IOU Financial Inc.
Condensed Consolidated Financial Statements
For the Nine Months Ended September 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 nine months ended September 30, 2014 and 2013 have not been reviewed or audited by the Company's auditors.

IOU FINANCIAL INC.

Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2014 and 2013

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IOU Financial INC.

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

	Note	**September 30, 2014 $**	December 31, 2013 $
Assets			
Current assets			
Cash		**2,257,201**	1,308,021
Cash held in trust	**4**	**3,516,975**	2,008,977
Sales taxes receivable		**9,615**	27,493
Commercial loans receivable -net	**5**	**11,986,527**	11,704,268
Servicing asset	**5**	**1,343,376**	571,954
Other assets		**179,264**	86,250
Prepaids and deposits		**32,166**	62,188
Total current assets		**19,325,124**	15,769,151
Equipment	**6**	**63,784**	38,876
Intangible asset	**7**	**23,088**	62,537
Other loan	**15**	**53,388**	50,699
Total non-current assets		**140,260**	152,112
Total assets		**19,465,384**	15,921,263
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**8**	**424,255**	423,657
Loan contracts in transit	**5**	**922,778**	538,499
Funds held in trust for third parties	**5**	**3,042,937**	1,489,625
Financing credit facility	**9**	**4,053,428**	6,236,531
Total current and total liabilities		**8,443,398**	8,688,312
Shareholders' Equity			
Share capital	**10**	**18,886,654**	14,022,542
Contributed surplus		**2,219,919**	2,623,132
Accumulated other comprehensive income/(loss)		**612,911**	274,637
Deficit		**(10,697,498)**	(9,687,360)
Total Shareholders' Equity		**11,021,986**	7,232,951
Total liabilities and Shareholders' Equity		**19,465,384**	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 Nine Month Period Ended September 30, 2014 and 2013

	Note	**For the three months ended September 30, 2014**	For the three months ended September 30, 2013	**For the nine months ended September 30, 2014**	For the nine months ended September 30, 2013
	Note	$	$	**$**	$
Financial Revenue					
Financing revenue	**12**	**581,854**	1,219,101	**1,980,633**	2,217,542
Other fees and servicing income	**12**	**271,696**	80,802	**726,609**	165,984
Net gain recognized on sale of loans	**5**	**628,036**	129,841	**1,612,551**	255,071
Total Financial Revenue		**1,481,586**	1,429,744	**4,319,793**	2,638,597
Financial expenses					
Interest expense		**91,798**	226,172	**461,898**	430,787
Provision for loan losses – net of recoveries	**5**	**110,525**	531,077	**389,349**	853,640
Total Financial expenses		**202,323**	757,249	**851,247**	1,284,427
Net financial income before operating and other expenses		**1,279,263**	672,495	**3,468,546**	1,354,170
Operating expenses	**13**	**1,450,088**	717,444	**4,478,684**	2,376,687
Operating loss		**170,825**	44,949	**1,010,138**	1,022,517
Loss before income taxes		**170,825**	44,949	**1,010,138**	1,022,517
Income taxes		**-**	-	**-**	-
Total net loss for the period		**170,825**	44,949	**1,010,138**	1,022,517
Other comprehensive loss:					
Items that may be reclassified subsequently to net loss:					
Currency translation differences		**(293,455)**	145,089	**(338,274)**	(162,325)
Total comprehensive (income)/loss for the period		**(122,630)**	190,038	**671,864**	860,192
Comprehensive (income)/loss attributable to:					
Common shareholders		**(122,630)**	190,038	**671,864**	860,192
Net loss attributable to:					
Common shareholders		**170,825**	44,949	**1,010,138**	1,022,517
Loss per share:					
Basic and diluted loss per share		**0.01**	0.01	**0.02**	0.02

IOU Financial Inc.

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

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

	Common 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	-	-	-	(1,010,138)	338,274	(671,864)
Warrants exercised (Note 10)	6,640,295	4,747,712	(840,250)	-	-	3,907,462
Options exercised (Note 10)	250,000	116,400	(3,900)	-	-	112,500
Stock based compensation (Note 10)	-	-	440,937	-	-	440,937
Balance as at September 30, 2014	53,678,292	18,886,654	2,219,919	(10,697,498)	612,911	11,021,986

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

IOU Financial Inc.

