



# **IOU Financial Inc.**

**Annual Report  
2020**

# IOU FINANCIAL INC.

## Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Corporate Information	28
Management's Report	29
Consolidated Financial Statements	30



## **IOU FINANCIAL INC.**

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

#### **INTRODUCTION**

The following management's discussion and analysis ("MD&A") of IOU Financial Inc. ("IOU Financial" or the "Company"), prepared as of April 28, 2021, should be read in conjunction with, and is qualified in its entirety by reference to the condensed consolidated financial statements as at and for the years ended December 31, 2020 and 2019 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All amounts are expressed in Canadian dollars unless otherwise indicated.

#### **OVERVIEW**

IOU Financial Inc. is a wholesale lender that provides quick and easy access to growth capital to small businesses through a network of preferred brokers across the US and Canada. Built on a proprietary technology platform that connects underwriters, merchants and brokers in real time, IOU Financial has become a trusted alternative to banks by underwriting US\$873 million in loans to fund small business growth since 2009. To learn more about IOU Financial's corporate history, financial products, or to join our broker network please visit: [IOUFinancial.com](http://IOUFinancial.com).

As at December 31, 2020, IOU Financial's customers had been in business an average 11.6 years (based on their incorporation date) at the time of application. These businesses borrowed on average US\$78,019 for a weighted average term of 11.9 months and generally used the funds for working capital purposes, to purchase new equipment, invest in an increased workforce, attend to repairs, expand their business, purchase more inventory or increase marketing efforts.

IOU Financial finances its lending activities in part by selling some of its commercial loans receivable to institutional purchasers on a non-recourse basis and retaining the servicing rights for these loans in exchange for a service fee.

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

IOU Financial's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "IOU". IOU Financial had 45 full-time employees as at December 31, 2020.

## **CORPORATE HISTORY**

IOU Financial is the continuation of Matco Ravary Inc. ("Matco Ravary"), a Company founded in 1977, which specialized for over 40 years in the retailing of home improvement and building materials. On November 1, 2002, Matco Ravary sold its operating assets to a company involved in the same sector, thereby ceasing all operations in the home improvement and building materials retailing sector. On May 14, 2004, substantially all of its issued and paid-up capital was distributed to its shareholders.

On April 29, 2005, Matco Ravary changed its corporate name to MCO Capital Inc. ("MCO"). During the following fiscal years, the main business and objective of MCO was to identify and evaluate businesses and assets with a view to a potential acquisition.

On February 28, 2011, MCO completed a reverse acquisition and acquired all of the issued and outstanding shares of IOU Central Inc. ("IOU Central"), a Canadian corporation incorporated in August 2006. On the same day, MCO also acquired all of the issued and outstanding shares of IOU USA, other than the shares of IOU USA already held by IOU Central. IOU USA was incorporated in Delaware in August 2006. In connection with the completion of the reverse acquisition, MCO effected a share consolidation and changed its name from "MCO Capital Inc." to "IOU Financial Inc."

## **FORWARD-LOOKING STATEMENTS**

Statements made in this MD&A that describe IOU Financial's or management's budgets, estimates, expectations, forecasts, objectives, predictions or projections of the future may be "forward-looking statements". Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that IOU Financial expects or anticipates may occur in the future. The forward-looking statements can be identified by the use of the conditional or forward-looking terminology such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon.

IOU Financial cautions that, by their nature, forward-looking statements involve risks and uncertainties. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including but not limited to, risks inherent in growing a new business, dependence on third-party service providers, competition, regulatory risk, dependence on key personnel, risks related to rapid growth of the Company, security and confidentiality risk, risk related to inability to attract borrowers and lenders, technological development risk, IT disruptions, maintenance of client relationships, litigation risk, volatility of stock price, and other factors that are beyond its control. IOU Financial cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties and assumptions that would cause the company's actual results to differ from current expectations, please refer to the section "Risks and Uncertainties" of this MD&A.

The forward-looking statements in this MD&A reflect IOU Financial's views as at the date of this MD&A and are based on certain assumptions including assumptions as to future economic conditions and courses of action, as well as other factors management believes are appropriate in the circumstances. IOU Financial does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

## **OVERALL PERFORMANCE AND SELECTED FINANCIAL INFORMATION**

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

### **Summarized Financial Data**

For the year ended December 31	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
Loan originations (\$US)	<b>84,867,150</b>	154,221,080
Principal balance of loan portfolio	<b>13,466,093</b>	56,871,350
Principal balance of servicing portfolio	<b>55,796,788</b>	53,900,047
Total loans under management	<b>69,262,881</b>	110,771,397
Adjusted gross revenue <sup>(1)</sup>	<b>17,132,332</b>	23,699,254
Interest expense	<b>2,800,963</b>	3,998,673
Provision for loan losses	<b>8,689,540</b>	7,951,635
Adjusted operating expenses <sup>(2)</sup>	<b>9,523,257</b>	10,117,365
Adjusted net (loss) earnings <sup>(3)</sup>	<b>(3,175,061)</b>	1,758,254
Adjusted net (loss) earnings per share <sup>(4)</sup>	<b>(0.03)</b>	0.02
Net (loss) earnings	<b>(2,819,475)</b>	1,523,309
Net (loss) earnings per share <sup>(4)</sup>	<b>(0.03)</b>	0.02
Total assets	<b>25,171,893</b>	64,814,946
Total liabilities	<b>13,153,234</b>	51,664,568

(1) IOU Financial's adjusted gross revenue is defined as gross revenue prepared in accordance with IFRS for the period, plus amortization of servicing assets less gain on sale of loans. The Company uses adjusted gross revenue as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates the non-cash gain on sale of loans and the non-cash amortization of servicing assets which influence operating results depending on the timing and amount of the loan sales.

(2) IOU Financial's adjusted operating expenses is defined as total operating expenses prepared in accordance with IFRS for the period less: non-cash stock-based compensation which is given at different times and prices, and non-recurring costs, plus non-recurring gains which affects operating results only periodically. The Company uses adjusted operating expenses as it eliminates items that do not necessarily reflect how the Company is performing.

(3) IOU Financial's adjusted net (loss) earnings is defined as net (loss) earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs.

(4) Basic and diluted. The adjusted net earnings and net earnings per share has been calculated using the weighted average number of shares outstanding during each period.

The onset of the COVID-19 pandemic in March 2020 effected significant changes to the operational and financial performance of the Company, leading to a series of strategic initiatives pursuant to IOU's Pandemic Resilience Plan.

On March 13, 2020, two days after the World Health Organization (WHO) declared the corona virus a pandemic, management transitioned all of IOU's employees to a work from home status. The transition was seamless and service levels remained uninterrupted largely due to IOU's 360 proprietary platform, keeping employees, brokers and merchants connected in real time. Furthermore, the Company moved certain employees from loan originations to service and collection efforts related to its loan and servicing portfolios. This evolved into the creation of a full-time loss-avoidance team dedicated to limiting write-offs.

Despite the disruption, slowdown and temporary closures of many of the Company's borrowers as a result of the pandemic, IOU was able to continue to originate loans, albeit at reduced levels, as the Company modified its underwriting standards to cease lending to industries and geographical areas which were strongly impacted by COVID-19. For example, IOU ceased lending to highly impacted industries such as restaurants, hotels, travel and certain retail sectors.

In addition, the continuation of loan originations was possible due to the Company's diversified sources of capital. For example, the Company was able to seamlessly shift to selling all of its loan originations to institutional buyers, while simultaneously moving away from originating loans to its balance sheet following the onset of the COVID-19 pandemic.

Due to the uncertainty facing the North American economy at the introduction of the COVID-19 pandemic, management focused on preserving the Company's capital by way of a series of cost cutting and other measures as follows:

1. On April 1, 2020, the Company immediately implemented a hiring freeze and furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salary for all remaining employees and directors.
2. On April 3, 2020, IOU announced that more than two-thirds of the value of the Company's convertible debenture holders agreed to defer the payment of interest from the April 30, 2020 payment period to the June 30, 2020 payment period ("reprieve period") and capitalizing the accrued interest over the reprieve period to the principal amount of the debentures at the end of the reprieve period. In addition, on August 4, 2020, more than two-thirds of the value of the Company's convertible debenture holders agreed to receive 75% of the interest owed for the months of July, August and September 2020 in cash, and capitalize the remaining 25% of the monthly interest payments to the principal amount of the debenture at the end of each monthly payment period.
3. Other measures implemented by management included the reduction or delayed payment of certain vendor expenses resulting in decreased data services and IT costs as well as travel and entertainment expenses.

In an effort to help its clients navigate the pandemic, IOU created a website ([www.iouinsights.com](http://www.iouinsights.com)) to identify available government assistance programs and other small business resources. Furthermore, in late March 2020, management began the process of effecting modified payment plans for clients manifesting bona fide hardships directly attributable to the impacts of the COVID-19 pandemic. In part as a result of entering these modified plans, IOU exceeded the concentration limits in its financing credit facilities which created over advances and, ultimately, led to the Company receiving notices of default in April 2020 from these financing credit facilities. Nevertheless, the Company articulated a clear plan to its financing credit facilities and repaid the remaining loan amounts in Q4 2020. This led to the following series of events:

1. On October 22, 2020, the Company obtained a waiver from its 2019 Credit Facility for not having cured the over advance position initially created in March 2020. In addition, the Company obtained a waiver in relation to the defaults arising from its failure to meet certain covenants for the April to September 2020 period. At the same time, the Company entered into an amended agreement allowing for certain flexibility for certain financial covenants in future as well as to maintain the current interest rate at 90-day LIBOR, subject to a minimum LIBOR of 1.5%, plus 4.50% which represents 6.00% as at December 31, 2020.
2. On December 2, 2020, the 2016 financing credit facility was fully re-paid and was subsequently terminated. All costs associated with the termination have been accounted for in the net loss for the year ended December 31, 2020 which amounted to \$342,032.

Despite the setback caused by the COVID-19 pandemic, the Company worked throughout 2020 to bring its loan origination volumes back to pre-pandemic levels. In Q1 2020, the Company originated US\$38.1 million in loans and then hit low of US\$9.2 million in Q2 2020. However, in Q3 2020 and Q4 2020, loan originations increased to US\$18.4 million and US\$19.1 million, respectively as IOU gradually resumed lending to more businesses and geographical areas in the US.

In the second half of 2020, IOU continued its capital market program in the search for new sources of capital and announced, on November 4, 2020, that it closed a loan purchase agreement (the "Loan Purchase Agreement") with a fund managed by Neuberger Berman for up to US\$150 million per year over the next two years. In addition, IOU completed a non-brokered private placement of 18,009,806 common shares of the Company at a price of \$0.1157 per common share for gross proceeds of approximately \$2.1 million. The announcement of the Loan Purchase Agreement in Q4 2020 in conjunction with other sources of funding will support IOU's plan to bring back its loan origination volumes to pre-pandemic levels. The Loan Purchase Agreement significantly bolsters IOU's funding capabilities and puts the Company in an excellent position to capitalize on the eventual economic recovery.

In the first quarter ended March 31, 2021, the Company's loan originations exceeded US\$ 25 million and in the month of March 2021, IOU originated in excess of US\$12.1 million of loans, representing the highest monthly loan origination volume since the beginning of the COVID-19 pandemic.

Despite the adjusted net loss for the year ended December 31, 2020 of \$3.2 million, IOU's corporate cash position increased from \$5.3 million at December 31, 2019 to \$9.9 million at December 31, 2020 and increased again to approximately \$11.5 million at March 31, 2021. This was primarily due to a shift in the Company's funding strategy to reduce the loan portfolio in favour of the servicing portfolio. Specifically, once the financing credit facilities were repaid, cash collected from the loan portfolio was not used to pay down debt nor to reinvest in loans as loans were originated and sold to institutional buyers.

### Financial Highlights

For the year ended December 31, 2020, the Company funded US\$84.9 million in loans (2019: US \$154.2 million), representing a decrease of 45.0% over the same period last year. The decrease in loan originations was a result of the COVID-19 pandemic whereby IOU modified its underwriting standards to cease lending to industries and geographical areas which were strongly impacted by COVID-19.

In Q2 2020, the Company separated what was previously referred to as its wholesale and retail channels. IOU Central Inc. (USA) ("IOU USA"), a wholly owned subsidiary of IOU Financial, will maintain its wholesale channel where its borrowers are sourced through the servicing of existing broker relationships as well as the development of new broker relationships. IOU USA intends to grow by providing brokers with a best-in class user experience.

Commencing Q2 2020, IOU USA spun out its former retail channel into a wholly owned subsidiary, Zing Funding I, LLC ("Zing Funding"). Zing Funding is engaged in the commercial lending brokerage business where borrowers are sourced directly and referred either to a third-party lending platform or to its parent, IOU USA. A commission is earned on loans that are referred to and funded by IOU USA or third-party lenders. Zing Funding intends to grow through investments in direct marketing and sales.

In Q4 2020, Zing Funding facilitated loan originations of approximately US\$3.9 million (of which approximately US\$3.6 million was originated by its parent, IOU USA). On a pro-forma basis, this compares to approximately US\$4.4 million in Q4 2019 (of which approximately US\$3.5 million was originated by IOU USA). For the twelve-month period ended December 31, 2020, Zing Funding facilitated loan originations of approximately US\$11.4 million (of which approximately US\$9.3 million was originated by its parent, IOU USA). On a pro-forma basis, this compares to approximately US\$16.4 million in the twelve-month period ended December 31, 2019 (of which approximately US\$13.1 million was originated by IOU USA).

As at December 31, 2020, total loans under management amounted to \$69.3 million (2019: \$110.8 million), representing a decrease of 37.5% year over year and is attributable to the decrease in loan originations of 45.0% in the year 2020 compared to the same period in 2019. The principal balance of the loan portfolio amounted to \$13.5 million (2019: \$56.9 million), representing a decrease of 76.3%. The principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of institutional purchasers) amounted to \$55.8 million (2019: \$53.9 million), representing an increase of 3.5%.

Adjusted gross revenue decreased to \$17.1 million (2019: \$23.7 million), representing a decrease of 27.7% for the year ended December 31, 2020 compared to the same period in 2019.

Interest revenue decreased 33.8% to \$11.8 million in 2020 compared to the same period in 2019 as a result of a decrease in the average commercial loan receivable balance of 15.5% in 2020 as compared to 2019. The commercial loan receivable balance decreased from \$59.0 million at December 31, 2019 to \$14.0 million at December 31, 2020 as a result of the Company's funding strategy to reduce the loan portfolio in favor of the servicing portfolio following the onset of the COVID-19 pandemic.

