012 | 38,809,453 | 11,594,097 | 1,983,784 | (8,242,658) | (87,108) | 5,248,115 |
| Private Placement -Third tranche | 3,957,250 | 1,112,297 | 347,891 | - | - | 1,460,188 |
| Private Placement - Fourth Tranche | 2,447,000 | 697,016 | 192,586 | - | - | 889,602 |
| Private Placement - Fifth tranche | 987,500 | 302,157 | 65,773 | - | - | 367,930 |
| Warrants exercised | 250,000 | 132,500 | (7,500) | | | 125,000 |
| Net loss and comprehensive loss | - | - | - | (977,568) | 307,414 | (670,154) |
| Stock based compensation | - | - | 157,550 | - | - | 157,550 |
| Balance as at June 30, 2013 | 46,451,203 | 13,838,067 | 2,740,084 | (9,220,226) | 220,306 | 7,578,231 |

| | Commons Shares (#) | Capital Stock ($) | Contributed Surplus ($) | Deficit ($) | Accumulated other comprehensive income ($) | Total shareholders' equity($) |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2013 | 46,787,997 | 14,022,542 | 2,623,132 | (9,687,360) | 274,637 | 7,232,951 |
| Net loss and comprehensive loss | - | - | - | (839,313) | 44,819 | (797,494) |
| Warrants exercised (Note 10) | 5,323,483 | 3,581,819 | (464,444) | - | - | 3,117,375 |
| Options exercised (Note 10) | 250,000 | 116,400 | (3,900) | - | - | 112,500 |
| Stock based compensation (Note 10) | - | - | 344,096 | - | - | 344,096 |
| Balance as at June 30, 2014 | 52,361,480 | 17,720,761 | 2,498,884 | (10,526,673) | 319,456 | 10,012,428 |

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

# IOU Financial Inc.

Interim Consolidated Statements of Cash Flows
for the Six Months Ended June 30, 2014 and 2013

| | Note | **2014** **$** | 2013 $ |
|---|---|---|---|
| **Operating Activities** | | | |
| Net loss for the year | | **(839,313)** | (977,568) |
| Non- cash items included in net loss | **14** | **(1,556,576)** | (560,920) |
| Net change in non-cash working capital items | **14** | **(40,101,220)** | (12,327,590) |
| Interest received | | **1,398,779** | 998,441 |
| Interest expense | | **370,100** | 204,615 |
| Cash used in operating activities | | **(40,728,230)** | (12,663,022) |
| **Financing Activities** | | | |
| Funds held in trust for third parties | | **754,448** | 522,076 |
| Interest expense | | **(370,100)** | (204,615) |
| Sale of commercial loans | | **40,896,603** | 6,796,750 |
| Issuance of equity, net of transaction costs | | **-** | 3,382,721 |
| Warrants exercised | | **3,117,375** | 125,000 |
| Options exercised | | **112,500** | - |
| Transaction costs associated with financing credit facility | | **-** | (154,330) |
| Issuance/(repayment) of financing credit facility | | **243,197** | 2,496,666 |
| Cash generated from financing activities | | **44,754,023** | 12,964,268 |
| **Investing Activities** | | | |
| Additions to intangible asset | | **-** | (36,073) |
| Additions to equipment | | **(26,060)** | (16,413) |
| Cash held in trust | | **(1,006,557)** | (719,764) |
| Cash used in investing activities | | **(1,032,617)** | (772,250) |
| **Increase/(decrease) in cash** | | **2,993,176** | (471,004) |
| **Cash beginning of period** | | **1,308,021** | 1,919,626 |
| **Cash end of period** | | **4,301,197** | 1,448,622 |

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).

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 26, 2014.

## 2. Basis of preparation

The condensed interim consolidated financial statements of IOU Financial Inc have been prepared in accordance with International Accounting Standard 34 "Interim Financial reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRS.

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

## 3. Significant accounting policies

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

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 adoption of the amendments to IAS 32 did not have an impact on the Company's financial information.

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 adoption of this amendment to IAS 36 did not have an impact on the Company's financial information.

**New standards and interpretations not yet adopted**

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 January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

**Use of Estimates and judgements**

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2013.

## 4. Cash held in trust

Cash held in trust amounted to $3,015,534 (December 31, 2013: $2,008,977). Cash held in trust comprises funds held on behalf of third party loan purchasers, bonding insurance collateral and cash held as security for lending activities.