Interim Consolidated Statements of Cash Flows
for the Nine Months Ended September 30, 2014 and 2013

	Note	2014 $	2013 $
Operating Activities			
Net loss for the year		**(1,010,138)**	(1,022,517)
Non- cash items included in net loss	**14**	**(1,849,058)**	(1,978,566)
Net change in non-cash working capital items	**14**	**(60,302,826)**	(22,202,833)
Interest received		**1,980,633**	2,309,877
Interest expense		**461,898**	430,787
Cash used in operating activities		**(60,719,491)**	(22,463,252)
Financing Activities			
Funds held in trust for third parties		**1,553,312**	348,266
Interest expense		**(461,898)**	(430,787)
Sale of commercial loans		**60,360,331**	14,366,897
Issuance of equity, net of transaction costs		**-**	3,382,721
Warrants exercised		**3,907,462**	125,000
Options exercised		**112,500**	-
Transaction costs associated with financing credit facility		**-**	(154,330)
Issuance/(repayment) of financing credit facility		**(2,254,632)**	5,319,667
Cash generated from financing activities		**63,217,075**	22,957,434
Investing Activities			
Additions to intangible asset		**-**	(9,189)
Additions to equipment		**(40,406)**	(21,619)
Cash held in trust		**(1,507,998)**	(737,246)
Cash used in investing activities		**(1,548,404)**	(768,054)
Increase/(decrease) in cash		**949,180**	(273,872)
Cash beginning of period		**1,308,021**	1,919,626
Cash end of period		**2,257,201**	1,645,754

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 November 20, 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 $3,516,975 (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 September 30, 2014 and December 31, 2013, the Company held commercial loans receivable as part of its regular operations

	September 30, 2014	December 31, 2013
	$	$
Principal balance of commercial loans receivable	**12,258,373**	12,351,031
Unamortized fees and transactions costs	**221,010**	372,782
Commercial loans receivable	**12,479,383**	12,723,813
Less allowance for loan losses	**(492,856)**	(1,019,545)
Commercial loans receivable -net	**11,986,527**	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 16.00% (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 September 30, 2014, $922,778 (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 September 30, 2014 is $11,986,527 (December 31, 2013: $11,704,268).

Movements in the allowance for loan losses are as follows:

	September 30, 2014	December 31, 2013
	$	**$**
Allowance at January 1	**1,019,545**	99,929
Provision for receivables impairment	**608,148**	1,416,645
Receivables written off during the year as uncollectible	**(1,166,993)**	(532,715)
Foreign exchange	**32,156**	35,686
Allowance at the end of the period	**492,856**	1,019,545
Recoveries of previously charged off loans	**218,799**	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:

	September 30, 2014	December 31, 2013
	$	$
Allowance for loan losses - collective	**105,914**	50,542
Allowance for credit losses - individual	**386,942**	969,003
	492,856	1,019,545

Age and Credit Quality:

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

Age	**September 30, 2014** $		December 31, 2013 $	
Current	**11,779,472**	**94.39%**	11,223,612	88.21%
Payments in arrears:				
1 to 21 payments	**212,441**	**1.70%**	246,646	1.94%
22- 63 payments	**267,984**	**2.15%**	463,877	3.65%
64 + payments	**219,486**	**1.76%**	789,678	6.20%
Total	**12,479,383**	**100%**	12,723,813	100%

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

Credit Quality	**September 30, 2014** $		December 31, 2013 $	
Neither past due nor impaired	**11,779,472**	**94.39%**	11,223,612	88.21%
Past due but not impaired:				
1 to 21 payments	**164,962**	**1.32%**	204,726	1.61%
22 + payments	**154,361**	**1.24%**	271,320	2.13%
Impaired	**380,588**	**3.05%**	1,024,155	8.05%
Total	**12,479,383**	**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 nine month period ended September 30, 2014, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $60,360,331 (September 30, 2013: $14,366,897). 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 $1,612,551 for the nine month period ended September 30, 2014 (September 30, 2013: $255,071), along with a servicing asset that will be amortized to the statement of comprehensive loss over the term of the servicing asset. At September 30, 2014, the carrying amount of this asset amounted to $1,343,376 (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 September 30, 2014, there was $3,042,937 (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	10,690	29,716	40,406
Balance at September 30, 2014	55,101	65,871	120,972
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	4,908	10,590	15,498
Balance at September 30, 2014	32,239	24,949	57,188
Carrying amounts			
At December 31, 2013	17,080	21,796	38,876
At September 30, 2014	22,862	40,922	63,784

7. Intangible asset

Intangible assets are comprised of internal use software.

	September 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**	1,032,308
Amortization charge for the year	**39,449**	79,837
Balance – End of Year	**1,151,594**	1,112,145
Carrying amount		
December 31, 2013	**62,537**	
September 30, 2014	**23,088**	

8. Accounts payable and accrued liabilities

	September 30, 2014 **$**	December 31, 2013 $
Trade Payables	**333,780**	247,106
Other payables and accruals	**90,455**	176,551
Total	**424,255**	423,657

9. Financing credit facility

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

	September 30, 2014	December 31, 2013
	$	$
Financing credit facility	**4,053,428**	6,308,059
Less transaction costs (net of amortization)	**-**	(71,528)
Total	**4,053,428**	6,236,531

On February 24, 2014, the Company 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.