Servicing income decreased 17.1% to \$3.7 million in the year ended December 31, 2020 compared to the same period in 2019 as a result of the decrease in the servicing portfolio yield from 8.0% in 2019 to 6.7% in 2020. The decrease in servicing yield is due largely to the impacts stemming from the COVID-19 pandemic. Consistent with the improvement

in loan quality, the servicing portfolio yield increased from a low of 5.2% in Q2 2020 to 6.8% in Q3 2020 and increased again to 7.0% in Q4 2020.

Interest expense during the year ended December 31, 2020 decreased 30.0% to \$2.8 million (2019: \$4.0 million). The decrease is attributable to a decrease in average borrowings of 19.3% in 2020 compared to 2019 due to the fact the Company repaid all its outstanding debt to its financing credit facilities.

The provision for loan losses during the year ended December 31, 2020 increased to \$8.7 million (2019: \$8.0 million) due to a deterioration in the credit quality of the commercial loan receivable balance caused mainly by the COVID-19 pandemic. More specifically, the increase in the provision for loan losses is due mainly to a \$4.1 million increase of loans written off in 2020 compared to 2019, as well as an upward revision to the Company's estimated loss rates to incorporate forward looking information. This was offset by a \$3.5 million decrease in the provision for loan losses relating to impacts of originations as the Company shifted from originating loans to its balance sheet in favor of its servicing portfolio. The provisional credit loss rate increased from 16.7% in 2019 to 21.6% in 2020 due in part to the deterioration in the credit quality of the commercial loan receivable balance and due in part to a diminishing commercial loan receivable balance. The provisional credit loss rate is expected to be volatile as the commercial loan receivable balance continues to diminish.

The Net Credit Loss Rate increased from 12.5% for the year ended 2019 to 23.8% for the year ended 2020 due to an increase in net charge offs of 60.9% in 2020 to \$9.6 million as compared to 2019 caused mainly by the COVID-19 pandemic. As a result of the company's collection efforts, recoveries increased from \$0.2 million in 2019 to \$0.7 million in 2020. The Company also uses the Net Credit Loss Rate as another measure for loan losses as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge offs and recoveries.

Adjusted operating expenses decreased 5.9% to \$9.5 million for the year ended 2020 compared to \$10.1 million for the year ended 2019 primarily due to the implementation of IOU's Pandemic Resilience Plan. On April 1, 2020, the Company furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salaries for all remaining employees and directors as well as having managed certain vendors and discretionary costs resulting in decreased data services and IT costs as well as travel and entertainment expenses. The Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, increased slightly from 9.9% in 2019 to 10.2% in 2020. Operating expenses decreased by \$0.9 million to \$9.0 million in 2020 compared to \$9.9 million in 2019.

IOU closed on its year ended December 31, 2020 with an adjusted net loss of \$3.2 million compared to adjusted net earnings of \$1.8 million for the year ended December 31, 2019.

IOU closed on its year ended December 31, 2020 with IFRS net loss of \$2.8 million, or \$(0.03) per share, compared to IFRS net earnings of \$1.5 million or \$0.02 per share for the same period in 2019.



**ADJUSTED AND IFRS NET (LOSS) EARNINGS FOR THE PERIOD ENDED DECEMBER 31, 2020**

The following table presents IOU Financial's adjusted and IFRS net (loss) earnings for the years ended December 31, 2020 and 2019. The financial information is presented in Canadian dollars (except where otherwise noted) and was prepared in accordance with IFRS.

**Adjusted and IFRS net (loss) earnings**

For the year ended December 31	2020 \$	2019 \$
Interest revenue	11,815,590	17,861,394
Servicing & other income	5,316,742	5,837,860
<b>Adjusted Gross Revenue</b>	<b>17,132,332</b>	<b>23,699,254</b>
Interest expense	2,800,963	3,998,673
Provision for loan losses	8,689,540	7,951,635
Recoveries	(706,367)	(248,043)
<b>Cost of Revenue</b>	<b>10,784,136</b>	<b>11,702,265</b>
<b>Adjusted Net Revenue</b>	<b>6,348,196</b>	<b>11,996,989</b>
Adjusted operating expense	9,523,257	10,117,365
Income tax expense	-	121,370
<b>Adjusted Net (Loss) Earnings</b>	<b>(3,175,061)</b>	<b>1,758,254</b>
<b>Adjusted Net (Loss) Earnings per Share</b>	<b>(0.03)</b>	<b>0.02</b>
<b>Adjusted Net (Loss) Earnings</b>	<b>(3,175,061)</b>	<b>1,758,254</b>
Non-cash gain on sales of loans	2,857,268	3,273,642
Non-cash amortization of servicing asset	(3,004,811)	(3,706,180)
Non-cash stock-based compensation	(137,345)	(287,986)
Non-recurring gain -net	640,474	485,579
<b>Net (Loss) Earnings per IFRS</b>	<b>(2,819,475)</b>	<b>1,523,309</b>
<b>Net (Loss) Earnings per Share</b>	<b>(0.03)</b>	<b>0.02</b>

## Adjusted Gross Revenue

IOU Financial's adjusted gross revenue is defined as gross revenue prepared in accordance with IFRS, plus amortization of servicing assets less gain on sale of loans. The Company uses adjusted gross revenue as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates the non-cash gain on sale of loans and the non-cash amortization of servicing assets which influence operating results depending on the timing and amount of the loan sales.

The following table summarizes revenues by category.

### Adjusted Gross Revenue

For the year ended December 31	2020	2019
	\$	\$
<b>Gross Revenue</b>		
Interest revenue	11,815,590	17,861,394
Servicing & other income	5,316,742	5,837,860
Non-cash amortization of servicing assets	(3,004,811)	(3,706,180)
Non-cash gain on sale of loans	2,857,268	3,273,642
<b>Gross Revenue</b>	<b>16,984,789</b>	<b>23,266,716</b>
Non-cash amortization of servicing assets	3,004,811	3,706,180
Non-cash gain on sale of loans	(2,857,268)	(3,273,642)
<b>Adjusted Gross Revenue</b>	<b>17,132,332</b>	<b>23,699,254</b>
<b>Ratios</b>		
Portfolio Yield <sup>(1)</sup>	29.3%	37.5%
Servicing Portfolio Yield <sup>(2)</sup>	6.7%	8.0%

<sup>(1)</sup> Portfolio Yield is calculated as follows: interest revenue divided by the average commercial loans receivable for the period presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

<sup>(2)</sup> Servicing Portfolio Yield is calculated as follows: servicing income divided by the average servicing portfolio for the period presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

Adjusted gross revenue decreased to \$17.1 million (2019: \$23.7 million), representing a decrease of 27.7% for the year ended December 31, 2020 compared to the same period in 2019.

Interest revenue decreased 33.8% to \$11.8 million in 2020 compared to the same period in 2019 as a result of a decrease in the average commercial loan receivable balance of 15.5% in 2020 as compared to 2019. The commercial loan receivable balance decreased from \$59.0 million at December 31, 2019 to \$14.0 million at December 31, 2020 as a result of the Company's funding strategy to reduce the loan portfolio in favor of the servicing portfolio following the onset of the COVID-19 pandemic.

Servicing income decreased 17.1% to \$3.7 million in the year ended December 31, 2020 compared to the same period in 2019 as a result of the decrease in the servicing portfolio yield from 8.0% in 2019 to 6.7% in 2020. The decrease in servicing yield is due largely to the impacts stemming from the COVID-19 pandemic. Consistent with the improvement in loan quality, the servicing portfolio yield increased from a low of 5.2% in Q2 2020 to 6.8% in Q3 2020 and increased again to 7.0% in Q4 2020.

Gross revenue decreased to \$17.0 million for the year ended December 31, 2020 (2019: \$23.3 million), representing a decrease of 27.0% over 2019. The decrease is primarily due to a decrease in interest revenue and servicing income due largely to the COVID-19 pandemic.

As per the debt assignment agreements, the Company retains the servicing rights (payment collections) to the loans it has sold, and the institutional purchasers agree to be charged a servicing fee over the term of the loans. Under IFRS, the Company recognizes a non-cash gain on sale along with servicing assets that are amortized to the consolidated statements of comprehensive income over the term of the assignment agreements. The Company recognizes a non-cash gain on sale of loans and related servicing asset since the actual expected cash flows to be received are higher than the fair value of providing such services.

#### Cost of revenue

IOU Financial's cost of revenue consists primarily of interest costs incurred in connection with the financing of its lending activities and provisions for loan losses (net of recoveries). The following table summarizes cost of revenue by category.

For the year ended December 31	<b>Cost of Revenue</b>	
	<b>2020</b>	2019
	\$	\$
<b>Cost of revenue</b>		
Interest expense	<b>2,800,963</b>	3,998,673
Provision for loan losses	<b>8,689,540</b>	7,951,635
Recoveries	<b>(706,367)</b>	(248,043)
<b>Cost of Revenue</b>	<b>10,784,136</b>	11,702,265
<b>Ratios</b>		
Cost of Borrowing Rate <sup>(1)</sup>	<b>9.0%</b>	10.4%
Provisional Credit Loss (PCL) Rate <sup>(2)</sup>	<b>21.6%</b>	16.7%
Net Credit Loss (NCL) Rate <sup>(3)</sup>	<b>23.8%</b>	12.5%

<sup>(1)</sup> The Cost of Borrowing Rate is calculated as follows: interest expense divided by the average borrowings for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

<sup>(2)</sup> The Provisional Credit Loss rate is calculated as follows: provision for loan losses divided by the average commercial loans receivable for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

<sup>(3)</sup> The Net Credit Loss rate is calculated as follows: charge offs net of recoveries divided by the average commercial loans receivable for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

The cost of revenue for the year ended December 31, 2020 decreased from \$11.7 million in 2019 to \$10.8 million in 2020. The decrease is primarily a result of a decrease in interest expense due to the decrease of average borrowings in 2020. At the end of 2020, the Company has no outstanding debt to its financing credit facilities.

Interest expense during the year ended December 31, 2020 decreased 30.0% to \$2.8 million (2019: \$4.0 million). The decrease is attributable to a decrease in average borrowings of 19.3% in 2020 compared to 2019 due to the fact the Company repaid all its outstanding debt to its financing credit facilities.

The provision for loan losses during the year ended December 31, 2020 increased to \$8.7 million (2019: \$8.0 million) due to a deterioration in the credit quality of the commercial loan receivable balance caused mainly by the COVID-19 pandemic. More specifically, the increase in the provision for loan losses is due mainly to a \$4.1 million increase of loans written off in 2020 compared to 2019, as well as an upward revision to the Company's estimated loss rates to incorporate forward looking information. This was offset by a \$3.5 million decrease in the provision for loan losses relating to impacts of originations as the Company shifted from originating loans to its balance sheet in favor of its servicing portfolio. The provisional credit loss rate increased from 16.7% in 2019 to 21.6% in 2020 due in part to the deterioration in the credit quality of the commercial loan receivable balance and due in part to a diminishing commercial loan receivable balance. The provisional credit loss rate is expected to be volatile as the commercial loan receivable balance continues to diminish.

The Net Credit Loss Rate increased from 12.5% for the year ended 2019 to 23.8% for the year ended 2020 due to an increase in net charge offs of 60.9% in 2020 to \$9.6 million as compared to 2019 caused mainly by the COVID-19

pandemic. As a result of the company's collection efforts, recoveries increased from \$0.2 million in 2019 to \$0.7 million in 2020. The Company also uses the Net Credit Loss Rate as another measure for loan losses as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge offs and recoveries.

### Adjusted Operating Expenses

IOU Financial's adjusted operating expenses is defined as total operating expenses prepared in accordance with IFRS for the period, less: non-cash stock-based compensation, which is given at different times and prices, non-recurring costs, plus non-recurring gains which affects operating results only periodically. The Company uses adjusted operating expenses as it eliminates items that do not necessarily reflect how the Company is performing. Operating expenses consist of day to day operating expenses such as wages and salaries, professional fees, including consulting services, legal, audit and accounting fees, data services and IT costs.

### **Adjusted Operating Expenses**

For the year ended December 31	2020 \$	2019 \$
<b>Operating Expenses</b>	<b>9,020,128</b>	9,919,772
Stock Based Compensation	<b>(137,345)</b>	(287,986)
Non-Recurring Gain-net <sup>(2)</sup>	<b>640,474</b>	485,579
<b>Adjusted Operating Expenses</b>	<b>9,523,257</b>	10,117,365

### **Ratio**

Adjusted Operating Expense Ratio <sup>(1)</sup>	<b>10.2%</b>	9.9%
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<sup>(1)</sup> The Adjusted Operating Expense Ratio is calculated as follows: adjusted operating expenses divided by the average loans under management for the year, presented on an annualized basis. The ratios are calculated on a five-point basis, using December, March, June, September, and period end balances, presented on an annualized basis.

<sup>(2)</sup> Refer to Note 17 of the Financial Statement relating to the breakdown of non-recurring gains and loss.

Adjusted operating expenses decreased 5.9% to \$9.5 million for the year ended 2020 compared to \$10.1 million for the year ended 2019 primarily due to the implementation of IOU's Pandemic Resilience Plan. On April 1, 2020, the Company furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salaries for all remaining employees and directors as well as having managed certain vendors and discretionary costs resulting in decreased data services and IT costs as well as travel and entertainment expenses.

Adjusted operating expenses decreased by \$0.6 million to \$9.5 million in 2020 compared to \$10.1 million in 2019. This decrease can be primarily attributed to the following:

- a decrease of \$0.6 million in wages and salaries as a result of a decrease in the number of full-time employees and a temporary reduction in salaries for all remaining employees and directors.
- a decrease of \$0.2 million in data services and IT costs.
- a decrease of \$0.1 million in travel and entertainment expenses.
- an increase of \$0.2 million in amortization of transaction costs on financing credit facilities.
- an increase of \$0.1 million in insurance costs.

The Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, increased slightly from 9.9% in 2019 to 10.2% in 2020.

Operating expenses decreased by \$0.9 million to \$9.0 million in 2020 compared to \$9.9 million in 2019. This decrease in the following can be primarily attributed to measures taken by the Company as part of its Pandemic Resilience Plan:

- a decrease of \$0.6 million in wages and salaries as a result of a decrease in the number of full-time employees and a temporary reduction in salaries for all remaining employees and directors.

