IOU Financial

Business Lending. Simplified.

IOU Financial Inc.

Annual Report
2021

Contents

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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 27, 2022, should be read in conjunction with, and is qualified in its entirety by reference to the consolidated financial statements as at and for the years ended December 31, 2021 and 2020 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 approximately US$1.03 billion 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.

As at December 31, 2021, IOU Financial's customers had been in business an average 11.5 years (based on their incorporation date) at the time of application. These businesses borrowed on average US$84,578 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 primarily all 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 63 full-time employees as at December 31, 2021.

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 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, cyber risk, maintenance of client relationships, litigation risk, volatility of stock price, geopolitical risk 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.

NON-IFRS FINANCIAL MEASURES

The Company uses certain non-IFRS financial measures as an alternative method to evaluate performance. These measures include adjusted gross revenue, adjusted net revenue, servicing portfolio yield, adjusted operating expenses, adjusted operating expense ratio, non- recurring gains and losses, adjusted net earnings (loss), adjusted net earnings (loss) per share. These financial measures may not be comparable to similar measures used by other issuers. The definitions for each of the non-IFRS financial measures used as well as reconciliations to an IFRS basis, where applicable, are provided below.

OUTLOOK

2021 has been a pivotal year for IOU Financial, with the Company delivering on its 3 major strategic goals:

1. Growing loan origination volumes back to pre-pandemic levels,
2. Achieving a return to profitability on an annual basis, and
3. Laying the groundwork for scalable growth in the coming years.

Success has been achieved on all fronts:

1. **IOU Financial has grown loan originations beyond pre-pandemic levels: Total loan originations reached US$161.5 million in 2021, representing an increase of more than 90.3% over 2020 and surpassing all previous annual loan origination figures in the history of the Company.**
   While the growth in loan origination volumes was driven by an increased market demand for funding, it should be noted that a significant portion of loan originations was enabled by the Company's successful transition from a balance sheet strategy (under which the Company traditionally funded loans to its balance sheet) to a marketplace strategy under which new loan originations are primarily being sold to institutional purchasers. Combined with an increased emphasis on growing brand awareness in the industry, this has allowed the Company to maximize its exposure to the economic recovery in 2021 untethered to the equity requirements that a balance sheet strategy places on capacity to originate loans.

2. **IOU Financial achieved a return to profitability on an annual basis: The Company posted net earnings of $3.7 million for 2021 on an IFRS basis, compared with a net loss of $2.8 million in 2020.**
   The success of the Company's transition to a marketplace strategy is reflected in an 89.8% increase in servicing and fee revenue ($10.1 million in 2021 vs. $5.3 million in 2020), driven by an unprecedented 72.5% year-over-year growth in loans under management, which stood at $119.5 million as of December 31, 2021. These revenue streams can be broken down as follows:
   - Servicing fees increased 61.4% to $6.0 million in 2021 vs. $3.8 million in 2020;
   - Gain on sale revenue increased 202.5% ($2.1 million in 2021 vs. $0.7 million in 2020. Gain on sale revenue refers to the accelerated recognition of transaction costs on loans sold under IFRS, which represents income earned on loans sold after taking into consideration loan origination sales costs);
   - Referral fee revenue earned by IOU's retail distribution operation ZING Funding increased 105.4% ($1.1 million in 2021 vs. $0.5 million in 2020);
   - Administrative and other fees on the servicing portfolio increased 146.9% ($0.9 million in 2021 vs. $0.5 million in 2020).

   Also playing a role in helping the Company achieve a return to profitability on an IFRS basis in 2021 is the $0.9 million in loan loss reversals and $2.4 million in reduced operating expenses as a result of loan forgiveness and employee retention credits.

   The Company expects servicing and fee revenue to continue to increase along with an increase in loans under management as loan origination volumes grow. Interest revenue (which totaled $1 million in 2021 vs. $11.8 million in 2020) will decline to negligible levels as the Company continues to wind down its balance sheet loan portfolio.