## 5. Commercial loans receivable

As at June 30, 2014 and December 31, 2013, the Company held commercial loans receivable as part of its regular operations

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Principal balance of commercial loans receivable | **10,978,430** | 12,351,031 |
| Unamortized fees and transactions costs | **249,414** | 372,782 |
| Commercial loans receivable | **11,227,844** | 12,723,813 |
| Less allowance for loan losses | **(281,106)** | (1,019,545) |
| Commercial loans receivable -net | **10,946,738** | 11,704,268 |

The loans bear fixed interest at rates ranging between 12.99% - 14.99% (December 31, 2013: 12.00% - 21.10%) and mature no later than 12 months after each balance sheet date. Guarantee fees charged on each loan range between 5.85% and 14.50% (December 31, 2013: 0.00% - 14.00%) 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 June 30, 2014, $703,415 (December 31, 2013: $538,499) 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 June 30, 2014 is $10,946,738 (December 31, 2013: $11,704,268)

Movements in the allowance for loan losses are as follows:

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Allowance at January 1 | **1,019,545** | 99,929 |
| Provision for receivables impairment | **410,044** | 1,416,645 |
| Receivables written off during the year as uncollectible | **(1,166,993)** | (532,715) |
| Foreign exchange | **18,510** | 35,686 |
| Allowance at the end of the period | **281,106** | 1,019,545 |
| Recoveries of previously charged off loans | **131,220** | 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:

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Allowance for loan losses - collective | **100,902** | 50,542 |
| Allowance for credit losses - individual | **180,204** | 969,003 |
| | **281,106** | 1,019,545 |

Age and Credit Quality:

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

| | **June 30, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| **Age** | $ | | $ | |
| Current | **10,627,680** | **94.65%** | 11,223,612 | 88.21% |
| Payments in arrears: | | | | |
| 1 to 21 payments | **201,216** | **1.79%** | 246,646 | 1.94% |
| 22- 63 payments | **182,779** | **1.63%** | 463,877 | 3.65% |
| 64 + payments | **216,169** | **1.93%** | 789,678 | 6.20% |
| Total | **11,227,844** | **100%** | 12,723,813 | 100% |

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

| | **June 30, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| **Credit Quality** | $ | | $ | |
| Neither past due nor impaired | **10,627,680** | **94.65%** | 11,223,612 | 88.21% |
| Past due but not impaired: | | | | |
| 1 to 21 payments | **151,537** | **1.35%** | 204,726 | 1.61% |
| 22 + payments | **216,122** | **1.93%** | 271,320 | 2.13% |
| Impaired | **232,505** | **2.07%** | 1,024,155 | 8.05% |
| Total | **11,227,844** | **100%** | 12,723,813 | 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 six month period ended June 30, 2014, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $40,896,603 (June 30, 2013: $6,796,750). 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 on the sale of the commercial loans of $984,515 for the six month period ended June 30, 2014 (June 30, 2013: $125,230), along with a servicing asset that will be amortized to the statement of comprehensive loss over the term of the servicing asset. At June 30, 2014, the carrying amount of this asset amounted to $1,226,693 (December 31, 2013: $571,954). 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 June 30, 2014, there was $2,244,073 (December 31, 2013: $1,489,625) held in trust on behalf of these purchasers.

## 6. Equipment

| | Office Equipment | Computer Equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 1, 2013 | 36,526 | 18,010 | 54,536 |
| Additions | 7,885 | 18,145 | 26,030 |
| Balance at December 31, 2013 | 44,411 | 36,155 | 80,566 |
| Additions | 8,386 | 17,674 | 26,060 |
| Balance at June 30, 2014 | 52,797 | 53,829 | 106,626 |
| **Accumulated depreciation** | | | |
| Balance at January 1, 2013 | 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 |
| Depreciation charge for the period | 3,173 | 6,458 | 9,631 |
| Balance at June 30, 2014 | 30,504 | 20,817 | 51,321 |
| **Carrying amounts** | | | |
| At December 31, 2013 | 17,080 | 21,796 | 38,876 |
| At June 30, 2014 | 22,293 | 33,012 | 55,305 |

## 7. Intangible asset

Intangible assets are comprised of internal use software.