- a decrease of \$0.2 million in stock-based compensation.
- a decrease of \$0.2 million in data services and IT costs.
- a decrease of \$0.1 in travel and entertainment expenses.
- an increase of \$0.2 million in amortization of transaction costs on financing credit facilities.
- an increase of \$0.1 million in insurance costs
- an increase of \$0.1 million in non-recurring gain-net.

#### Adjusted Net (loss) Earnings

IOU Financial's adjusted (loss) earnings is defined as net (loss) earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs. The Company uses adjusted net (loss) earnings as a measure of financial performance.

<b>Adjusted Net (loss) Earnings</b>		
For the period ended December 31	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
<b>Net (Loss) Earnings</b>	<b>(2,819,475)</b>	1,523,309
Gain on Sale of Loans	<b>(2,857,268)</b>	(3,273,642)
Amortization of Servicing Assets	<b>3,004,811</b>	3,706,180
Stock-Based Compensation	<b>137,345</b>	287,986
Non-Recurring Gain-net	<b>(640,474)</b>	(485,579)
<b>Adjusted Net (Loss) Earnings <sup>(1)</sup></b>	<b>(3,175,061)</b>	1,758,254

<sup>(1)</sup> IOU Financial's adjusted net (loss) earnings is defined as net (loss) earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs.

IOU closed on its year ended December 31, 2020 with an adjusted net loss of \$3.2 million compared to adjusted net earnings of \$1.8 million for the year ended December 31, 2019.

IOU closed on its year ended December 31, 2020 with IFRS net loss of \$2.8 million, or \$(0.03) per share, compared to IFRS net earnings of \$1.5 million or \$0.02 per share for the same period in 2019.

## **CONSOLIDATED FINANCIAL POSITION**

The following table presents IOU Financial's consolidated statement of financial position as at December 31, 2020 and December 31, 2019. The financial information is presented in Canadian dollars (except where noted) and was prepared in accordance with IFRS.

### **Condensed Consolidated Statement of Financial Position**

	As at December 31, 2020	As at December 31, 2019
	\$	\$
<b>Assets</b>		
Commercial loans receivable	<b>13,987,002</b>	58,964,204
Allowance for expected credit losses	<b>(2,927,407)</b>	(4,515,175)
Commercial loans receivable – net	<b>11,059,595</b>	54,449,029
Non-portfolio assets	<b>14,112,298</b>	10,365,917
<b>Total assets</b>	<b>25,171,893</b>	64,814,946
<b>Liabilities</b>		
Financing credit facilities	-	38,936,865
Convertible debentures – liability component	<b>10,404,569</b>	9,931,181
Other liabilities	<b>2,748,665</b>	2,796,522
<b>Total liabilities</b>	<b>13,153,234</b>	51,664,568
<b>Shareholders' equity</b>	<b>12,018,659</b>	13,150,378
<b>Ratios</b>		
Allowance for Expected Credit Losses (ACL) Ratio <sup>(1)</sup>	20.9%	7.7%
Stage 3 Delinquency Ratio <sup>(2)</sup>	53.1%	10.2%

<sup>(1)</sup> The Allowance for Expected Credit Losses Ratio is calculated as follows: allowance for expected credit losses divided by the commercial loans receivable at year end.

<sup>(2)</sup> The Stage 3 Delinquency Ratio is calculated as follows: amount of commercial loans receivable included in stage 3 divided by the commercial loans receivable at year end.

#### **Total Assets**

Total assets decreased by \$39.6 million (61.2%) from \$64.8 million at December 31, 2019 to \$25.2 million at December 31, 2020. This decrease is mainly attributable to a decrease of \$43.4 million in commercial loans receivable-net.

As at December 31, 2020, the allowance for Expected Credit Losses Ratio increased from 7.7% to 20.9% compared to December 31, 2019. The Stage 3 Delinquency Ratio increased from 10.2% to 53.1% compared to December 31, 2019. The increase in the ACL and Stage 3 Delinquency Ratios are primarily attributable to the impact related to the COVID-19 pandemic. The ACL and Stage 3 Delinquency Ratios are expected to be volatile as the commercial loan receivable balance continues to diminish.

#### **Total Liabilities**

IOU Financial's total liabilities decreased by \$38.5 million (74.5%) from \$51.7 million at December 31, 2019 to \$13.2 million at December 31, 2020. The decrease is mainly due to the decrease in financing credit facilities of \$ 38.9 million.

#### **Shareholders' Equity**

Shareholders' Equity decreased by \$ 1.1 million (8.6%) from \$ 13.1 million at December 31, 2019 to \$12.0 million at December 31, 2020. This decrease is mainly attributable to current period comprehensive loss (\$3.2 million) and offset by the private placement of approximately \$2.1 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

IOU's corporate cash position increased from \$5.3 million at December 31, 2019 to \$9.9 million at December 31, 2020 and increased again to approximately \$11.5 million at March 31, 2021 as a result of the Pandemic Resilience Plan implemented by management in 2020.

Due to the COVID-19 pandemic, the Company went into an over-advance position with its financing credit facilities. At the end of Q4 2020, the Company paid off all outstanding debt to its financing credit facilities. Having cured the over advanced position with its financing credit facilities, the Company entered into an amended agreement with the 2019 Credit Facility and the 2016 Credit Facility terminated its agreement with the Company.

In the second half of 2020, IOU continued its capital market program in the search for new sources of capital and announced, on November 4, 2020, that it closed a loan purchase agreement (the "Loan Purchase Agreement") with a fund managed by Neuberger Berman for up to US\$150 million per year over the next two years. In addition, IOU completed a non-brokered private placement of 18,009,806 common shares of the Company at a price of \$0.1157 per common share for gross proceeds of approximately \$2.1 million.

On April 8, 2021, the Company announced today that it intends to repurchase up to \$2,000,000 of its convertible debentures in the capital of the Company (the "Debentures") at a discount per \$1,000 of aggregate principal amount per Debenture (the "Repurchases"). IOU will seek to repurchase such Debentures pursuant to repurchase agreements to be entered into with individual holders of Debentures and to close the Repurchases by no later than June 30, 2021. There can be no assurances that any Debentures will be so repurchased, that all Debentures that an individual holder wishes to be repurchased will so be, or that the Repurchases will be completed by such date. The total reduction in interest expenses to IOU, should the Repurchases be completed, will amount to approximately \$500,000, representing the interest savings for the period July 1, 2021 to the maturity date of December 31, 2023.

### Flow of funds

The following table presents a summary of cash flows for the years ended December 31, 2020 and 2019.

#### **Consolidated Statement of Cash Flows**

<b>For the year ended December 31</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cash generated (used) in operating activities	<b>41,898,271</b>	(21,222,645)
Cash generated in investing activities	<b>66,505</b>	548,757
Cash (used) generated in financing activities	<b>(37,153,841)</b>	19,487,561
(Decrease) increase in cash	<b>4,810,935</b>	(1,186,327)
Exchange rate (loss) on cash	<b>(184,490)</b>	(242,311)
Net increase (decrease) in cash	<b>4,626,445</b>	(1,428,638)

### Cash used in operating activities

The \$63.1 million increase in cash generated in operating activities for the year ended December 31, 2020, compared to the same period in 2019, was primarily related to a decrease of \$75.6 million in the cash outflow from the net change in non-cash working capital items (2020: \$39.3 million compared to 2019: \$114.9 million) and a decrease of \$8.7 million in the cash inflow from the sale of commercial loans (2020: \$84.6 million compared to 2019: \$93.3 million).

### Cash used in investing activities

The \$0.5 million decrease in cash generated by investing activities for the year ended December 31, 2020, compared to the same period in 2019, is primarily due to a decrease of cash inflow of \$0.5 million in restricted cash.

### Cash generated from financing activities

The \$56.6 million increase in cash used in financing activities for year ended December 31, 2020, compared to the same period in 2019, is primarily due to the repayment of \$38.9 million to the financing credit facilities in 2020 and proceeds of \$19.9 million from the financing credit facilities in 2019 and offset by the issuance of equity of \$1.9 million.

### SUMMARY OF QUARTERLY RESULTS

#### Quarterly Results

For the quarters ended	Dec 31/20	Sept 30/20	Jun 30/20	Mar 31/20
	\$	\$	\$	\$
Gross revenue	2,427,139	3,821,597	4,392,762	6,343,291
Net (loss) revenue	2,925,855	4,069,970	(1,222,449)	427,277
Net (loss) earnings	703,292	1,698,588	(3,079,747)	(2,141,608)
Net (loss) earnings per share <sup>(1)</sup>	0.01	0.02	(0.04)	(0.02)

  

For the quarters ended	Dec 31/19	Sept 30/19	Jun 30/19	Mar 31/19
	\$	\$	\$	\$
Gross revenue	6,339,300	6,595,598	5,486,327	4,845,491
Net revenue	3,079,405	3,208,098	2,737,863	2,539,085
Net earnings	217,569	1,000,614	219,256	85,870
Net earnings per share <sup>(1)</sup>	0.00	0.01	0.00	0.00

<sup>(1)</sup> Basic and diluted. Net earnings (loss) per share has been calculated using the weighted average number of shares outstanding during each period. Rounded to the nearest cent.

### OFF-BALANCE SHEET ARRANGEMENTS

IOU Financial does not engage in any off-balance sheet financing activities. IOU Financial does not have any interest in non-consolidated entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

### PROPOSED TRANSACTIONS

There were no proposed transactions as at the date of the Company's financial statements.



## **TRANSACTIONS BETWEEN RELATED PARTIES**

- i) The Company rents its Canadian office space from Palos. The lease may be cancelled after October 2021 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. The amount of \$122,874 is expensed as rental expense for the period (2019: rent expense of \$122,018). That amount does not include the amortization of right-of-use assets and the interest on the lease liabilities. Future non-cancellable lease liabilities under this agreement amount to \$628,789.
- ii) The Company sells loans to a fund managed by Neuberger Berman. In 2020, the Company sold loans in the amount of US\$4,093,785 (2019: US\$0) and earned service fees of \$23,815 (2019: \$0) and recorded deferred service fees receivable in the amount of \$283,216 as at December 31, 2020 (2019: \$0).

### iii) Key Management Compensation

Key management includes directors (executive and non-executive), the Chief Operating Officer and the Chief Financial Officer who is also the Company Secretary. The compensation paid or payable to key management for employee services for years ended December 31, 2020 and 2019 is shown below:

#### **Key Management Compensation**

For the year ended December 31	<b>2020</b>	2019
Salaries and other short-term employee benefits	<b>749,925</b>	885,529
Share-based payments	<b>92,483</b>	169,496
	<b>842,408</b>	1,055,025

## **COMMERCIAL LOANS RECEIVABLE**

IOU Financial's commercial loan receivable portfolio is composed of a large number of loans, and as such, no individual loan comprises a significant portion of the portfolio. As at December 31, 2020, the average loan balance in the portfolio was approximately US\$36,315 (2018: US\$91,223). In addition to limiting its exposure to any single loan, IOU Financial maintains a geographically and industry diversified loan portfolio which reduces the risk of loss arising from adverse regional or industrial economic conditions.

The following tables present the portfolio by geography and industry as at December 31, 2020.

<b>Industry Category</b>	<b>Portfolio %</b>
Specialty trade contractors and home building renovation	19%
Casual, fine dining and full- service restaurants	13%
Manufacturing	9%
Medical services	6%
Other store or online retailers and wholesalers	5%
Other professional services	5%
Automotive garage	5%
Other	38%
Total	100%

<b>State</b>	<b>Portfolio %</b>
Texas	17%
Florida	10%
New York	8%
California	7%
Georgia	6%
Illinois	5%
Tennessee	4%
New Jersey	3%
North Carolina	3%
Michigan	3%
Other	34%
Total	100%

## **OUTSTANDING SHARE DATA**

The following table presents IOU Financial's outstanding share data as at April 28, 2021

<b>Outstanding Share data</b>	
<b>Ordinary shares issued and outstanding:</b>	<b>Number of shares issued</b>
December 31, 2019	86,708,122
Shares issued between January 1, 2020 and December 31, 2020	18,214,806
Shares cancelled between January 1, 2020 and December 31, 2020	(279,000)
<b>Shares outstanding on April 28, 2021</b>	<b>104,643,928</b>
<b>Options issued and outstanding:</b>	<b>Number of Options issued</b>
December 31, 2019	6,861,500
Options granted between January 1, 2020 and December 31, 2020	2,000,000
Options forfeited between January 1, 2020 and December 31, 2020	(1,090,000)
Options exercised between January 1, 2020 and December 31, 2020	(205,000)
Options granted after December 31, 2020	-
Options forfeited after December 31, 2020	-
<b>Options outstanding on April 28, 2021</b>	<b>7,566,500</b>

The Company granted, on January 15, 2020, options to a consultant to acquire up to 200,000 Common Shares at an exercise price of \$0.25 per share. These options have a term of three years and vest as follows: 50,000 options shall vest on March 15, 2020, 50,000 options shall vest on June 15, 2020, 50,000 options shall vest on September 15, 2020, and 50,000 options shall vest on December 15, 2020.

On July 28, 2020, the Company granted options entitling its senior officers, its directors, and certain employees and consultants to acquire up to an aggregate of 1,745,000 common shares of the Company ("Shares") at an exercise price of \$0.08. These options have a term of five years from the date of grant with one-third (1/3) vesting immediately and one-third (1/3) vesting on each of the first and second anniversaries of the date of grant, and if exercised, their underlying shares would be subject to a four-month hold period from the date of issuance of the options. The grant-date fair value has been established at \$0.10 per option using the following assumptions: expected volatility of 84%, risk-free interest rate of 0.23% and an expected life to maturity that equals the term.

In addition, the exercise price of 2,403,167 stock options, granted prior to July 28, 2020, to purchase common shares of the Company and which are currently outstanding, were repriced to \$0.08 per share. If exercised, their underlying shares would be subject to a four-month hold period from July 28, 2020. None of these restrictions will apply as of November 29, 2020.

On September 11, 2020, the Company amended the exercise price of the 200,000 options granted on January 15, 2020 to a consultant from \$0.25 to \$0.08. If exercised, the shares underlying these options would be subject to a four-month hold period from the date of the amendment.

On December 3, 2020, the Company granted options entitling one director to acquire up to 55,000 common shares at an exercise price of \$0.11 per share. Those options are vested over a two-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 and exercisable for a period of five years from the date of grant, provided that it has vested.

In 2020, 205,000 options were exercised at an average exercise price of \$0.08.

Due to the repricing of options, the weighted average exercise price was reduced to \$0.13.