However, due to the Company's successful loan sales program, the credit facility agreement was further amended on September 08, 2014. In accordance with this amendment, the facility was reduced to US$5 million and interest on the facility is to be charged at twelve percent above US base rate.

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 (September 30, 2013: $114,939) 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 $5 million.

Asset	**Carrying Amount at September 30, 2014 ($)**	**Carrying Amount at December 31, 2013 ($)**
Equipment	63,784	38,876
Commercial loans receivable-net	11,986,527	11,704,268
Intangible asset	23,088	62,537
Cash	3,100,752	1,936,167
Other assets	274,433	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.

Issued

	September 30, 2014 $	December 31, 2013 $
53,678,292 (December 31, 2013: 46,787,997) Common shares	**18,886,654**	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	(5,131,653)
Exercised	(6,640,295)
Balance at September 30, 2014	981,322

During the nine period ended September 30, 2014, 6,640,295 warrants were exercised for an equivalent number of class B shares.

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

Exercise Price	Expiry Date	#	Note
$0.40	30-May-17	60,000	
$0.40	21-Dec-17	388,238	**(i)**
$0.40	28-Dec-17	114,281	**(i)**
$0.40	19-Feb-18	215,027	**(ii)**
$0.40	14-Mar-18	178,432	**(ii)**
$0.40	26-Mar-18	25,344	**(ii)**
TOTAL		**981,322**	

(i) In connection with the private placement that closed in December of 2012, 585,905 warrants were issued to exempt market dealers as compensation. Each broker warrant entitles the 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

(ii) In connection with the $5 million private placement that closed in February and March of 2013, 509,241 warrants were issued to exempt market dealers as compensation. Each broker warrant entitles the 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.

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	1,944,500	0.59
Balance on September 30, 2014	4,728,500	0.48

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

Exercise price	Number of options	Number exercisable	Expiry Date
0.60	100,000	25,000	May-2016
0.40	1,295,000	1,295,000	Apr-2017
0.49	200,000	-	Mar-2018
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
	4,728,500	2,860,833	

Out of the 4,728,500 outstanding options (December 31, 2013: 3,034,000) 2,860,833 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 September 30, 2014, the Company recognized a stock based compensation cost relating to the above employee stock option plan of $424,500 (September 30, 2013: $197,604).

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 $15,113.

On September 26, 2014, the Company granted options to a strategic business partner, entitling them to acquire 200,000 Class B Common Shares of the Company at an exercise price of $0.49; these options have a term of three and a half 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 $1,324.

During the period ended September 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 September 30, 2014, $380,588 (December 31, 2013 - $1,024,155) of the commercial loans receivable were impaired and an allowance for expected losses of $492,856 (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	423,655	423,655	-
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 September 30, 2014:

	Carrying amount	0 to 12 months	1 to 2 years
	$	$	$
Accounts payable and accrued liabilities	424,256	424,256	-
Loan contracts in transit	922,778	922,778	-
Funds held in trust for third party lender	3,042,937	3,042,937	-
Financing credit facility	4,053,428	4,053,428	-

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 September 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 September 30, 2014 was 1.12 (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 $92,456 (September 30, 2013: $67,318), 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 September 30		For the nine months ended September 30	
	$	$	**$**	$
	2014	2013	**2014**	2013
Analysis of revenue by category:				
- Financing revenue (1)	**581,854**	1,219,101	**1,980,633**	2,217,542
Total financing revenue	**581,854**	1,219,101	**1,980,633**	2,217,542
Other fees and servicing income:				
- Non- sufficient funds fees	**21,252**	6,316	**74,600**	11,861
- Referral fees	**2,544**	1,204	**9,426**	5,020
- Servicing fees	**884,192**	153,740	**2,099,418**	274,566
- Amortization of servicing asset	**(636,292)**	(80,458)	**(1,456,835)**	(125,463)
Total other fees and servicing income	**271,696**	80,802	**726,609**	165,984