| | **June 30, 2014** **$** | December 31, 2013 $ |
|---|---|---|
| **Cost** | | |
| Beginning of Year | **1,174,682** | 1,165,493 |
| Investment tax credits applied | **-** | (28,840) |
| Acquisitions –Internally developed | **-** | 38,029 |
| Balance – End of Year | **1,174,682** | 1,174,682 |
| **Accumulated amortization** | | |
| Balance - Beginning of Year | **1,112,145** | 1032,308 |
| Amortization charge for the year | **27,030** | 79,837 |
| Balance – End of Year | **1,136,175** | 1,112,145 |
| **Carrying amount** | | |
| December 31, 2013 | **62,537** | |
| June 30, 2014 | **35,507** | |

## 8. Accounts payable and accrued liabilities

| | **June 30, 2014** **$** | December 31, 2013 $ |
|---|---|---|
| Trade Payables | **259,367** | 247,106 |
| Other payables and accruals | **77,524** | 176,551 |
| Total | **336,891** | 423,657 |

## 9. Financing credit facility

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

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| | **$** | $ |
| Financing credit facility | **6,551,256** | **6,308,059** |
| Less transaction costs (net of amortization) | **-** | **(71,528)** |
| Total | **6,551,256** | **6,236,531** |

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 this renewal came into effect on June 15, 2013.

On February 24, 2014, the Company further renewed and increased this facility from US$10 million to US$15 million for an additional one year term. Under this renewal, 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 nine 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 came into effect on June 15, 2014 for a period of one year.

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 $73,775 (June 30, 2013: $76,045) has been included in "Operating expenses" (Note 13).

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 June 30, 2014 ($) | Carrying Amount at December 31, 2013 ($) |
|---|---|---|
| Equipment | 55,305 | 38,876 |
| Commercial loans receivable-net | 10,946,738 | 11,704,268 |
| Intangible asset | 35,507 | 62,537 |
| Cash | 4,301,197 | 1,936,167 |
| Other assets | 267,119 | 226,630 |

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

## 10. Capital stock

On May 23, 2014, the shareholders of the Company approved a special resolution whereby the Company's Articles of Incorporation were amended in order to restate its share capital by creating a new class of shares designated as Common Shares with no par value. Each Class B Common Share issued and outstanding immediately prior to this amendment, was changed into one Common Share for every Class B Common Share held. Each class B share reserved for issuance was also changed into one Common Share reserved for issuance for every Class B Common Share reserved for issuance. It was further resolved to cancel the authorized but unissued Class A subordinate shares, Class A preferred shares and class B preferred shares. Each Common Share will entitle the holder thereof to one vote at all meetings of the shareholders of the Company.

Authorized

Unlimited number of Common Shares entitled to one vote per share without par value.

**Issued**

| | **June 30, 2014 $** | December 31, 2013 $ |
|---|---|---|
| 52,361,480 ( December 31, 2013: 46,787,997) Common shares | **17,720,761** | 14,022,542 |

**Warrants**

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

| | |
|---|---|
| Balance at January 1, 2013 | 11,751,237 |
| Granted | 6,053,053 |
| Exercised | (954,590) |
| Forfeited | - |
| Expired | (4,096,430) |
| Balance at December 31, 2013 | 12,753,270 |
| Granted | - |
| Expired | (1,543,153) |
| Exercised | (5,323,483) |
| Balance at June 30, 2014 | 5,886,634 |

During the period ended June 30, 2014, 5,323,483 warrants were exercised for an equivalent number of class B shares.

As at June 30, 2014 outstanding share purchase warrants are:

| Exercise Price | Expiry Date | # |
|---|---|---|
| $0.60 | 19-Aug-14 | 2,754,437 |
| $0.60 | 14-Sept-14 | 1,410,250 |
| $0.60 | 26-Sept-14 | 740,625 |
| $0.40 | 30-May-17 | 60,000 |
| $0.40 | 21-Dec-17 | 388,238 |
| $0.40 | 28-Dec-17 | 114,281 |
| $0.40 | 19-Feb-18 | 215,027 |
| $0.40 | 14-Mar-18 | 178,432 |
| $0.40 | 26-Mar-18 | 25,344 |
| **TOTAL** | | **5,886,634** |

**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 price 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, 2013 and 2014 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.