### **NORMAL COURSE ISSUER BID**

IOU Financial commenced on May 1<sup>st</sup>, 2019, a Normal Course Issuer Bid (“NCIB”) pursuant to which IOU Financial may purchase for cancellation, from time to time, as it considers advisable, up to 2,000,000 of its common shares (“Shares”) over a 12-month period. The NCIB terminated on April 30, 2020. Purchases of Shares under the NCIB were made through the facilities of the TSX Venture Exchange at the market price of the Shares at the time of acquisition. Leede Jones Gable Inc. conducted the NCIB on behalf of IOU and Shares were re-purchased at the discretion of senior management of IOU. For the period commencing May 1<sup>st</sup>, 2019 and ending April 30, 2020, 1,944,500 Shares were repurchased and cancelled.

### **BUSINESS OUTLOOK**

Despite the setback caused by the COVID-19 pandemic, the Company continues to work on bringing its loan origination volumes back to pre-pandemic levels and a return to profitability on an annual basis. For all of 2021, the company is targeting loan originations in the range of US\$165M to US\$200M as compared to US\$84.9M in 2020 and US\$154.2M in 2019.

### **EVENTS AFTER THE REPORTING DATE**

On April 20, 2021, the Company’s wholly owned subsidiary, IOU Central Inc., received loan proceeds of US\$699,800 pursuant to the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). IOU Central Inc. can apply for an amount of loan forgiveness which would equal, in large part, to expenses incurred for payroll, rent and utilities commencing from the date of first disbursement and ending no later than twenty-four (24) weeks after the date of disbursement. The loan carries a fixed interest rate of 1% and matures five (5) years from the date IOU Central Inc. applies for forgiveness. No payment of principal and interest are due on this loan beginning on the date of disbursement and ending on the date on which the amount of forgiveness is determined under the PPP program.

## **CRITICAL ACCOUNTING ESTIMATES**

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

1. Valuation of commercial loans  
Management exercises judgment to determine the expected credit losses (ECL) based on all available reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. At the end of each reporting period, the Company applies a three-stage forward looking impairment approach to measure the expected credit losses (ECL) on its Originated to hold (OTH) loans. The stages are based on the change in the credit quality of the OTH loan since initial recognition. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. Further details on the estimates used to determine any allowance for impaired commercial loans are provided in the accounting policy of the consolidated Financial Statement "Impairment of OTH loans".
2. Servicing assets  
The initial recognition of servicing assets requires the Company to make estimates of the fair value of the service to be provided which is based on market expectations at the time of the loan sale and may vary from the actual cash flows serviced.
3. Deferred Tax Estimation  
Deferred tax assets and liabilities recognition involves making a series of assumptions. For instance, the Company must estimate the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future or the tax rates expected to apply to the period when the asset is realized or the liability is settled.

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

## **CURRENT CHANGES IN ACCOUNTING POLICIES**

The Company has not adopted any new or revised standards, along with any consequential amendments, effective January 1, 2020.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying values of cash, commercial loans receivable, other receivables, financing credit facilities and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of these items.

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

### *Foreign exchange risk*

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

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

Listed below are the relevant instruments and the amount of foreign currencies included in their balances (in US dollars) As at December 31, 2020:

Cash	6,234,762
Restricted cash	208,209
Certain other assets	1,566,724
Net commercial loan receivables	8,568,568
Accounts payable and accrued liabilities	(1,022,440)
Financing credit facilities	-

The exchange rate applied as at December 31, 2020 was 1.2732 (December 31, 2019: 1.2988).

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a 10% strengthening of the Canadian dollar would have increased the net loss by approximately \$1,835,055 (2019: reduced net earnings by \$3,955,744), assuming that all other variables remained constant. An assumed 10% weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### *Liquidity risk*

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

The Company manages liquidity risk through the management of its capital structure. The Company has been financed mainly through equity and debt offerings, commercial loan sales and the use of its financing credit facilities.

With respect to commercial loan sales, the Company has an agreement with an investor to sell interests in certain of its commercial loan receivable of up to US\$150 million per year for the next two years (2019 - \$0 million). As at December 31, 2020, \$4 million (2019- \$0 million) of certain commercial loans receivable were sold to the investor pursuant to the agreement.

With respect to the financing credit facilities, it is noted that save for the amortization period during the last year of the committed term, they are in the form of revolving credit facilities for which the availability is determined by the collateral value of the loans pledged thereunder. In order to meet its liabilities when they come due, the Company is dependent on the continued availability of such financing activities.

#### *Credit risk*

Credit risk is managed on a Company basis and results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company's maximum credit risk is the carrying value of the cash, restricted cash and commercial loans receivable. The allowance for loan losses is maintained at a level considered sufficient to cover all potential losses.

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

#### *Interest rate risk*

The Company is subject to interest rate risk on its cash, restricted cash and financing credit facilities. A 10% increase in interest rates over a 12-month horizon based on the balances as at December 31, 2020 would not impact the net loss as the financing credit facilities have been fully repaid as at December 31, 2020. Interest rate impact (2020 - \$0, 2019 - \$285,601).

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 to eighteen months.

The Company is exposed to cash flow interest rate risk on its financing credit facilities issued at a variable rate. During 2019 and 2020, the borrowings at a variable rate were denominated in USD. The Company mitigates this risk by borrowing in the short term and therefore the Company does not believe that its exposure to interest rate risk is significant.

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

## **RISKS AND UNCERTAINTIES**

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

### ***COVID-19***

The duration of the COVID-19 pandemic and full impact of the crisis are unknown. COVID-19 has resulted in a material adverse effect on IOU Financial's business, operating results, financial condition and liquidity. Governmental requirements or recommendations for "non-essential" businesses to temporarily close or severely limit their operations have impacted many small businesses that are or could have been IOU Financial's clients. Reduced customer demand has also hurt many of those small businesses. It is uncertain how long these conditions will continue and whether such businesses will be able to continue to operate after an extended period. The ultimate depth, duration and impact of this crisis are unknown, which creates material uncertainty for IOU Financial Inc.

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

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

### ***Compliance with debt covenants***

IOU Financial entered into loan agreements with lenders in 2016 and in 2019. The loan agreements impose covenants and obligations on the part of the Company. In particular, the agreements contain certain covenants and representations, the breach of which could result in a default and the acceleration of the maturity of the term of the financing credit facilities. IOU Financial plans to address the risk of default by endeavoring to meet the financial covenants and other obligations in the loan agreement. There is no assurance, however, that IOU Financial will be in compliance with covenants in the future due to unforeseen events or circumstances and if IOU Financial was to default there is no assurance that an amendment or waiver will be granted by the lender.

As part of the 2016 and the 2019 Credit Facilities, the Company must respect certain financial covenants. All financial covenants were met as at December 31, 2019. Despite the fact that the 2016 Credit Facility was terminated effective December 31, 2020, not all financial covenants were met at December 31, 2020. All financial covenants relating to the 2019 Credit Facilities were met as at December 31, 2020.

### ***Dependence on Third Party Service Providers***

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

### ***Competition***

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

### ***Regulatory Risk***

IOU Financial is subject to strict regulatory and licensing compliance standards, non-conformity with which may expose IOU Financial to adverse consequences. IOU Financial's business is dependent to a large extent on its ability to remain



in good standing with all regulators. Some of these regulators impose minimum working capital or net equity requirements, amongst other, which in certain cases and under certain circumstances, IOU Financial may not be able to satisfy. Under such cases, the Company may not be able to operate its regular business until all such financial or regulatory requirements have been satisfied.

### ***Dependence on Key Personnel***

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

### ***IOU Financial's growth could strain its personnel, resources and infrastructure***

IOU Financial's growth in headcount and operations may place a significant strain on its management and its administrative, operational and financial reporting infrastructure. Accordingly, IOU Financial's success will depend, in part, on the ability of its senior management to manage the growth it achieves effectively. To do so, it must continue to hire, train and manage new employees as needed. The addition of new employees and the system development that it anticipates will be necessary to manage its growth will increase its cost base, which will make it more difficult for it to offset any future revenue shortfalls by reducing expenses in the short term. If IOU Financial fails to successfully manage its growth, it will be unable to execute its business plan. If its new hires perform poorly, or if it is unsuccessful in hiring, training, managing and integrating these new employees, or if it is not successful in retaining its existing employees, IOU Financial's business may be harmed. To manage the growth of IOU Financial's operations and personnel, it will need to continue to improve its operational and financial controls and update its reporting procedures and systems. Given the complex nature of the accounting of the Company's operations and the limited number of staff resources, IOU Financial may not be able to address all accounting and reporting impacts of new transactions or agreements on a timely basis.

### ***Security and Confidentiality Risk***

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

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

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

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

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

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

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

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

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

The highly-automated nature of IOU Financial's lending platform may make it an attractive target and potentially vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a computer "hacker" were able to infiltrate IOU Financial's lending platform, users would be subject to an increased risk of fraud or identity theft, and IOU Financial may not receive the principal or interest payments that it expects to receive on any loans that it was fraudulently induced to make. Hackers might also disrupt the accurate processing and posting of payments to IOU Financial's accounts on its lending platform, or cause the destruction of data and thereby undermine IOU Financial's rights to repayment of the loans it has made. While IOU Financial has taken steps to prevent hackers from accessing its lending platform, if it is unable to prevent hacker access, its ability to receive the principal and interest payments that it expects to receive on loans it made and its ability to service its loans and to maintain its lending platform could be adversely affected.

### ***Maintenance of Client Relationships***

The ability of IOU Financial to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients. IOU Financial's ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

### ***Litigation Risk***

IOU Financial's business may become susceptible from time to time to various legal claims, including class action claims, in the course of its operations or with respect to the interpretation of existing agreements. Any future claims or litigation could have a material adverse effect on IOU Financial's business and its profitability.

### ***Possible Volatility of Stock Price***

The market price of the common Shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in IOU Financial's results of operations, changes in financial estimates by securities analysts or by management, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the common shares.

### **GENERAL**

The Company also discloses information related to its activities on SEDAR at [www.sedar.com](http://www.sedar.com) and on its website [www.ioufinancial.com](http://www.ioufinancial.com)

# **IOU FINANCIAL INC.**

## **CORPORATE INFORMATION**

### **DIRECTORS AND OFFICERS**

Philippe Marleau, Director, President & CEO

David Kennedy, Chief Financial Officer and Secretary

Wayne Pommen – Director

Evan Price - Director

Yves Roy - Director

Lucas Timberlake - Director

Neil Wolfson - Director

### **AUDITORS**

PricewaterhouseCoopers LLP

### **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc.

### **HEAD OFFICE**

IOU Financial Inc.  
1 Place Ville-Marie  
Suite 1670  
Montreal, Quebec  
H3B 2B6  
Telephone: (514) 789-0694  
Fax: (514) 789-0542

### **SUPPLEMENTARY INFORMATION**

Supplementary documents regarding the Company are available on SEDAR's website ([www.sedar.com](http://www.sedar.com)) or upon written request to the Company's principal business center: 1 Place Ville-Marie, Suite 1670, Montreal, Quebec, H3B 2B6.

# **IOU FINANCIAL INC.**

## **MANAGEMENT'S REPORT**

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

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

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

In the opinion of management, these financial statements incorporate, within reasonable limits, all important elements and data available as at April 28, 2021.

(s) David Kennedy

**David Kennedy**  
Chief Financial Officer

Montreal, Canada  
**April 28, 2021**



## Independent auditor's report

To the Shareholders of IOU Financial Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of IOU Financial Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.  
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1  
T: +1 514 205 5000, F: +1 514 876 1502

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



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## **Other information**

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.





We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jean-Luc Tremblay.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Montréal, Quebec  
April 28, 2021

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A125840

# **IOU FINANCIAL INC.**

## **Consolidated Financial Statements**

For the Years Ended  
December 31, 2020 and 2019

	PAGE
Consolidated Statements of Financial Position	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Changes in Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7

# IOU FINANCIAL INC.

Consolidated Statements of Financial Position  
As at December 31, 2020 and 2019  
(in Canadian dollars)

	Note	2020 \$	2019 \$
<b>Assets</b>			
Cash and cash equivalents		9,958,977	5,332,532
Restricted cash		1,291,646	1,378,989
Sales taxes receivable		49,161	23,286
Commercial loans receivable, net	4	11,059,595	54,449,029
Servicing assets	4	1,237,550	1,405,302
Other receivables	5	605,930	211,940
Prepaid expenses and deposits		92,886	114,772
Equipment and leasehold improvements	6	103,721	145,233
Intangible assets	7	-	54,940
Right-of-use assets	8	672,456	716,787
Unamortized financing transaction costs	10	99,971	982,136
<b>Total Assets</b>		<b>25,171,893</b>	<b>64,814,946</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	9	2,017,542	2,042,877
Financing credit facilities	10	-	38,936,865
Convertible debentures	11	10,404,569	9,931,181
Lease liabilities	8	731,123	753,645
<b>Total Liabilities</b>		<b>13,153,234</b>	<b>51,664,568</b>
<b>Shareholders' Equity</b>			
Share capital	13	28,887,186	26,988,530
Contributed surplus		4,614,728	4,477,383
Accumulated other comprehensive income		1,728,918	2,077,163
Deficit		(23,212,173)	(20,392,698)
<b>Total Shareholders' Equity</b>		<b>12,018,659</b>	<b>13,150,378</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>25,171,893</b>	<b>64,814,946</b>

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

Approved by the Board on April 28, 2021

Phil Marleau (*signed*), Director  
Wayne Pommen (*signed*), Director

# IOU FINANCIAL INC.

Consolidated Statements of Comprehensive (Loss) Income  
For the Years Ended December 31, 2020 and 2019  
(in Canadian dollars)

	Note	2020 \$	2019 \$
<b>Revenue</b>			
Interest revenue	15	11,815,590	17,861,394
Other fees and servicing income	15	1,624,994	1,754,589
Net gain recognized on sale of loans	4	3,544,205	3,650,733
<b>Gross Revenue</b>		<b>16,984,789</b>	23,266,716
<b>Cost of Revenue</b>			
Interest expense		2,800,963	3,998,673
Provision for loan losses, net of recoveries	4	7,983,173	7,703,592
<b>Total Cost of Revenue</b>		<b>10,784,136</b>	11,702,265
<b>Net Revenue</b>		<b>6,200,653</b>	11,564,451
Operating expenses	17	9,020,128	9,919,772
<b>(Loss) Earnings Before Income Taxes</b>		<b>(2,819,475)</b>	1,644,679
Income tax expense	16	-	121,370
<b>Net (Loss) Earnings for the Year</b>		<b>(2,819,475)</b>	1,523,309
Currency translation differences		(348,245)	(454,869)
Income tax	16	-	121,370
Other comprehensive loss		(3,167,720)	(333,499)
<b>Comprehensive (Loss) Income for the Year</b>		<b>(3,167,720)</b>	1,189,810
<b>(Loss) Earnings per Share:</b>			
Basic	12	(0.03)	0.02
Diluted	12	(0.03)	0.02

Net (loss) earnings and comprehensive (loss) income are entirely attributable to the shareholders of the Company. Other comprehensive (loss) income is entirely subject to be reclassified to net (loss) earnings.