(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 September 30		For the nine months ended September 30	
	2014	**2013**	**2014**	2013
	$	**$**	**$**	$
Operating expenses:				
Wages and Salaries	**883,497**	454,575	**2,321,491**	1,115,739
Credit on qualifying wages	**(33,438)**	(28,750)	**(92,501)**	(57,500)
Stock based compensation	**96,841**	40,054	**440,937**	197,604
Consulting fees	**24,636**	23,630	**77,042**	59,838
Sales Taxes	**-**	(122,714)	**-**	(93,691)
Rental Expense	**48,832**	32,750	**135,759**	79,231
Insurance	**13,103**	10,270	**39,174**	42,306
Amortization of transactions costs – credit facility	**-**	38,894	**73,775**	114,939
Interest and bank charges	**20,197**	6,682	**58,736**	25,762
Professional Fees	**20,056**	26,717	**90,241**	119,901
Legal and accounting fees	**150,024**	60,852	**524,361**	269,729
Business Fees and Licenses	**4,424**	9,233	**83,307**	32,117
Travel and Entertainment	**29,686**	16,365	**127,776**	48,212
Telecommunications	**15,011**	7,700	**34,815**	23,149
Data services and IT costs	**161,364**	43,292	**314,928**	115,240
Filing fees	**24,443**	8,368	**56,328**	29,013
Other	**33,528**	14,512	**114,204**	46,380
Advertising and Promotion	**43,954**	43,713	**127,721**	135,721
Depreciation and amortization	**18,286**	31,301	**54,946**	72,997
Realized foreign exchange gain	**(104,356)**	-	**(104,356)**	-
Total Operating Expenses	**1,450,088**	717,444	**4,478,684**	2,376,687

14. Supplemental cash flow information

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

	2014 **$**	2013 $
Currency translation differences	**338,274**	162,325
Depreciation of equipment	**15,498**	8,487
Amortization of intangible asset	**39,449**	64,511
Amortization of servicing asset	**1,456,835**	125,463
Stock-based compensation	**440,937**	197,604
Interest revenue	**(1,980,633)**	(2,217,542)
Gain on servicing asset	**(2,226,390)**	(431,481)
Unrealized foreign exchange loss	**(6,803)**	(2,872)
Amortization of transactions costs- financing credit facility	**73,775**	114,939
	(1,849,058)	(1,978,566)

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

	2014 **$**	2013 $
Sales taxes receivable	**17,878**	(106,052)
Other assets	**(93,014)**	(23,129)
Commercial loans receivable	**(60,642,589)**	(22,791,390)
Prepaid and deposits	**30,022**	47,805
Loan contracts in transit	**384,279**	779,460
Accounts payable and accrued liabilities	**598**	(109,527)
	(60,302,826)	(22,202,833)

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 $68,775 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. A new lease agreement was entered into with this company in October 2014, refer to Note 18 "Events after the reporting date"

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 nine month period ended September 30, 2014, a fund managed by Palos Management Inc purchased $12,183,963 (2013: Nil) of commercial loans receivable from the Company for which the Company has retained the servicing rights. Servicing fees amounting to $354,565 have been earned by the Company on these loans during the nine months ended September 30, 2014 (2013: $Nil). Palos also received agency fees of $34,113 (2013: Nil) relating to $8,137,148 (2013:$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 $53,388 (USD$ 47,668) and have no fixed terms of repayment.

d) Key Management Compensation

Key management compensation amounted to $818,106 for the nine months ended September 30, 2014 (September 30, 2013: $493,115).

	For the three month period ended September 30, 2014	For the three month period ended September 30, 2013	**For the nine month period ended September 30, 2014**	For the nine month period ended September 30, 2013
	$	$	**$**	$
Salaries and other short-term employee benefits	**188,347**	112,236	**483,279**	318,053
Share-based payments	**60,097**	71,647	**334,827**	175,062
	248,444	183,883	**818,106**	493,115

16. Segment information

During the three and nine month period ended September 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 nine months ended September 30, by segment are as follows:

For the Three months ended September 30:			**2014**			**2013**
	Lending	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Financial revenue						
Financing revenue	581,854		581,854	1,219,101	-	1,219,101
Fee income	23,797		23,797	7,520	-	7,520
Servicing income		884,192	884,192	-	153,740	153,740
Accelerated recognition of transaction costs on loans sold		(119,193)	(119,193)	-	(108,109)	(108,109)
Total segment revenue	605,651	764,999	1,370,650	1,226,621	45,631	1,272,252
Financial expenses						
Interest expense	91,798	-	91,798	226,172	-	226,172
Provision for loan losses	110,525	-	110,525	531,077	-	531,077
Total financial expenses	202,323	-	202,323	757,249	-	757,249
Net financial income before operating and other expenses	403,328	764,999	1,168,327	469,372	45,631	515,003
Operating expenses	301,106	814,103	1,115,209	291,175	156,786	447,961
Total segment operating gain/(loss)	102,222	(49,104)	53,118	178,197	(111,155)	67,042