Movements in options for the periods presented are as follows:

| | **Options Outstanding** | **Average exercise price per share option ($)** |
|---|---|---|
| Balance at January 1, 2013 | 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 |
| Exercised | (250,000) | 0.45 |
| Granted | 1,744,500 | 0.60 |
| Balance on June 30, 2014 | 4,528,500 | 0.48 |

The following summarizes information about share options outstanding at June 30, 2014:

| **Exercise price** | **Number of options** | **Number exercisable** | **Expiry Date** |
|---|---|---|---|
| 0.60 | 100,000 | - | May-2016 |
| 0.40 | 1,295,000 | 1,295,000 | Apr-2017 |
| 0.40 | 1,384,000 | 922,666 | Apr-2018 |
| 0.41 | 105,000 | 70,000 | May-2018 |
| 0.60 | 1,539,500 | 513,167 | Apr-2019 |
| 0.60 | 105,000 | 35,000 | May-2019 |
| | 4,528,500 | 2,835,833 | |

Out of the 4,528,500 outstanding options (December 31, 2013: 3,034,000) 2,835,833 options (December 31, 2013: 1,609,666) were exercisable.

On April 24, 2014 the Company granted options entitling certain directors, officers and employees of the Company to acquire up to an aggregate of 1,539,500 Common Shares of the Company at an exercise price of $0.60 per share. These options vest over a three year period, with one third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| Number of options | 513,167 | 513,167 | 513,166 |
| Exercise price | 0.60 | 0.60 | 0.60 |
| Expected volatility | 94% | 92% | 90% |
| Risk free interest rate | 1.06% | 1.06% | 1.06% |
| Expected life (years) | 5 | 4 | 3 |
| Dividend yield | 0% | 0% | 0% |
| Grant-date fair value (per option) | $0.42 | $0.38 | $0.33 |

On May 28, 2014 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 $0.60 per share. These options vest over a three year period, with one third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the grant. Each option is exercisable for a period of five years from the date of grant, provided that it has vested.

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| Number of options | 35,000 | 35,000 | 35,000 |
| Exercise price | 0.60 | 0.60 | 0.60 |
| Expected volatility | 94% | 92% | 90% |
| Risk free interest rate | 1.03% | 1.03% | 1.03% |
| Expected life (years) | 5 | 4 | 3 |
| Dividend yield | 0% | 0% | 0% |
| Grant-date fair value (per option) | $0.41 | $0.37 | $0.33 |

For the period ended June 30, 2014, the Company recognized a stock based compensation cost relating to the above employee stock option plan of $339,472 (June 30, 2013: $29,953).

Third Party Stock Based Compensation:

On May 28, 2014, the Company granted options to its strategic investor relations consultant, entitling them to acquire 100,000 Class B Common Shares of the Company at an exercise price of $0.60; these options have a term of two years and vest over a period of 12 months, at a rate of 25% at the end of each three-month period. The Company recognized a stock based compensation cost relating to the above of $4,624.

During the period ended June 30, 2014, 250,000 options were exercised for an equivalent number of class B shares.

## 11. Financial risk management

The Company is exposed to a variety of financial risks including credit risk, liquidity risk, and market risk (including foreign exchange and interest rate). The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's annual financial statements as at December 31, 2013. There have been no changes in the Company's risk management policies since year end.

a) Credit Risk

The Company's maximum credit risk is the carrying value of the cash, cash held in trust, other receivables and commercial loans receivable. As of June 30, 2014, $232,505 (December 31, 2013 - $1,024,155) of the commercial loans receivable were impaired and an allowance for expected losses of $281,106 (December 31, 2013 - $1,019,545) has been established (Refer to Note 5).

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 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 | - |

The following are the contractual maturities of financial liabilities, as at June 30, 2014:

| | Carrying amount | 0 to 12 months | 1 to 2 years |
|---|---|---|---|
| | $ | $ | $ |
| Accounts payable and accrued liabilities | 336,891 | 336,891 | - |
| Loan contracts in transit | 703,415 | 703,415 | - |
| Funds held in trust for third party lender | 2,244,073 | 2,244,073 | - |
| Financing credit facility | 6,551,256 | 6,551,256 | - |

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 June 30, 2014 and December 31, 2013 relates to US dollar commercial loans receivable, cash, accounts payable and accrued liabilities and a financing credit facility. The exchange rate applied as at June 30, 2014 was 1.067 (December 31, 2013: 1.0636).