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

# IOU FINANCIAL INC.

## Consolidated Statements of Changes in Shareholders' Equity For the Years Ended December 31, 2020 and 2019 (in Canadian dollars, except as otherwise noted)

	Note	Common Shares (#)	Share Capital (\$)	Contributed Surplus (\$)	Accumulated OCI <sup>1</sup> (\$)	Deficit (\$)	Shareholders' Equity (\$)
Balance as at December 31, 2018		87,825,309	27,171,722	4,189,397	2,410,662	(21,916,007)	11,855,774
Comprehensive income for the year		-	-	-	(333,499)	1,523,309	1,189,810
Warrants exercised	13	348,313	69,662	-	-	-	69,662
Debentures exercised	11	200,000	100,000	-	-	-	100,000
Shares repurchased	13	(1,665,500)	(352,854)	-	-	-	(352,854)
Stock-based compensation	13	-	-	287,986	-	-	287,986
Balance as at December 31, 2019		86,708,122	26,988,530	4,477,383	2,077,163	(20,392,698)	13,150,378
Comprehensive loss for the year		-	-	-	(348,245)	(2,819,475)	(3,167,720)
Shares Issued	13	18,009,806	1,937,644	-	-	-	1,937,644
Shares repurchased	13	(279,000)	(55,388)	-	-	-	(55,388)
Stock options exercised	13	205,000	16,400	-	-	-	16,400
Stock-based compensation	13	-	-	137,345	-	-	137,345
Balance as at December 31, 2020		104,643,928	28,887,186	4,614,728	1,728,918	(23,212,173)	12,018,659

<sup>1</sup> OCI: Other Comprehensive Income

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

# IOU FINANCIAL INC.

Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2020 and 2019  
(in Canadian dollars)

	Note	2020 \$	2019 \$
<b>Operating Activities</b>			
Net (loss) earnings for the year		(2,819,475)	1,523,309
Non-cash items included in net earnings	18	(11,299,387)	(17,181,434)
Change in non-cash working capital items	18	(39,279,996)	(114,955,469)
Sale of commercial loans		84,570,685	93,261,010
Interest received		10,253,056	16,177,700
Interest expense		2,854,977	4,062,894
Interest paid		(2,381,589)	(4,110,655)
Cash (used) generated in operating activities		41,898,271	(21,222,645)
<b>Investing Activities</b>			
Additions to equipment and leasehold improvements		(20,838)	(42,334)
Deductions to restricted cash		87,343	591,091
Cash generated in investing activities		66,505	548,757
<b>Financing Activities</b>			
Transaction costs paid		-	(81,546)
Issuance (repurchase) of equity, net of transaction costs	13	1,898,656	(183,192)
Proceeds from financing credit facilities	10	-	19,906,790
Repayment of financing credit facilities	10	(38,936,865)	-
Decrease in lease liabilities		(115,632)	(154,491)
Cash generated (used) in financing activities		(37,153,841)	19,487,561
<b>Increase (Decrease) in Cash</b>		<b>4,810,935</b>	<b>(1,186,327)</b>
Exchange rate difference on cash		(184,490)	(242,311)
<b>Cash</b>			
Beginning of period		5,332,532	6,761,170
End of period		9,958,977	5,332,532

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 1. General Information

IOU Financial Inc. (“IOU Financial”) was incorporated under Part IA of the Companies Act (Quebec) and is governed by the Business Corporations Act (Quebec). The registered office of IOU Financial is located at 1 Place Ville-Marie, Suite 1670, Montréal, Quebec, Canada. IOU Financial is a public company listed on the TSX Venture Exchange (TSX-V).

IOU Financial’s wholly owned subsidiary IOU Central Inc. (“IOU Central”) was incorporated under the Canada 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”), based in the state of Georgia (incorporated in Delaware on August 16, 2006). On January 1, 2020, IOU Central was dissolved, leaving IOU USA to be a subsidiary of IOU Financial.

IOU Financial’s wholly owned subsidiary IOU Financial Canada Inc. (“IOUF Canada”) was incorporated on December 1, 2015 under the Business Corporations Act (Quebec). IOUF Canada is engaged in the commercial lending business in Canada.

IOU USA’s wholly owned subsidiary IOU Small Business Asset Fund I, LLC (“IOU SBAF I”) and IOU Small Business Asset Fund II, LLC (“IOU SBAF II”) were incorporated on December 9, 2015 and January 2, 2019 respectively, as Delaware limited liability companies and currently hold a portfolio of commercial loans receivable.

IOU USA’s new wholly owned subsidiary, Zing Funding I, LLC, (“Zing Funding”) was incorporated on March 16, 2020 as a Delaware limited liability company and is engaged in the commercial lending brokerage business.

The term “Company” in these consolidated financial statements refers collectively to IOU Financial and its wholly owned subsidiaries: IOU Central, IOU USA, IOUF Canada, IOU SBAF I, IOU SBAF II, and Zing Funding.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2021.

## 2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared under the historical cost convention. Other measurement bases used are described in the applicable notes.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the previous financial year, except as described below.

### 4.1 Current and Future Changes in Accounting Policies

#### a) New standards adopted during the year

The Company has not adopted any new standards that have had a significant effect on the Company during the year.

#### b) New standards and interpretations not yet adopted that are relevant to the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing these consolidated financial statements. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), may be applicable but is not expected to have a significant effect on the consolidated financial statements of the Company.

### 4.2 Use of Estimates and Judgments

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

#### 1. Critical Accounting Estimates and Assumptions

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

##### 1.1 Deferred Tax Estimation

The recognition of deferred tax assets and liabilities involves making assumptions including estimating the timing of the reversal of temporary



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

differences or if it is probable that temporary differences will not reverse in the foreseeable future.

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

## 1.2 Servicing Assets

The initial recognition of servicing assets requires the Company to make estimates of the fair value of the service to be provided, which is based on market expectations at the time of the sale of the loan and may vary from the actual cash flows received. The Company also make estimates on the timing of future cash flows from servicing fees to be received from institutional purchasers.

## 1.3 Valuation of Commercial Loans

Management exercises judgment to determine the expected credit losses ("ECL") based on all available reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. Further details on the estimates used to determine any allowance for impaired loans receivable are provided in the accounting policy "Impairment of OTH Loans".

## **Basis of Consolidation**

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

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

## **Segment Reporting**

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

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

## Equipment and Leasehold Improvements

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

Office Equipment	20% straight-line method
Computer Equipment	30% straight-line method
Leasehold Improvements	Over remaining lease term

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

## Intangible Assets

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

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

## Leases

IFRS 16 specifies a single accounting model for the lessee under which a lease liability and a right-of-use asset are recognized for all leases with a term of more than 12 months (except if the value of the underlying asset is low).

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

The lease liabilities and right-of-use assets are initially measured at the present value of the lease payments payable over the lease term, discounted at the Company's incremental borrowing rate.

Each month, the right-of-use assets are amortized on a linear basis until the end of the lease. Lease payments are apportioned between the lease liabilities and interest expense.

Leases in which the Company is the lessor are generally sub-leases for premises. The Company classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. The Company mainly enters into operating leases. When the Company is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term to offset its rental expense. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense.

## **Impairment of Tangible and Intangible Assets**

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

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

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

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Government Grants

At the end of each reporting period, the Company reviews if the government grant may be reported separately as “other income or non-recurring gain” or deducted from the related expense.

If a grant becomes repayable, the Company will treat it as a change in estimate. Where the original grant related to income or non-recurring gain, the repayment should be applied first against any related unamortised deferred credit, and any excess should be dealt with as an expense. Where the original grant related to an asset, the repayment should be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received should be charged as an expense.

## Financial Instruments

### Classification and Measurement – Financial Assets

At initial recognition, all financial assets are recorded at fair value on the consolidated statements of financial position. After initial recognition, financial assets are classified either at (i) amortized cost; (ii) fair value through profit or loss (“FVTPL”); or (iii) fair value through other comprehensive income (“FVOCI”).

Such classification is based on:

- the contractual cash flow characteristics of the financial assets; and
- the Company’s business model for managing these financial assets.

The contractual cash flows associated with the financial asset must be solely payments of principal and interest on the outstanding principal amount for the asset to be classified at amortized cost or for a debt instrument held to be classified as FVOCI; otherwise, it must be classified and measured at FVTPL.

The table below presents the different classifications for each of the three possible business models that can be used to manage, on a portfolio basis, a group of financial assets to achieve their respective business objectives.

<b>Business Model</b>	<b>Business Objective</b>	<b>Classification</b>
Originated to hold (OTH)	Solely the collection of the contractual cash flows of the financial assets	Amortized cost
Originated to sell (OTS)	Sale of the financial assets or managed on a fair value basis	FVTPL
Originated to hold and sell	Both the collection of contractual cash flows of the financial assets and their sale	FVOCI

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

In addition, debt instruments held that would otherwise be measured at amortized cost or at FVOCI can be designated upon initial recognition using the fair value option if doing so would reduce an accounting mismatch. Equity instruments held are always measured at FVTPL unless they are designated upon initial recognition at FVOCI, whereby subsequent changes in fair value would be recorded in OCI and would never be reclassified to net income (loss).

The following table presents the Company's classification of its financial assets. The Company has no financial assets at FVOCI and has not used the fair value option.

<b>Financial Assets</b>	<b>Classification</b>
Cash	Amortized cost
Restricted cash	Amortized cost
OTH loans	Amortized cost
OTS loans	FVTPL
Other receivables	Amortized cost

## Commercial Loans Receivable

The Company recognizes commercial loans receivable when cash is advanced to a borrower. Commercial loans are initially recognized at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest method for OTH loans or at fair value for OTS loans.

## Presentation

OTH loans are presented net of allowances for expected credit losses on the consolidated statements of financial position.

The interest income on OTS loans is recorded in interest revenue in the consolidated statements of comprehensive income (loss). Changes in the fair value of OTS loans are recognized in net gain recognized on sale of loans in the consolidated statements of comprehensive income (loss).

## Reclassifications

The portfolio of commercial loans designated as OTS at initial recognition would be reclassified as OTH only in rare situations when there is a change in the business model used to manage the portfolio. Such a reclassification would be applied prospectively from the reclassification date.

## **Impairment of OTH Loans**

At the end of each reporting period, the Company applies a three-stage forward-looking impairment approach to measure the ECLs on its OTH loans. The stages are based on the change in the credit quality of the OTH loan since initial recognition. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events,

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

current conditions, and forecasts of future events and economic conditions.

The following table presents the three stages of the Company's impairment model.

<b>Stage</b>	<b>Credit Quality – Reporting Date vs. Initial Recognition</b>	<b>Impairment Amount</b>
1	No significant increase	Equals to 12-month ECL
2	Significant increase	Equals to lifetime ECL
3	Credit-impaired	Equals to lifetime ECL until the financial asset is written off

### Interest Income

The interest income is calculated on the gross carrying amount of the OTH loans in stages 1 and 2 and on the net carrying amount of the OTH loans in stage 3.

### Changes in Credit Risk

The Company considers that a significant increase in credit risk exists after a commercial loan has one missed payment or earlier if other reasonable and supportable information exists to support the estimated increase in probability of default of the OTH loan. The assessment of a significant increase in credit risk requires significant judgment.

If the credit risk of an OTH loan improves such that there is no longer a significant increase in credit risk since initial recognition, the OTH loan can revert from stage 2 to stage 1.

### Credit-Impaired Loans

The definition of default used by the Company to identify its credit-impaired OTH loans is consistent with the definition of default used for internal credit risk management purposes. The Company considers that an event of default occurs when a payment is late by more than 90 days or earlier when one or more events that have a detrimental impact on the estimated future cash flows of the commercial loan have occurred.

If a credit impaired OTH loan improves such that there is no longer a significant increase in credit risk since initial recognition, the credit impaired OTH loan can revert from stage 3 to either stage 2 or stage 1.

### Write offs

Commercial loans are written off when the Company considers the probability of recovery to be non-existent due to:

- (i) having exhausted reasonable recovery efforts; or
- (ii) the borrower is bankrupt or winding up, and balances owing are not likely to be recovered.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## ECL Measurement

ECLs are measured as the probability-weighted present value of all expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Company and all the cash flows that the Company expects to receive.

The measurement of ECLs is primarily based on the product of the OTH loan's:

- probability of default;
- loss given default; and
- exposure at default.

The determination of ECL also requires the utilization of forward-looking macroeconomic factors such as credit default indices, interest rates and gross domestic product that are incorporated into the risk parameters. The estimate of ECL losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In order to implement these principles, the Company has developed loss-ratios by ECL impairment stage. The forward-looking macroeconomic factors are integrated in the aforementioned loss ratios to reflect the current economic conditions. Nevertheless, the short-term nature of the Company's commercial loans curtails the importance of these forward-looking macroeconomic factors.

The Company applies experienced credit judgment to adjust the modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the initial credit risk rating and modelling process.

## **Classification and Measurement – Financial Liabilities**

The following table presents the Company's classification of its financial liabilities.

<b>Financial Liabilities</b>	<b>Classification</b>
Accounts payable and accrued liabilities	Amortized cost
Financing credit facilities	Amortized cost
Convertible debentures	Amortized cost
Lease Liabilities	Amortized cost

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Definitions – Financial Instruments

<b>Term</b>	<b>Meaning</b>
Amortized cost	The principal amount is generally the fair value of the financial instrument at initial recognition. The interest consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time, and other basic lending risks and costs as well as of a profit margin.
Exposure at default	Outstanding balances anticipated at each point in time and assuming previous payments were made. Expected exposure at default decreases over time until it reaches zero upon loan maturity.
Fair value	The fair value on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.
Fair value option (for a financial asset)	Irrevocable designation at FVTPL at initial recognition. Certain conditions must be met: <ul style="list-style-type: none"><li>- elimination or significant reduction in a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognizing gains and losses on them on different bases; and</li><li>- fair values are reliable.</li></ul>
FVOCI option	Irrevocable designation, at initial recognition, of an investment in an equity instrument that is neither held for trading nor a contingent consideration recognized in a business combination as being measured at FVOCI.
Modified loans	OTH loans for which the contractual cash flows have been renegotiated or otherwise modified.
Loss given default	Reflects the losses expected should a default occur and considers such factors as repayments of principal and interest between the consolidated statement of financial position date and the time of default.
Probability of default	Probabilities of a default occurring over the determined period, based on conditions existing at the consolidated statement of financial position date and on future economic conditions that have, or will have, an impact on credit risk.