For the nine months ended September 30:			**2014**			**2013**
	Lending	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Financial revenue						
Financing revenue	1,980,633	-	1,980,633	2,217,542	-	2,217,542
Fee income	84,026	-	84,026	16,881	-	16,881
Servicing income	-	2,099,418	2,099,418	-	274,566	274,566
Accelerated recognition of transaction costs on loans sold	-	(613,839)	(613,839)	-	(176,410)	(176,410)
Total segment revenue	2,064,659	1,485,579	3,550,238	2,234,423	98,156	2,332,579
Financial expenses						
Interest expense	461,898	-	461,898	430,787	-	430,787
Provision for loan losses	389,349	-	389,349	853,640	-	853,640
Total financial expenses	851,247	-	851,247	1,284,427	-	1,284,427
Net financial income before operating and other expenses	1,213,412	1,485,579	2,698,991	949,996	98,156	1,048,152
Operating expenses	1,072,272	2,081,469	3,153,741	918,426	473,128	1,391,554
Total segment operating gain/(loss)	141,140	(595,889)	(454,750)	31,570	(374,972)	(343,402)

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

	Three months ended September 30		**Nine months ended September 30**	
	2014	**2013**	**2014**	**2013**
Total segment revenue	1,370,650	1,272,252	3,550,238	2,332,579
Amortization of servicing asset	(636,293)	(80,458)	(1,456,835)	(125,463)
Gain on servicing asset	747,229	237,950	2,226,390	431,481
Total financial revenue as reported	1,481,586	1,429,744	4,319,793	2,638,597

	Three months ended September 30		**Nine months ended September 30**	
	2014	**2013**	**2014**	**2013**
Total segment operating (gain)/loss	(53,118)	(67,042)	454,750	343,402
Corporate allocation	219,753	159,233	755,285	599,593
Non-cash items:				
Gain on servicing asset	(747,229)	(237,950)	(2,226,390)	(431,481)
Depreciation and amortization	654,578	150,654	1,585,556	313,398
Stock based compensation	96,841	40,054	440,937	197,604
Total net loss for the period	170,825	44,949	1,010,138	1,022,516

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

			2014			2013
For the nine month period	**Lending**	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Average assets under management	12,304,702	23,452,296	35,756,998	9,742,141	5,056,394	14,798,535
% distribution	34%	66%	100%	66%	34%	100%
Allocated operating expenses	1,072,272	2,081,469	3,153,741	918,426	473,128	1,391,554

For the three month period	**Lending**	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Average Assets under management	11,618,402	31,116,929	42,735,331	12,742,714	6,724,630	19,467,344
% distribution	27%	73%	100%	65%	35%	100%
Allocated operating expenses	301,106	814,103	1,115,209	291,175	156,786	447,961

Of the Company's total revenues, revenues from one customer of IOUF's servicing segment represents approximately $1,398,190 for the nine month period ended September 30, 2014 (September 30, 2013: $276,044) and $557,363 for the three month period ended September 30, 2014 (September 30, 2013: $155,218).

The assets and liabilities by segment are as follows:

			At September 30, 2014			At December 31, 2013
	Lending	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Asset:						
Cash held in trust	843,551	2,673,424	3,516,975	628,146	1,380,831	2,008,977
Other segment assets	14,605,032	-	14,605,032	13,340,332	-	13,340,332
Total segment assets	15,448,583	2,673,424	18,122,007	13,968,478	1,380,831	15,349,309

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

	At September 30, 2014	At December 31, 2013
	Total	**Total**
Total segment assets	18,122,007	15,349,309
Servicing asset	1,343,376	571,954
Total reported assets	19,465,383	15,921,263

	At September 30, 2014			At December 31, 2013		
	Lending	**Servicing**	**Total**	**Lending**	**Servicing**	**Total**
Liabilities:						
Total liabilities	5,400,461	3,042,937	8,443,398	7,198,687	1,489,625	8,688,312

17. Commitments

i) Non-cancellable operating lease commitments

In May 2014, The Company's subsidiary amended its leasing agreement for its US office. The term of the lease is 39 months and may be cancelled only after 27 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 group non-cancellable operating leases are as follows:

	2014 **$**
No later than 1 year	**186,918**
Later than 1 year and no later than 5 years	**492,304**
	679,222

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 October and November 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 $17,498,060. 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 October 2014, IOUF entered into a new leasing agreement with a company under common control for its Canadian office space. The lease may be cancelled after 7 years upon the payment of a termination fee. The terms of this operating lease are similar to those that would have been present for an arm's length transaction. Future non-cancellable lease commitments under this agreement amount to $1,895,174.