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 $61,818 (June 30, 2013: $73,826), 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 2014 and 2013, the borrowings at a variable rate were denominated in USD. The Company mitigates this risk by borrowing for a 12 month term and therefore the Company does not believe that its exposure to interest rate risk is significant.

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

## 12. Revenue by category

| | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| | **2014** | 2013 | **2014** | 2013 |
| **Analysis of revenue by category:** | | | | |
| - Financing revenue (1) | **653,754** | 581,551 | **1,398,779** | 998,441 |
| Total financing revenue | **653,754** | 581,551 | **1,398,779** | 998,441 |
| Other fees and servicing income: | | | | |
| - Non- sufficient funds fees | **29,582** | 3,936 | **53,348** | 5,545 |
| - Referral fees | **1,385** | 1,278 | **6,882** | 3,816 |
| - Servicing fees | **713,858** | 83,927 | **1,215,226** | 120,826 |
| - Amortization of servicing asset | **(490,951)** | (35,221) | **(820,543)** | (45,005) |
| Total other fees and servicing income | **253,874** | 53,920 | **454,913** | 85,182 |

(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 2013, some of these fees were presented separately in the quarterly statement of comprehensive income, however the Company has presented these fees net as management believes this presentation to be more relevant.

## 13. Operating expenses

| | For the Three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | 2013 |
| | **$** | **$** | **$** | $ |
| **Operating expenses:** | | | | |
| Wages and Salaries | **780,704** | 386,740 | **1,437,994** | 661,164 |
| Credit on qualifying wages | **(30,313)** | (28,750) | **(59,063)** | (28,750) |
| Stock based compensation | **305,397** | 127,553 | **344,096** | 157,550 |
| Consulting fees | **25,338** | 25,716 | **52,406** | 36,208 |
| Sales Taxes | **-** | 6,991 | **-** | 29,023 |
| Rental Expense | **44,693** | 21,443 | **86,927** | 46,481 |
| Insurance | **13,104** | 16,548 | **26,071** | 32,036 |
| Amortization of transactions costs – credit facility | **33,282** | 37,806 | **73,775** | 76,045 |
| Interest and bank charges | **21,579** | 13,236 | **38,539** | 19,080 |
| Professional Fees | **39,089** | 42,354 | **70,185** | 93,184 |
| Legal and accounting fees | **51,664** | 113,497 | **248,304** | 208,877 |
| Business Fees and Licenses | **21,488** | 16,909 | **78,883** | 22,884 |
| Travel and Entertainment | **51,535** | 20,575 | **98,090** | 31,847 |
| Telecommunications | **10,282** | 9,693 | **19,804** | 15,449 |
| Data services, IT costs and other | **252,182** | 59,051 | **392,158** | 124,461 |
| Advertising and Promotion | **36,993** | 52,547 | **83,767** | 92,008 |
| Depreciation and amortization | **18,126** | 17,693 | **36,660** | 41,696 |
| Realized foreign exchange gain | **-** | (16,183) | **-** | - |
| **Total Operating Expenses** | **1,675,143** | 923,419 | **3,028,596** | 1,659,243 |

## 14. Supplemental cash flow information

Non-cash items included in net loss for the six months ended June 30, are as follows:

| | **2014** **$** | 2013 $ |
|---|---|---|
| Currency translation differences | **44,819** | 307,414 |
| Depreciation of equipment | **9,631** | 5,248 |
| Amortization of intangible asset | **27,030** | 36,447 |
| Amortization of servicing asset | **820,542** | 45,005 |
| Stock-based compensation | **344,096** | 157,550 |
| Interest revenue | **(1,398,779)** | (998,441) |
| Gain on servicing asset | **(1,479,161)** | (193,531) |
| Unrealized foreign exchange loss | **1,471** | 3,343 |
| Amortization of transactions costs- financing credit facility | **73,775** | 76,045 |
| | **(1,556,576)** | (560,920) |

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

| | **2014** **$** | 2013 $ |
|---|---|---|
| Sales taxes receivable | **(15,227)** | (56,658) |
| Other assets | **(59,576)** | (2,522) |
| Commercial loans receivable | **(40,139,074)** | (13,137,891) |
| Prepaid and deposits | **34,506** | 30,286 |
| Loan contracts in transit | **164,916** | 493,864 |
| Accounts payable and accrued liabilities | **(86,765)** | 345,331 |
| | **(40,101,220)** | (12,327,590) |