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Calculation of Interest Income

Type of revenue	Method of calculation
Interest – OTH loans	Effective interest rate method on the gross carrying amount.
Interest – credit-impaired loans	The effective interest rate method is applied to the amortized cost of a credit-impaired loan (i.e., net of the stage 3 allowance for that loan) in subsequent reporting periods, until the loan is fully impaired or written off.
Interest – modified loans	The gross carrying amount of a modified loan is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the loan's original effective interest rate.
Interest – OTS loans	Effective interest rate method.

## Definitions – Calculation of Interest Income

Term	Meaning
Effective interest rate	Rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount considering all contractual cash flows, including, for commercial loans, loan origination fees, net of any transaction costs that are directly attributable to the financial instrument but, for financial assets, not future credit losses. Under the effective interest method, the interest realized is not necessarily the same as the stated interest rate on the agreement. The application of this method has the effect of recognizing interest on the financial instrument evenly in proportion to the amount outstanding over the period of repayment.
Expected life	Represents the remaining contractual life of commercial loans receivable.
Loan origination fees	Fee income charged to the borrower on the origination of the financial asset.

## Loan Sales

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Company derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, the Company continues to recognize the asset in the Consolidated Statements of Financial Position to the extent of its continuing involvement in that asset.

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

## Transaction Costs

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

## Interest Revenue

Interest revenue is recognized in the consolidated statements of comprehensive income (loss) for all financial assets measured at amortized cost using the effective interest rate method.

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

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Interest Expense

Interest expense comprises interest expense on debt borrowings and is recognized in profit or loss, in the period in which it is incurred, under the effective interest method.

## **Provisions**

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

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

## **Revenue Recognition**

Revenue is recognized when the Company has transferred control of goods or a service (i.e., the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

### *Other Fees and Servicing Income*

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

Fee and servicing revenue comprise service fees, insufficient funds and other administrative fees, and referral fees.

Service fees are charged on loans sold to institutional purchasers where the Company retains the servicing rights on the loans. In some instances, service fees are based on the future cash flows of the loans sold to institutional purchasers, the amount recognized as a service fee is based on the best estimate on the future cash flow taking into account the risks and uncertainties surrounding the loans.

Insufficient funds and other administrative fee revenue are charged and collected on all missed payments or for other administrative reasons and is recognized as it is earned.

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## **Cash and Restricted Cash**

Cash and restricted cash comprise cash in hand, deposits held at call with banks and restricted cash. Restricted cash comprises bonding insurance collateral and cash held as security for payment clearing activities.

## **Convertible Debentures**

Convertible debentures are separated into their liability and equity components. The fair value of the liability component at the time of issue is determined based on an estimated interest rate of the debenture without the conversion feature. The amount attributed to the equity component is determined as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method. The equity component is not remeasured subsequent to initial recognition and is reclassified within equity on conversion or expiry.

## **Share Capital**

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

## **Contributed Surplus**

Contributed surplus is used to record the accumulated fair value of stock options recognized as stock-based payments and warrants issued. Contributed surplus is increased by the compensation charge over the vesting period and is reduced by corresponding amounts when the options and warrants are exercised, forfeited, or expire.

## **Foreign Exchange**

### a) Functional and Presentation Currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars. The functional currency of IOU USA, IOU SBAF, IOU SBAF II and Zing Funding is the US dollar, while the rest of the Company uses the Canadian dollar as its functional currency.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## b) Group Companies

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

## Stock-Based Compensation

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

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

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

## Taxation

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## a) Current Tax

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

## b) Deferred Tax

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

### i) Deferred Tax Liabilities:

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

### ii) Deferred Tax Assets:

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

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## c) Current and Deferred Tax for the year

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

## Basic and Diluted Earnings per Share

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

## 4. Commercial Loans Receivable

As at December 31, 2020 and 2019, the Company held commercial loans receivable as part of its regular operations.

	2020 \$	2019 \$
Principal balance of OTH loans	13,466,093	56,871,350
Unamortized fees and transaction costs	520,909	2,092,854
OTH loans	13,987,002	58,964,204
Allowance for expected credit losses	(2,927,407)	(4,515,175)
Commercial loans receivable, net	11,059,595	54,449,029

The loans bear fixed interest at a rate of 9.25% (2019: ranging between 9.25% and 15.99%) and mature no later than 18 months (2019: 18). As at December 31, 2020, 0% (2019: 10.70%) of commercial loans receivable have a maturity date over 12 months. Guarantee fees charged on each loan range between 7.00% and 30.00% (2019: 7.00% and 29.00%) of the original loan amount. At inception, the loans had an average date to maturity of 12.9 months (2019: 12.0 months). The loans are being repaid daily or weekly 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 substantially all denominated in US dollars. Transaction costs and unamortized fees comprise broker commissions and loan closing fees and are recognized over the term of the loan through the effective rate mechanism.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

The fair value of these loans is estimated to be equivalent to the carrying amount, due to the residual short-term nature of these loans.

## Credit Quality of OTH Loans

The commercial loan receivable balance consists of term loans and given their relatively short-term nature; the Company assesses the credit quality of its loans solely at the time of origination. Subsequent to origination, the credit quality of the loan portfolio is derived principally through the monitoring of payment delinquencies and interactions with the borrowers which then has a corresponding impact on the classification of the ECL impairment stages.

The following table presents the gross carrying amount of commercial loans receivable as at December 31, 2020, according to their ECL impairment stages.

As noted below, Stage 3 loans are subdivided into two subgroups described as Tier 1 and Tier 2. Tier 1 includes credit-impaired loans that are still responsive and have made at least one payment in the last 30 days. Tier 2 includes credit-impaired loans that are not responsive and have not made a payment in the last 30 days. Inactive loans are estimated ultimate recoverable amounts for delinquent loans that are in the last stages of the collection process.

	%	Gross Carrying Amount	Allowance for Expected Credit Losses	Net Carrying Amount
Stage 1	38.42	5,262,045	(131,235)	5,130,810
Stage 2	0.44	59,926	(12,584)	47,342
Stage 3 Tier 1	48.96	6,979,057	(2,407,775)	4,571,282
Stage 3 Tier 2	3.13	447,396	(375,813)	71,583
Inactive	9.05	1,238,578	-	1,238,578
<b>Total</b>	<b>100.00</b>	<b>13,987,002</b>	<b>(2,927,407)</b>	<b>11,059,595</b>



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

The following table presents the gross carrying amount of commercial loans receivable as at December 31, 2019, according to credit quality and ECL impairment stages.

	%	Gross Carrying Amount	Allowance for Expected Credit Losses	Net Carrying Amount
Stage 1	85.89	50,643,436	(1,005,219)	49,638,217
Stage 2	3.45	2,037,037	(285,065)	1,751,972
Stage 3 Tier 1	4.96	2,927,133	(711,363)	2,215,770
Stage 3 Tier 2	5.23	3,085,948	(2,513,528)	572,420
Inactive	0.47	270,650	-	270,650
<b>Total</b>	<b>100.00</b>	<b>58,964,204</b>	<b>(4,515,175)</b>	<b>54,449,029</b>

## Movement in the Allowances for Losses on OTH Loans

The following table presents the movements of the allowance for expected credit losses as at December 31, 2020.

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	1,005,219	285,065	3,224,891	4,515,175
Transfers to stage 1	2,063,864	(1,473,525)	(590,339)	-
Transfers to stage 2	(1,473,838)	1,473,838	-	-
Transfers to stage 3	(1,513,803)	(42,803)	1,556,606	-
Impact of originations	541,268	-	-	541,268
Net remeasurement	(465,740)	(222,693)	8,248,767	7,560,334
Net variation of the allowance	(848,249)	(265,183)	9,215,034	8,101,602
Loans written off	-	-	(10,280,147)	(10,280,147)
Recoveries of loans previously written off	-	-	706,367	706,367
Net write offs	-	-	(9,573,780)	(9,573,780)
Translation differences	(25,735)	(7,298)	(82,557)	(115,590)
<b>Balance, December 31, 2020</b>	<b>131,235</b>	<b>12,584</b>	<b>2,783,588</b>	<b>2,927,407</b>

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

The following table presents the movements of the allowance for expected credit losses as at December 31, 2019.

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2018	620,256	447,926	2,255,932	3,324,114
Transfers to stage 1	4,295,537	(4,295,537)	-	-
Transfers to stage 2	(3,263,488)	3,263,488	-	-
Transfers to stage 3	(3,052,229)	(76,904)	3,129,133	-
Impact of originations	4,006,047	-	-	4,006,047
Net remeasurement	(1,560,339)	975,386	3,937,972	3,353,019
Net variation of the allowance	425,528	(133,567)	7,067,105	7,359,066
Loans written off	-	-	(6,198,651)	(6,198,651)
Recoveries of loans previously written off	-	-	248,043	248,043
Net write offs	-	-	(5,950,608)	(5,950,608)
Translation differences	(40,565)	(29,294)	(147,538)	(217,397)
<b>Balance, December 31, 2019</b>	<b>1,005,219</b>	<b>285,065</b>	<b>3,224,891</b>	<b>4,515,175</b>

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

Loans with a contractual amount of \$10,280,147 written off during the period are still subject to enforcement activity.

## Loan modification

Commencing March 2020, the coronavirus pandemic ("COVID-19") caused disruption, slowdown and even temporary closures of several of the Company's clients. In an effort to help its clients, in late March 2020, management began the process of effecting modified payment plans for clients manifesting bona fide hardships directly attributable to the impacts of the COVID-19 pandemic. The nature and duration of the modified plans varied according to the degree of hardship experienced by each client. These plans generally contemplated temporary deferral of principal payments without reductions in the applicable interest rates and for the most part not exceeding four months. As such, the effect on the amortized cost of the modified loans were not significant and did not result in derecognitions of the loans in question. These modifications were temporary in nature and by December 31, 2020 more than two-thirds of all such loans have reverted to the initial payment schedule. All loans that participated in the deferral program have been subject to the normal staging process for

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

ECL purposes, however given the extraordinary circumstance of COVID-19, as at December 2020, if a credit-impaired OTH loan improves such that there is no longer a significant increase in credit risk since initial recognition, the credit-impaired OTH loan reverts from stage 3 to either stage 2 or stage 1.

## Loan sales and servicing assets

During the year ended December 31, 2020, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of \$84.6 million (2019: \$93.3 million). At the time of sale, the Company transferred to the purchaser all rights and risks associated with the loans sold, and the Company determined that the criteria for derecognition had been met.

However, as per the debt assignment agreements, the Company retained the servicing rights (payment collections) to the loans, and the purchaser agreed to be charged a servicing fee over the term of the loans. The Company recognized a net gain on sale of the commercial loans of \$3.5 million for the year ended December 31, 2020 (2019: \$3.7 million), along with servicing assets that are amortized to the consolidated statements of comprehensive income over the term of the assignment agreements. As at December 31, 2020, the carrying amount of these assets amounted to \$1.2 million (2019: \$1.4 million). 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.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 5. Other receivables

	2020 \$	2019 \$
Other receivable	<b>322,714</b>	211,940
Deferred Service Fees receivable	<b>283,216</b>	-
<b>Total</b>	<b>605,930</b>	211,940

Deferred service fees receivable relates to amounts to be collected with respect to the sale proceeds and service fees on certain OTS loans.

## 6. Equipment and Leasehold Improvements

The following table presents the carrying amount of the equipment and leasehold improvements as at December 31, 2020 and 2019.

	Office Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Total \$
<b>Cost</b>				
Balance at December 31, 2018	183,602	188,580	181,607	553,789
Translation differences	(4,672)	(6,400)	(1,727)	(12,799)
Additions	-	7,977	34,357	42,334
Balance at December 31, 2019	178,930	190,157	214,237	583,324
Translation differences	(1,828)	(3,510)	(703)	(6,041)
Additions	2,210	18,626	-	20,836
<b>Balance at December 31, 2020</b>	<b>179,312</b>	<b>205,273</b>	<b>213,534</b>	<b>598,119</b>
<b>Accumulated Depreciation</b>				
Balance at December 31, 2018	148,922	153,322	73,509	375,753
Translation differences	(4,287)	(5,667)	(1,151)	(11,105)
Depreciation expense for the year	25,950	15,413	32,080	73,443
Balance at December 31, 2019	170,585	163,068	104,438	438,091
Translation differences	(1,862)	(2,912)	(584)	(5,358)
Depreciation expense for the year	7,759	18,726	35,180	61,665
<b>Balance at December 31, 2020</b>	<b>176,482</b>	<b>178,882</b>	<b>139,034</b>	<b>494,398</b>
<b>Carrying Amounts</b>				
At December 31, 2019	8,345	27,089	109,799	145,233
<b>At December 31, 2020</b>	<b>2,830</b>	<b>26,391</b>	<b>74,500</b>	<b>103,721</b>

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 7. Intangible Assets

The following table presents the carrying amount of the intangible assets as at December 31, 2020 and 2019. Intangible assets comprise internal use software.

	<b>2020</b>	2019
	\$	\$
<b>Cost</b>		
Balance at beginning of year	<b>1,750,978</b>	1,854,440
Translation differences	<b>(40,500)</b>	(103,462)
Additions	-	-
Balance at end of year	<b>1,710,478</b>	1,750,978
<b>Accumulated Amortization</b>		
Balance at beginning of year	<b>1,696,038</b>	1,711,068
Translation differences	<b>(42,297)</b>	(98,629)
Amortization charge for the year	<b>56,737</b>	83,599
Balance at end of year	<b>1,710,478</b>	1,696,038
<b>Carrying Amount</b>	-	54,940

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 8. Right-of-use assets and lease liabilities

The following table presents the value of the right-of-use assets and lease liabilities as at December 31, 2020 and 2019.