3. **Laying the groundwork for scalable growth:**
   The Company's successful transition to a marketplace strategy has not only enabled the Company to capture more growth opportunities in 2021 but has also liberated resources to invest in the further reduction of corporate debt through the repurchase of approximately $3.7 million in convertible debentures in 2021 and an additional repurchase of $1.2 million through to April 27, 2022 as well as to continue to invest in its Post-Pandemic Growth Plan (PPGP) first announced as part of its Q1 2021 Financial Results. Under the PPGP, the Company continues to advance 3 areas of strategic focus:
   - **Technology innovation:** Major projects are underway to support enhanced scalability by improving the efficiency, flexibility and resiliency of the Company's proprietary IOU360 technology platform. In 2021, the Company introduced new service portals for internal reporting and legal services and is currently preparing to launch new portals for brokers, merchants and investors in 2022 – all designed to support greater efficiencies and the long-term scalability of loan applications, processing, underwriting and originations.
   - **Product expansion:** The Company launched its first new lending product, the IOU Financial Cash-Back Loan, in August 2021 – an industry first resulting in increased brand awareness and demand; the IOU

Financial 24-Month Loan – launched in November 2021 – further supports these goals. Additional product innovations are planned and will be enabled by further development of the IOU360 platform in 2022.

- **Product distribution:** The Company continues to expand its wholesale (IOU Financial) and retail (ZING Funding) distribution strategies to maximize its exposure to the economic recovery through both channels. As noted above elsewhere in this document, ZING Funding was launched in June of 2020 and contributed $1.1 million in Referral Fee revenues to IOU Financial in 2021.

IOU Financial's strong 2021 loan originations and progress towards its strategic goals demonstrate the Company's ability to continue capitalizing on the economic recovery and create value for investors by capitalizing on its marketplace strategy and investing in areas that support scalable growth.

In the first quarter ending March 31, 2022, IOU originated US$59.6 million in loans and set a new quarterly loan origination record in its history. For all of 2022, the Company is targeting loan originations in the range of US$220M to US$260M while continuing to invest in growth and scalability.

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	**2021** **$**	2020 $
Loan originations ($US)	**161,486,680**	84,867,150
Principal balance of loan portfolio	**2,647,198**	13,466,093
Principal balance of servicing portfolio	**116,826,337**	55,796,788
Total loans under management	**119,473,535**	69,262,881
Adjusted gross revenue (1)	**11,077,458**	17,132,332
Interest expense	**1,278,677**	2,800,963
Net provision (Recovery) for loan losses	**(925,548)**	8,689,540
Adjusted operating expenses (2)	**11,033,325**	9,523,257
Adjusted net loss(3)	**(326,908)**	(3,175,061)
Adjusted net earnings (loss) per share(4)	**(0.00)**	(0.03)
Net earnings (loss)	**3,722,068**	(2,819,475)
Net earnings (loss) per share	**0.04**	(0.03)
Total assets	**26,563,736**	25,171,893
Total liabilities	**11,058,178**	13,153,234

(1) Adjusted gross revenue is a non-IFRS measure and 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 another measure of financial performance. 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) Adjusted operating expenses is a non-IFRS measure and 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 another measure of financial performance.

(3) Adjusted net (loss) earnings is a non-IFRS measure and 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.

Financial Highlights

The Company continues to focus on its marketplace strategy allowing it to accelerate loan origination growth. This strategy has the impact of placing more emphasis on servicing and fee revenue over interest revenue and cost of revenue associated with holding loans as part of a loan portfolio. Interest revenue decreased as the principal loan portfolio balance continues to wind down while servicing and fee revenue increased consistent with the increase in loan origination volume as well as the increase in the servicing portfolio.

Due to the wind down of the loan portfolio, there is nominal interest expense associated with the financing credit facilities in 2021 as IOU's two financing credit facilities were terminated in December 2020 and October 2021, respectively. Interest expense has decreased in 2021 as the Company was able to use its financial resources to repurchase approximately $3.7 million its convertible debentures in 2021.

In addition, the marketplace strategy will render the net provision for loan losses irrelevant and IOU will continue to focus on cash collections on the remaining portfolio which may give rise to reversals in the net provision for loan losses and recoveries of loans previously written off.

For the year ended December 31, 2021, the Company funded US$161.5 million in loans (2020: US $84.9 million), representing an increase of 90.3% over the same period last year. The increase in loan origination volumes in 2021 was driven by market demand for funding and was enabled by the Company's successful transition from a loan portfolio strategy to a marketplace strategy.

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 2021, ZING Funding facilitated loan originations of approximately US$15.3 million (of which approximately US$11.0 million was originated by its parent, IOU USA). This compares to approximately US$11.4 million in 2020 (of which approximately US$9.3 million was originated by IOU USA).

Total loans under management increased 72.5% in 2021 ($119.5 million) over 2020 ($69.3 million) as the Company experienced its highest loan origination volume in its history. The principal balance of the loan portfolio amounted to $2.6 million at the end of 2021 (2020: $13.5 million), representing a decrease of 80.3% year over year. The principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of institutional purchasers) amounted to $116.8 million at the end of the year 2021 (2020: $55.8 million), representing an increase of 109.4% year over year due to the Company having sold the vast majority of its loan originations in 2021 to its base of institutional buyers.