## 15. Related party transactions

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

a) 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 $43,950 excluding applicable taxes (2013: $ 24,500). The terms of this operating lease are similar to those that would have been present for an arm's length transaction.

b) 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'). During the six month period ended June 30, 2014, a fund managed by Palos Management Inc purchased $7,573,700 (2013: Nil) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to $165,264 have been earned by the Company on these loans during the six months ended June 30, 2014 (2013: $Nil). Palos also received agency fees of $20,231 (2013: Nil) relating to $5,429,451 (2013:$Nil) of loans sold to a third party purchaser during the period. During the 2013 period, Palos was one of IOUF's co-lead brokers in the private placement that commenced in December 2012. In the first quarter of 2013, Palos received commissions and warrants relating to the $5 million private placement amounting to $70,217 and $175,543 respectively (2014: $Nil).

c) At period end, unsecured officer loans owed to the Company amounted to $50,861 (USD$ 47,668) and have no fixed terms of repayment.

d) Key Management Compensation

| | **For the three month period ended June 30, 2014** | For the three month period ended June 30, 2013 | **For the six month period ended June 30, 2014** | For the six month period ended June 30, 2013 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| Salaries and other short-term employee benefits | **171,802** | 80,006 | **294,932** | 142,313 |
| Share-based payments | **239,737** | 87,352 | **274,730** | 110,426 |
| | **411,539** | 167,358 | **569,662** | 252,739 |

Key management compensation amounted to $569,662 for the six months ended June 30, 2014 (June 30, 2013: $252,739).

## 16. Segment information

During the three and six month period ended June 30, 2014, 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.

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 applied in the preparation of the annual consolidated financial statements.

Revenues and expenses for the three and six months ended June 30, by segment are as follows:

| **For the Three months ended June 30:** | | | **2014** | | | **2013** |
|---|---|---|---|---|---|---|
| | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
| **Financial revenue** | | | | | | |
| Financing revenue | 653,754 | | 653,754 | 581,551 | - | 581,551 |
| Fee income | 30,967 | | 30,967 | 5,214 | - | 5,214 |
| Servicing income | | 713,858 | 713,858 | - | 83,927 | 83,927 |
| Accelerated recognition of transaction costs on loans sold | | (214,890) | (214,890) | - | (31,482) | (31,482) |
| Total segment revenue | 684,721 | 498,968 | 1,183,689 | 586,765 | 52,445 | 639,210 |
| **Financial expenses** | | | | | | |
| Interest expense | 187,932 | - | 187,932 | 121,885 | - | 121,885 |
| Provision for loan losses | 55,260 | - | 55,260 | 248,645 | - | 248,645 |
| Total financial expenses | 243,192 | - | 243,192 | 370,530 | - | 370,530 |
| Net financial income before operating and other expenses | 441,529 | 498,968 | 940,497 | 216,235 | 52,445 | 268,680 |
| Operating expenses | 329,599 | 769,065 | 1,098,664 | 354,822 | 144,927 | 499,749 |
| Total segment operating gain/(loss) | 111,930 | (270,097) | (158,167) | (138,587) | (92,482) | (231,069) |

| **For the six months ended June 30:** | | **2014** | | | **2013** | |
|---|---|---|---|---|---|---|
| | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
| **Financial revenue** | | | | | | |
| Financing revenue | 1,398,779 | - | 1,398,779 | 998,441 | - | 998,441 |
| Fee income | 60,229 | - | 60,229 | 9,361 | - | 9,361 |
| Servicing income | - | 1,215,226 | 1,215,226 | - | 120,826 | 120,826 |
| Accelerated recognition of transaction costs on loans sold | - | (494,646) | (494,646) | - | (68,301) | (68,301) |
| Total segment revenue | 1,459,008 | 720,580 | 2,179,588 | 1,007,802 | 52,525 | 1,060,327 |
| **Financial expenses** | | | | | | |
| Interest expense | 370,100 | - | 370,100 | 204,615 | - | 204,615 |
| Provision for loan losses | 278,824 | - | 278,824 | 322,563 | - | 322,563 |
| Total financial expenses | 648,924 | - | 648,924 | 527,178 | - | 527,178 |
| Net financial income before operating and other expenses | 810,084 | 720,580 | 1,530,664 | 480,624 | 52,525 | 533,149 |
| Operating expenses | 693,101 | 1,345,431 | 2,038,532 | 688,821 | 254,770 | 943,591 |
| Total segment operating gain/(loss) | 116,983 | (624,851) | (507,868) | (208,197) | (202,245) | (410,442) |