	2020 \$	2019 \$
<b>Right-of-use Assets</b>		
Balance at beginning of year	716,787	1,088,257
Depreciation of right-of-use assets	(137,441)	(191,349)
Translation differences	93,110	(180,121)
Balance at end of year	672,456	716,787
<b>Lease Liabilities</b>		
Balance at beginning of year	753,645	1,088,257
Principal payments	(115,632)	(154,491)
Translation differences	93,110	(180,121)
Balance at end of year	731,123	753,645

## 9. Accounts Payable and Accrued Liabilities

	2020 \$	2019 \$
Trade payables	252,097	573,882
Payable to loan purchasers	814,339	792,916
Other payables and accruals	951,106	676,079
Total	2,017,542	2,042,877

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 10. Financing Credit Facilities

	2020	2019
	\$	\$
Balance at beginning of year	<b>37,954,729</b>	19,758,556
Proceeds	-	19,906,790
Repayments	<b>(38,936,865)</b>	-
New transaction costs incurred	-	(375,083)
Exit fee	<b>222,810</b>	-
Amortization of transaction costs	<b>662,409</b>	461,373
Translation differences	<b>(3,054)</b>	(1,796,907)
Balance at end of year	<b>(99,971)</b>	37,954,729

At year-end, the carrying value of the liability (asset) was composed of:

	2020	2019
	\$	\$
Financing credit facilities	-	38,936,865
Unamortized transaction costs	<b>(99,971)</b>	(982,136)
	<b>(99,971)</b>	37,954,729

The carrying amount of current borrowings was a reasonable approximation of the fair value, as the facilities bear interest at a floating rate and the contractual spreads are commensurate with the spreads the Company estimates it could currently obtain.

### 2016 Credit Facility

On April 22, 2016, the Company entered into a US\$50.0 million credit facility with a third-party lender (the "2016 Credit Facility"). The facility consisted of a US\$25.0 million term loan, expandable to US\$50.0 million at the Company's request and the lender's acceptance. The facility is denominated in US dollars and the interest rate is LIBOR plus 8.50%, which represented 10.19% as at December 31, 2019.

In February and July 2018, the 2016 Credit Facility was modified and extended until December 31, 2020, the date on which the full amount will be due. The amount of the modified facility is US\$22.0 million, with a term portion equal to US\$15.0 million and a revolver amount of US\$7.0 million.

In December 2019, the Company modified and extended its 2016 Credit Facility until December 31, 2022. The modified interest rate of the 2016 Credit Facility is LIBOR plus 5.50%, down from LIBOR plus 8.50%. The new rate came into effect in 2020.

In April 2020, the Company received default notices from the 2016 Credit Facility as a result

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

of an uncured over advance position and consequently it began charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% and reduced the maximum facility amount from US\$22.0 million to US\$15.0 million.

The amount outstanding as at December 31, 2020 is US\$0 and the credit facility was terminated effective December 31, 2020. Upon termination, the 2016 Credit Facility charged an exit fee of US\$175,000, a termination fee of US\$75,000 and US\$5,000 of legal costs (Refer to Note 17).

## 2019 Credit Facility

On March 5, 2019, the Company entered into a new US\$50.0 million credit facility (the "2019 Credit Facility"). The facility has an initial commitment amount of US\$50.0 million and is expandable to US\$100.0 million at the Company's request and the lender's acceptance. The interest rate on the facility is 90-day LIBOR, subject to a minimum LIBOR of 1.5%, plus 4.50%, which represents 6.00% as at December 31, 2020. The term of the facility is three years with a revolving period ending on March 5, 2021 and an amortization period reflecting the availability of the credit facility.

On October 15, 2020, the Company repaid the remaining loan amount related to the 2019 Credit Facility and as a result, on October 22, 2020, the Company obtained a waiver for not having cured the over advance position initially created in March 2020. In addition, the Company obtained a waiver in relation to the defaults arising from its failure to meet certain covenants for the April-September 2020 period. At the same time, the Company entered into an amended agreement allowing for certain flexibility for certain financial covenants in future.

The amount outstanding as at December 31, 2020 is US\$0.

## Transaction costs

Transaction costs directly attributable to the implementation and subsequent modification of the financial liabilities described above have been included in the measurement of the liabilities and are amortized over a period reflecting the availability of the credit facility. For the year ended December 31, 2020, amortization of \$662,409 (2019: \$461,373) has been included in operating expenses (Note 17).

## Pledged assets

With respect to the 2016 Credit Facility, all assets held by the subsidiary IOUF SBAF are pledged as collateral for the facility. The following table presents the carrying amounts of assets pledged as collateral.



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

<b>Asset</b>	<b>2020</b> <b>\$</b>	<b>2019</b> <b>\$</b>
Commercial loans receivable, net	<b>4,830,825</b>	28,547,715
Cash	<b>1,322,558</b>	2,356,398

With respect to the 2019 Credit Facility, all assets held by the subsidiary IOUF SBAF II are pledged as collateral for the facility. The following table presents the carrying amounts of assets pledged as collateral.

<b>Asset</b>	<b>2020</b> <b>\$</b>	<b>2019</b> <b>\$</b>
Commercial loans receivable, net	<b>5,449,924</b>	25,901,314
Cash	<b>2,141,428</b>	1,303,424

## Financial covenants

As part of the 2016 and the 2019 Credit Facilities, the Company must respect certain financial covenants. All financial covenants were met as at December 31, 2019.

Despite the fact that the 2016 Credit Facility was terminated effective December 31, 2020, not all financial covenants were met at December 31, 2020.

All financial covenants relating to the 2019 Credit Facility were met as at December 31, 2020.

## **11. Convertible Debentures**

On November 2, November 20 and December 17, 2015, the Company closed tranches of an offering for convertible unsecured subordinated debentures (the "Debentures") for aggregate gross proceeds of \$11,500,000. The Debentures mature on December 31, 2020 and bear interest at a rate of 10% per annum, payable monthly. The Debentures are convertible at the holders' option into common shares at a price of \$0.75 per common share, representing a conversion rate of 1,333.33 common shares for each \$1,000 principal amount of the Debentures. The Company has the right to force the conversion of the Debentures into common shares at any time on or after December 31, 2018 should the 20-day volume weighted average price of the common shares on the TSX-V exceed 125% of the conversion price. The issue costs were \$621,159, resulting in net proceeds of \$10,878,841. The fair value of the liability component at the time of issuance was based on an estimated interest rate of 11.90% for a debt without the conversion feature. The net proceeds were attributed to the liability and equity components amounting to \$10,092,467 (net of transaction costs of \$576,268) and \$786,374 (net of transaction costs of \$44,891), respectively. Considering the issuance costs, the effective interest rate on the liability component of the Debentures is 12.14%.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

On August 2, 2019, the Company amended the Debentures according to the terms below.

- a) extended the maturity date of the Debentures from December 31, 2020 to December 31, 2023;
- b) eliminated the condition that the Debentures be redeemable by the Company only when the current market price is 125% of the conversion price;
- c) modified the conversion price of the Debentures from \$0.75 to \$0.50 per share;
- d) eliminated the Company's right to carry out a forced conversion of the Debentures; and
- e) eliminated the Company's right to redeem or repay the principal amount of the Debentures with freely tradeable shares.

The conversion period for the Debentures remains unchanged and is set to expire at 5:00 p.m. on the last business day prior to December 31, 2020.

The Company issued the Debentures by way of a private placement pursuant to a trust indenture dated November 2, 2015 and entered into a supplemental trust indenture with Computershare Trust Company of Canada, the debenture trustee.

Following the amendment, the liability component of the Debentures was determined to be \$10,012,175, resulting in a gain of \$485,579 in 2019.

On October 21, 2019, an amount of \$100,000 of the Debentures was converted to 200,000 common shares at \$0.50 per share, bringing the par value of Debentures from \$11,500,000 to \$11,400,000, and resulting in a gain of \$9,028.

In April 2020, more than two-thirds of the value of the Company's convertible debenture holders agreed to defer the payment of interest from the April 30, 2020 payment period to the June 30, 2020 payment period ("reprieve period") and capitalize the accrued interest over the reprieve period to the principal amount of the debentures at the end of the reprieve period, in accordance to the terms of the trust indenture under which such debentures were issued.

In August 2020, more than two-thirds of the value of the Company's convertible debenture holders agreed to receive 75% of the interest owed for the months of July, August and September 2020 in cash, and capitalize the remaining 25% of the monthly interest payments to the principal amount of the debenture at the end of each monthly payment period, in accordance to the terms of the trust indenture under which such debentures were issued.

The Debentures recognized in the consolidated statements of financial position are

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

calculated as follows:

	2020 \$	2019 \$
Par value of the Debentures	<b>11,760,434</b>	11,400,000
Unamortized discount and transaction costs	<b>(1,355,865)</b>	(1,468,819)
Liability component amount	<b>10,404,569</b>	9,931,181

## 12. Earnings per Share

	2020 \$	2019 \$
<b>Basic and Diluted Earnings per Share</b>		
Net (loss) earnings	<b>(2,819,475)</b>	1,523,309
Weighted average number of common shares for the purposes of basic earnings per share	<b>87,854,907</b>	87,547,924
Basic (loss) earnings per share	<b>(0.03)</b>	0.02
Effect of dilutive securities: Options	-	-
Weighted average number of common shares for the purposes of diluted earnings per share	<b>87,854,907</b>	87,547,924
Diluted earnings per share	<b>(0.03)</b>	0.02

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

	2020	2019
Stock options	<b>7,566,500</b>	6,861,500
Debentures	-	22,800,000
Number of shares	<b>7,566,500</b>	29,661,500

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 13. Share Capital

### Authorized

Unlimited number of common shares

### Issued and Outstanding

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
104,643,928 Common shares	<b>28,887,186</b>	
86,708,122 Common shares		26,988,530

On May 24, 2019, 348,313 warrants were exercised for total proceeds of \$69,662.

As part of the Normal Course Issuer Bid ("NCIB"), in December 2019, the Company repurchased and cancelled 1,665,500 common shares in the market for a total cost of \$352,854 including \$4,087 of transaction costs.

On October 31, 2019, 100,000 Debentures were converted into 200,000 common shares.

In 2020, as part of the NCIB, the Company repurchased and cancelled 279,000 common shares in the market for a total cost of \$55,388 including \$823 of transaction costs. The NCIB terminated on April 30, 2020.

IOU completed a non-brokered private placement of 18,009,806 common shares of the Company at a price of \$0.1157 per common share for gross proceeds of \$2,083,736, excluding transactions cost of approximately \$146,092.

In 2020, 205,000 options were exercised at an average exercise price of \$0.08 for total proceeds of \$16,400.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Warrants

A continuity schedule of outstanding common share purchase warrants for the years presented is as follows:

	<b>Warrants Outstanding (#)</b>	<b>Average Exercise Price per Warrant (\$)</b>
Balance as at December 31, 2018	479,125	0.20
Exercised	(348,313)	0.20
Expired	(130,812)	0.20
Balance as at December 31, 2019	-	-
Exercised	-	-
Expired	-	-
<b>Balance as at December 31, 2020</b>	<b>-</b>	<b>-</b>

## Stock-Based Compensation

Movements in options for the years presented are as follows:

	<b>Options Outstanding (#)</b>	<b>Average Exercise Price (\$)</b>
Balance as at December 31, 2018	6,201,000	0.35
Granted	2,385,000	0.23
Forfeited	(1,724,500)	0.48
Balance as at December 31, 2019	6,861,500	0.28
Granted	2,000,000	0.08
Exercised	(205,000)	0.08
Forfeited	(1,090,000)	0.39
<b>Balance as at December 31, 2020</b>	<b>7,566,500</b>	<b>0.13</b>

Stock 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 TSX-V 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 vest over a two-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.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

The following summarizes information about stock options outstanding as at December 31, 2020:

<b>Exercise Price (\$)</b>	<b>Outstanding Options (#)</b>	<b>Exercisable (#)</b>	<b>Expiry Date</b>
0.27	1,205,000	1,205,000	June 2022
0.08	376,500	376,500	June 2022
0.27	500,000	500,000	July 2023
0.20	705,000	705,000	July 2023
0.08	645,000	645,000	July 2023
0.27	500,000	333,333	March 2024
0.22	705,000	470,000	March 2024
0.08	860,000	573,333	March 2024
0.08	70,000	46,667	August 2024
0.08	200,000	200,000	January 2023
0.08	1,745,000	581,667	July 2025
0.11	55,000	18,333	December 2025
<b>Total</b>	<b>7,566,500</b>	<b>5,654,833</b>	

The Company granted, on January 15, 2020, options to a consultant to acquire up to 200,000 Common Shares at an exercise price of \$0.25 per share. These options have a term of three years and vest as follows: 50,000 options shall vest on March 15, 2020, 50,000 options shall vest on June 15, 2020, 50,000 options shall vest on September 15, 2020, and 50,000 options shall vest on December 15, 2020.

On July 28, 2020, the Company granted options entitling its senior officers, its directors, and certain employees and consultants to acquire up to an aggregate of 1,745,000 common shares of the Company ("Shares") at an exercise price of \$0.08. These options have a term of five years from the date of grant with one-third (1/3) vesting immediately and one-third (1/3) vesting on each of the first and second anniversaries of the date of grant, and if exercised, their underlying shares would be subject to a four-month hold period from the date of issuance of the options. The grant-date fair value has been established at \$0.10 per option using the following assumptions: expected volatility of 84%, risk-free interest rate of 0.23% and an expected life to maturity that equals the term.

In addition, the exercise price of 2,403,167 stock options, granted prior to July 28, 2020, to purchase common shares of the Company and which are currently outstanding, were repriced to \$0.08 per share. If exercised, their underlying shares would be subject to a four-month hold period from July 28, 2020. None of these restrictions will apply as of November 29, 2020.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

On September 11, 2020, the Company amended the exercise price of the 200,000 options granted on January 15, 2020 to a consultant from \$0.25 to \$0.08. If exercised, the shares underlying these options would be subject to a four-month hold period from the date of the amendment.

On December 3, 2020, the Company granted options entitling one director to acquire up to 55,000 common shares at an exercise price of \$0.11 per share. Those options are vested over a two-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 and exercisable for a period of five years from the date of grant, provided that it has vested.

In 2020, 205,000 options were exercised at an average exercise price of \$0.08.

Due to the repricing of options, the weighted average exercise price was reduced to \$0.13.

## 14. 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 risks). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

### 14.1 Financial Risks

#### a) Credit risk

Credit risk is managed on a Company-wide basis and results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of those exposures resulting in actual loss.

The Company, in the normal course of business, monitors the financial condition of its customers. These policies cover the approval of credit applications, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. The Company establishes an allowance for ECLs that corresponds to the credit risk of its customers, historical trends and future economic circumstances. The Company's maximum credit risk is the carrying value of the cash, restricted cash, other receivables and commercial loans receivable. Refer to Note 4 for information related to the commercial loans receivable at year-end and the related allowance for ECLs.