Overall, the financial impacts of IOU's transition to an originate to sell model in 2021 as compared to 2020 are as follows:

- Adjusted gross revenue decreased to $11.1 million (2020: $17.1 million), representing a decrease of 35.3% for the year ended December 31, 2021 compared to the same period in 2020.
- Interest revenue decreased 91.7% to $1.0 million in 2021 from $11.8 million in 2020. The principal balance of the loan portfolio decreased 82.2% to $2.6 million in 2021 from $13.5 million in 2020 consistent with the transition to the marketplace strategy.
- Servicing and fee revenue increased 89.8% to $10.1 million in 2021 from $5.3 million in 2020.
- Interest expense decreased 54.3% to $1.3 million (2020: $2.8 million). The decrease is attributable to nominal borrowings from its financing credit facilities in 2021 as well as the repurchase of $3.7 million of convertible debentures as at December 31, 2021.
- The net recovery for loan losses in 2021 amounted to $(0.9) million (2020: net provision for loan losses of $8.0 million). The Company recorded the vast majority of its net provision for loan losses on its loan portfolio in 2020 following the onset of the COVID-19 pandemic. Due to better than anticipated collection on loans for which IOU recorded a net provision for loan losses in prior periods, the Company continues to benefit from reversals in the net provision for loan losses.

Adjusted operating expenses increased 15.9% to $11.0 million in 2021 compared to $9.5 million in 2020 mainly due to an increase in wages and salaries and data and IT costs as the Company continues to support the future growth in loan originations by investing in innovation and resources as part of its 2021 Post-Pandemic Growth Plan (PPGP).

IOU closed on its year ended December 31, 2021 with an adjusted net loss of $0.3 million compared to adjusted net loss of $3.2 million for the year ended December 31, 2020.

IOU closed on its year ended December 31, 2021 with IFRS net earnings of $3.7 million, or $0.04 per share, compared to IFRS net loss of $(2.8) million or $(0.03) per share for the same period in 2020.

ADJUSTED AND IFRS NET EARNINGS (LOSS) FOR THE PERIOD ENDED DECEMBER 31, 2021

The following table presents IOU Financial's adjusted and IFRS net earnings (loss) for the years ended December 31, 2021 and 2020. The financial information is presented in Canadian dollars (except where otherwise noted) and was prepared in accordance with IFRS.

Adjusted and IFRS net earnings (loss)

For the year ended December 31	**2021** **$**	2020 $
Interest revenue	**986,092**	**11,815,590**
Servicing & fee revenue	**10,091,366**	**5,316,742**
Adjusted Gross Revenue	**11,077,458**	**17,132,332**
Interest expense	**1,278,677**	**2,800,963**
Net provision (Recovery) for loan losses	**(925,548)**	**7,983,173**
Cost of Revenue	**353,129**	**10,784,136**
Adjusted Net Revenue	**10,724,329**	**6,348,196**
Adjusted operating expense	**11,033,325**	**9,523,257**
Income tax expense	**17,912**	**-**
Adjusted Net Loss	**(326,908)**	**(3,175,061)**
Adjusted Net Loss per Share	**(0.00)**	**(0.03)**
Adjusted Net (Loss)	**(326,908)**	**(3,175,061)**
Non-cash gain on sales of loans	**7,018,006**	**2,857,268**
Non-cash amortization of servicing asset	**(5,177,397)**	**(3,004,811)**
Non-cash stock-based compensation	**(150,213)**	**(137,345)**
Non-recurring gain -net	**2,358,580**	**640,474**
Net Earnings (Loss) per IFRS	**3,722,068**	**(2,819,475)**
Net Earnings (Loss) per Share	**0.04**	**(0.03)**

Adjusted Gross Revenue

Adjusted gross revenue is a non-IFRS measure and 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 another measure of financial performance. 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	**2021** **$**	2020 $
Gross Revenue		
Interest revenue	**986,092**	11,815,590
Servicing fees	**6,048,422**	3,746,601
Referral fee revenue	**1,069,145**	520,432
Administrative and other fees	**895,769**	362,772
Accelerated recognition of transaction costs on loans sold	**2,078,030**	686,937
Non-cash amortization of servicing assets	**(5,177,397)**	(3,004,811)
Non-cash gain on sale of loans	**7,018,006**	2,857,268
Gross Revenue	**12,918,067**	16,984,789
Non-cash amortization of servicing assets	**5,177,397**	3,004,811
Non-cash gain on sale of loans	**(7,018,006)**	(2,857,268)
Adjusted Gross Revenue	**11,077,458**	17,132,332
Ratios		
Servicing Portfolio Yield (1)	**7.4%**	6.7%

(1) Servicing Portfolio Yield is a non-IFRS measure and is calculated as follows: servicing fees 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.