Reconciliation to total financial revenue and total net loss for the three and six months ended June 30, by segment, is as follows:

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Total segment revenue | 1,183,689 | 639,210 | 2,179,588 | 1,060,327 |
| Amortization of servicing asset | (490,950) | (35,221) | (820,542) | (45,005) |
| Gain on servicing asset | 801,067 | 128,199 | 1,479,161 | 193,531 |
| Total financial revenue as reported | 1,493,806 | 732,188 | 2,838,207 | 1,208,853 |

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Total segment operating loss | 158,167 | 231,069 | 507,868 | 410,442 |
| Corporate allocation | 219,673 | 240,621 | 535,532 | 440,361 |
| Non-cash items: | | | | |
| Gain on servicing asset | (801,067) | (128,199) | (1,479,161) | (193,531) |
| Depreciation and amortization | 542,359 | 90,717 | 930,978 | 162,746 |
| Stock based compensation | 305,397 | 127,553 | 344,096 | 157,550 |
| Total net loss for the period | 424,529 | 561,761 | 839,313 | 977,568 |

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

| | | | 2014 | | | 2013 |
|---|---|---|---|---|---|---|
| **For the six month period** | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
| Average assets under management | 11,664,731 | 22,371,176 | 34,035,907 | 8,604,498 | 3,187,974 | 11,792,472 |
| % distribution | 34% | 66% | 100% | 73% | 27% | 100% |
| Allocated operating expenses | 693,101 | 1,345,431 | 2,038,532 | 688,821 | 254,770 | 943,591 |

| **For the three month period** | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
|---|---|---|---|---|---|---|
| Average Assets under management | 11,226,050 | 26,649,996 | 37,876,046 | 10,445,498 | 4,181,039 | 14,626,537 |
| % distribution | 30% | 70% | 100% | 71% | 29% | 100% |
| Allocated operating expenses | 329,599 | 769,065 | 1,098,664 | 354,822 | 144,927 | 499,749 |

Of the Company's total revenues, revenues from one customer of IOUF's servicing segment represents approximately $840,827 for the six month period ended June 30,2014 (June 30, 2013: $120,826) and $513,770 for the three month period ended June 30, 2014 (June 30, 2013: $436,691).

The assets and liabilities by segment are as follows:

| | | | At June 30, 2014 | | | At December 31, 2013 |
|---|---|---|---|---|---|---|
| | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
| Asset: | | | | | | |
| Cash held in trust | 820,179 | 2,195,355 | 3,015,534 | 628,146 | 1,380,831 | 2,008,977 |
| Other segment assets | 15,605,837 | - | 15,605,837 | 13,340,332 | - | 13,340,332 |
| Total segment assets | 16,426,016 | 2,195,355 | 18,621,371 | 13,968,478 | 1,380,831 | 15,349,309 |

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

| | At June 30, 2014 | At December 31, 2013 |
|---|---|---|
| | **Total** | **Total** |
| Total segment assets | 18,621,371 | 15,349,309 |
| Servicing asset | 1,226,693 | 571,954 |
| Total reported assets | 19,848,064 | 15,921,263 |

| | | | At June 30, 2014 | | | At December 31, 2013 |
|---|---|---|---|---|---|---|
| | **Lending** | **Servicing** | **Total** | **Lending** | **Servicing** | **Total** |
| Liabilities: | | | | | | |
| Total liabilities | 7,591,562 | 2,244,073 | 9,835,635 | 7,198,687 | 1,489,625 | 8,688,312 |

## 17. Commitments

i) Operating lease commitments – subsidiary company as lessee

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

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

| | 2014<br>$ |
|---|---|
| No later than 1 year | **85,214** |
| Later than 1 year and no later than 2 years | **14,242** |
| | **99,456** |

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.

## 18. Events after the reporting date

- During the months of July and August of 2014, the Company sold part of its commercial loans receivable, on a non-recourse basis, at no gain or loss, for total proceeds of $14,068,415. 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.

- During the month of August 2014, 941,812 warrants were exercised and an equivalent number of Class B shares were issued to the holders of these warrants.