In addition, financial instruments that potentially subject the Company to significant concentrations of credit risk consist of deposits in the form of cash and restricted cash. The Company invests with major North American financial institutions with external credit ratings varying from A- to A+. The Company has investment policies that are designed to provide

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

for the safety and preservation of principal, the Company's liquidity needs and appropriate yields.

## b) Liquidity risk

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

The Company manages liquidity risk through the management of its capital structure. The Company has been financed mainly through equity and debt offerings, commercial loan sales and the use of its financing credit facilities.

With respect to commercial loan sales, the Company has an agreement with an investor to sell interests in certain of its commercial loan receivable of up to US\$150 million per year for the next two years (2019 - US\$0 million). As at December 31, 2020, US\$4.1 million (2019- US\$0 million) of certain commercial loans receivable were sold to the investor pursuant to the agreement.

With respect to the financing credit facilities, it is noted that save for the amortization period during the last year of the committed term, they are in the form of revolving credit facilities for which the availability is determined by the collateral value of the loans pledged thereunder. In order to meet its liabilities when they come due, the Company is dependent on the continued availability of such financing activities.

The following table presents the contractual maturities of financial liabilities.

	<b>As at December 31, 2020</b>				
	<b>Carrying Amount</b>	<b>0 to 1 Month</b>	<b>1 to 12 Months</b>	<b>12 to 36 Months</b>	<b>36 Months and Over</b>
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,017,542	575,678	1,144,864	-	-
Financing credit facilities	-	-	-	-	-
Convertible debentures	10,404,569	97,964	1,077,604	14,111,580	-
Lease liabilities	731,123	18,371	205,276	439,826	182,626



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

Amounts denominated in foreign currency or based on variable rates are determined based on the spot rates as at December 31, 2020.

## c) Foreign exchange risk

The Company, due to its operations being conducted primarily in the United States, 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 arising from financial instruments that would affect net earnings as at December 31, 2020 and 2019 relates to US dollar balances of the Canadian dollar functional entities and Canadian dollar balances of US dollar functional entities.

Based on the Company's foreign currency exposure noted above, varying the above foreign exchange rates to reflect a 10% strengthening of the Canadian dollar would have increased the net loss by approximately \$1,835,055 (2019: reduced net earnings by \$3,955,744), assuming that all other variables remained constant. An assumed 10% 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, restricted cash and financing credit facilities. A 10% increase in interest rates over a 12-month horizon based on the balances as at December 31, 2020 would not impact the net loss as the financing credit facilities have been fully repaid as at December 31, 2020. Interest rate impact (2020 - \$0, 2019 - \$285,601).

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 6 to 18 months.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 14.2 Management of Capital

The Company defines capital to be total shareholders' equity, which includes share capital, and certain debt, specifically the financing credit facilities and Debentures.

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

Since inception, the Company has financed its liquidity needs primarily through private placements, the sale of loans and convertible debentures. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. The capital management objectives listed above have not changed since the previous fiscal year.

As part of the 2016 and the 2019 Credit Facilities, the Company must respect certain financial covenants. All financial covenants were met as at December 31, 2019. Despite the fact that the 2016 Credit Facility was terminated effective December 31, 2020, not all financial covenants were met at December 31, 2020. All financial covenants relating to the 2019 Credit Facilities were met as at December 31, 2020.

## 15. Revenue by Category

The following table presents an analysis of revenue by category.

	2020	2019
	\$	\$
<b>Interest Revenue</b>	<b>11,815,590</b>	17,861,394
<b>Other Fees and Servicing Income</b>		
Other fees	883,204	944,041
Servicing fees	3,746,601	4,516,728
Amortization of servicing assets	(3,004,811)	(3,706,180)
<b>Total other fees and servicing income</b>	<b>1,624,994</b>	1,754,589

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 16. Income Tax

Income tax expense (recovery) comprises:

	<b>2020</b>	2019
	<b>\$</b>	\$
Current tax expense	-	5,694
Deferred tax expense (recovery)	-	115,676
<b>Total income tax (recovery) expense</b>	<b>-</b>	<b>121,370</b>

The tax on the Company's income before income tax differs from the theoretical amount that would arise using the federal and provincial statutory tax rates applicable to income of the consolidated entities. The statutory tax rates for 2020 decreased from 26.6% to 26.5%. This decrease is in line with Quebec's tax rate reduction from 11.6% to 11.5%. The difference between the Company's income tax and theoretical tax is as follows:

	<b>2020</b>	2019
Canadian statutory tax rates	<b>26.5%</b>	26.6%
Statutory income taxes	<b>\$(747,161)</b>	\$437,485
Non-deductible expenses	<b>\$86,614</b>	\$52,892
Difference in foreign tax rates	<b>\$28,818</b>	\$(29,254)
Net change to unrecognized tax assets	<b>\$631,729</b>	\$(339,753)
<b>Effective income tax (recovery) expense</b>	<b>-</b>	<b>\$121,370</b>

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

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## Recognized Deferred Tax Assets and Liabilities

The following tables presents the composition of recognized deferred income tax assets and liabilities.

	Opening balance \$	Recognized in net earnings \$	For the Year Ended December 31, 2020		Closing balance \$
			Recognized in OCI <sup>1</sup> \$	Recognized in equity \$	
<b>Temporary Differences</b>					
Tax credit for salaries and wages	(25,475)	(757)	-	-	(26,232)
Financing fees	7,643	(7,643)	-	-	-
Fixed assets / Intangibles / ROU assets	127,630	(166,820)	-	-	(39,190)
Capital lease obligation	-	39,190	-	-	39,190
Unrealized foreign exchange gain	-	-	-	-	-
Convertible debentures	(358,531)	21,463	-	-	(337,068)
	(248,733)	(114,567)	-	-	(363,300)
<b>Tax Losses and Credits</b>					
Tax losses	248,733	114,567	-	-	363,300
	-	-	-	-	-

	Opening balance \$	Recognized in net earnings \$	For the Year Ended December 31, 2019		Closing balance \$
			Recognize d in OCI <sup>1</sup> \$	Recognized in equity \$	
<b>Temporary Differences</b>					
Tax credit for salaries and wages	(34,455)	8,980	-	-	(25,475)
Financing fees	11,466	(3,823)	-	-	7,643
Fixed assets	(649)	128,279	-	-	127,630
Unrealized foreign exchange gain	(115,676)	-	115,676	-	-
Convertible debentures	(208,389)	(150,142)	-	-	(358,531)
	(347,703)	(16,705)	115,676	-	(248,733)
<b>Tax Losses and Credits</b>					
Tax losses	347,703	(98,971)	-	-	248,733
	-	(115,676)	115,676	-	-

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

As at December 31, 2020, no deferred income tax asset has been recognized on approximately \$8,885,000 and \$9,083,000 of Federal and Provincial tax loss carryforwards, respectively and on approximately \$5,135,000 of tax loss carryforwards in the United States (expressed in Canadian dollars). These tax loss carryforwards remain available for use in the future to reduce taxable income, no later than as follows:

	Federal \$	Provincial \$	United States \$
2027	29,000	29,000	-
2028	-	-	-
2029	-	-	-
2030	195,000	195,000	-
2031	361,000	361,000	-
2032	373,000	373,000	-
2033	243,000	243,000	-
2034	502,000	502,000	-
2035	2,551,000	2,551,000	-
2036	1,477,000	1,477,000	383,000
2037	1,500,000	1,500,000	2,719,000
2038	1,287,000	1,492,000	-
2039	367,000 <sup>2</sup>	360,000 <sup>3</sup>	-
2040	1 -	1 -	-
No expiry			2,033,000
<b>Total</b>	<b>8,885,000</b>	<b>9,083,000</b>	<b>5,135,000</b>

<sup>1</sup> Gross tax losses of \$932,000 for Federal and Provincial less recognized amount of \$932,000 against taxable temporary differences.

<sup>2</sup> Gross tax losses of \$804,000 for Federal less recognized amount of \$437,000 against taxable temporary differences.

<sup>3</sup> Gross tax losses of \$804,000 for Provincial less recognized amount of \$444,000 against taxable temporary differences.

As at December 31, 2020, the Company had approximately \$98,000 of unused Federal tax credits that are not recognized in the consolidated financial statements. Those unused tax credits will expire between 2026 and 2033.

As at December 31, 2020, the Company had other deductible temporary differences of approximately \$1,031,000 for the Federal, \$1,177,000 for the Provincial and \$4,657,000 in the United States (expressed in Canadian dollars) for which no deferred income tax asset is recognized.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 17. Operating Expenses

The following table presents the details of operating expenses for the years ended December 31.

	Note	2020 \$	2019 \$
Wages and salaries		4,916,626	5,554,087
Credit on qualifying wages		(128,987)	(96,132)
Stock-based compensation		137,345	287,986
Depreciation of right-of-use assets	8	195,541	191,349
Rental liability interest expense	8	54,014	64,221
Rental expense		148,467	136,353
Insurance		179,924	125,684
Amortization of transaction costs – financing credit facilities	10	662,409	461,373
Bank charges		206,723	252,651
Professional fees		162,379	177,894
Legal and accounting fees		1,383,682	1,160,791
Business fees and licences		125,001	142,884
Travel and entertainment		58,715	182,583
Telecommunications		82,438	62,478
Data services and IT costs		770,323	976,580
Advertising and promotion		440,352	394,628
Depreciation and amortization		118,402	157,042
Other		147,248	172,899
Non-recurring cost (gain) – revaluation of convertible debenture	11	29,825	(485,579)
Non-recurring gain – PPP loan forgiveness and wage subsidies (1)		(1,012,331)	-
Non-recurring cost – credit facility termination and exit fees	9	342,032	-
<b>Total Operating Expenses</b>		<b>9,020,128</b>	<b>9,919,772</b>

(1) On May 11<sup>th</sup>, 2020, the Company received funds from the US Small Business Administration (SBA) through the Payroll Protection Program in the amount of US\$699,800. The Company also received \$73,689 in wage subsidies through the Canada Wage Subsidy program during 2020. All the forgiveness criteria for the loan and subsidies were met in 2020 as such the Company recognized the PPP loan forgiveness and wage subsidies as a non-recurring gain in 2020.

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 18. Supplemental Cash Flow Information

Non-cash items included in net earnings comprise the following:

	Note	2020 \$	2019 \$
Depreciation of equipment and leasehold improvements	6	61,665	73,443
Amortization of intangible assets	7	56,737	83,599
Amortization of servicing asset		3,004,811	3,706,180
Amortization of right-of-use asset		137,441	191,349
Stock-based compensation		137,345	287,986
Interest revenue		(11,815,590)	(17,861,394)
Net gain recognized on sale of loans		(3,544,205)	(3,650,733)
Income tax expense		-	121,370
Amortization of transaction costs – financing credit facility		662,409	461,373
Revaluation of convertible debentures		-	(594,607)
		<b>(11,299,387)</b>	<b>(17,181,434)</b>

Change in non-cash working capital items comprises the following:

	2020 \$	2019 \$
Sales taxes receivable	(25,875)	3,468
Commercial loans receivable	(38,856,682)	(115,237,057)
Other receivables	(393,990)	27,600
Prepaid and deposits	21,886	44,400
Accounts payable and accrued liabilities	(25,335)	206,120
	<b>(39,279,996)</b>	<b>(114,955,469)</b>

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 19. Related Party Transactions

### Transactions in the Normal Course of Operations

The Company had the following transactions with related parties in the normal course of its operations:

- i) The Company rents its Canadian office space from Palos. The lease may be cancelled after October 2021 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. The amount of \$122,874 is expensed as rental expense for the period (2019: rent expense of \$122,018). That amount does not include the amortization of right-of-use assets and the interest on the lease liabilities. Future non-cancellable lease liabilities under this agreement amount to \$628,789.
- ii) The Company sells loans to a fund managed by Neuberger Berman. In 2020, the Company sold loans in the amount of US\$4,093,785 (2019: US\$0) and earned service fees of \$23,815 (2019: \$0) and recorded deferred service fees receivable in the amount of \$283,216 as at December 31, 2020 (2019: \$0).

### Key Management Compensation

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

	<b>2020</b>	2019
	<b>\$</b>	\$
Salaries and other short-term employee benefits	<b>749,925</b>	885,529
Stock-based payments	<b>92,483</b>	169,496
	<b>842,408</b>	1,055,025



# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## 20. Segment Information

The Company determines its reportable operating segments according to the manner in which the information is used by the chief operating decision-maker and has determined that the Company operates in one reportable operating segment with two main activities: lending and servicing. Those activities have been identified on the basis of services provided.

The Company's lending activity originates and retains loans as part of its commercial loans receivable portfolio. The Company's servicing activity services commercial loans that have been sold to institutional purchasers on a non-recourse basis in exchange for a servicing fee.

Substantially all of the Company's assets are located in the United States.

Revenues by activity are as follows:

	2020			2019		
	Lending \$	Servicing \$	Total \$	Lending \$	Servicing \$	Total \$
<b>Revenue</b>						
Interest revenue	11,815,590	-	11,815,590	17,861,394	-	17,861,394
Other fees	883,204	-	883,204	944,041	-	944,041
Servicing fees	-	3,746,601	3,746,601	-	4,516,728	4,516,728
Accelerated recognition of transaction costs on loans sold	-	686,937	686,937	-	377,091	377,091
Amortization of servicing asset	-	(3,004,811)	(3,004,811)	-	(3,706,180)	(3,706,180)
Gain on sale of loans	-	2,857,268	2,857,268	-	3,273,642	3,273,642
<b>Gross Revenue</b>	<b>12,698,794</b>	<b>4,285,995</b>	<b>16,984,789</b>	18,805,435	4,461,281	23,266,716

# IOU FINANCIAL INC.

Notes to the Consolidated Financial Statements  
For the Years Ended  
December 31, 2020 and 2019  
(in Canadian dollars, except as otherwise noted)

## **21. Event after the reporting date**

On April 20, 2021, the Company's wholly owned subsidiary, IOU Central Inc., received loan proceeds of US\$699,800 pursuant to the Small Business Administration's (SBA) Paycheck Protection Program (PPP). IOU Central Inc. can apply for an amount of loan forgiveness which would equal, in large part, to expenses incurred for payroll, rent and utilities commencing from the date of first disbursement and ending no later than twenty-four (24) weeks after the date of disbursement. The loan carries a fixed interest rate of 1% and matures five (5) years from the date IOU Central Inc. applies for forgiveness. No payment of principal and interest are due on this loan beginning on the date of disbursement and ending on the date on which the amount of forgiveness is determined under the PPP program.