Overall, the impacts to revenue as a result of IOU's transition to an originate to sell model are as follows:

Adjusted gross revenue decreased to $11.1 million (2020: $17.1 million), representing a decrease of 35.3% for the year ended December 31, 2021 compared to the same period in 2020.

Interest revenue decreased 91.7% to $1.0 million in 2021 from $11.8 million in 2020. The principal balance of the loan portfolio decreased 82.2% to $2.6 million in 2021 from $13.5 million in 2020 consistent with the transition to the marketplace strategy.

Servicing and fee revenue increased 89.8% to $10.1 million in 2021 from $5.3 million in 2020. More specifically, servicing and fee revenue growth in 2021 over 2020 is attributable to the following:

- Servicing fees earned on the servicing portfolio increased $2.3 million or 61.4% over 2020 as the average servicing portfolio increased by 47.3% over 2020.
- Referral fee revenue earned by IOU's retail distribution operation (ZING Funding) increased to $1.1 million in 2021 from $0.5 million in 2020 as it facilitated approximately US$15.3 million in loan origination volume in 2021, representing an increase of 34.2% over 2020 (US$11.4 million).

- Administrative and other fees earned on the servicing portfolio increased $0.5 million to $0.9 million in 2021 over 2020.
- Accelerated recognition of transaction costs on loans sold. This represents income earned on loans after taking into consideration loan origination sales costs. This income category increased by $1.4 million or 202.5% over 2020 as loan origination volume increased to US$161.5 million in 2021 from US$84.9 million in 2020.

Gross revenue decreased to $12.9 million for the year ended December 31, 2021 (2020: $17.0 million), representing a decrease of 23.9% over 2020.

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

Cost of revenue consists primarily of interest costs incurred in connection with the financing of its lending activities and net provision (Recovery) for loan losses. The following table summarizes cost of revenue by category.

Cost of Revenue

For the year ended December 31	**2021** **$**	2020 $
Cost of revenue		
Interest expense	**1,278,677**	2,800,963
Net provision (Recovery) for loan losses	**(925,548)**	7,983,173
Cost of Revenue	**353,129**	10,784,136

The cost of revenue for the year ended December 31, 2021 decreased from $10.8 million in 2020 to $0.4 million in 2021. The decrease is primarily due a decrease in interest expense and net provision for loan losses highlighted below.

Interest expense during the year ended December 31, 2021 decreased 54.3% to $1.3 million (2020: $2.8 million). The decrease is attributable to nominal borrowings from its financing credit facilities in 2021 as well as the repurchase of $3.7 million of convertible debentures in 2021.

The net provision (recovery) for loan losses during the year ended December 31, 2021 amounted to $0.9 million (2020: $8.0 million). The Company recorded the vast majority of its net provision (recovery) for loan losses on its loan portfolio in 2020 following the onset of the COVID-19 pandemic. Due to better than anticipated collection on loans for which IOU recorded a net provision (recovery) for loan losses in prior periods, the Company continues to benefit from reversals in the net provision (recovery) for loan losses.

Adjusted Operating Expenses

Adjusted operating expenses is a non-IFRS measure and is defined as total operating expenses prepared in accordance with IFRS for the year, 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 another measure of financial performance as it eliminates items that do not occur in the normal course of operations. 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	**2021** $	2020 $
Operating Expenses	**8,824,958**	9,020,128
Stock Based Compensation	**(150,213)**	(137,345)
Non-Recurring Gain-net [2]	**2,358,580**	640,474
Adjusted Operating Expenses	**11,033,325**	9,523,257
Ratio		
Adjusted Operating Expense Ratio [1]	**12.4%**	10.2%

[1] The Adjusted Operating Expense Ratio is a non-IFRS measure and 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.
[2] Non-Recurring Gain-net is a non-IFRS measure and refers to adjustments to remove the impacts on operating expenses which are not incurred in the normal course of business and can fluctuate at different times and at various amounts. In 2021, the non-recurring gain-net is comprised of PPP loan forgiveness, wage subsidies and employment retention credits of $2,381,078 less net loss on redemption of convertible debentures of $22,498. In 2020, the non-recurring gain-net is comprised of PPP loan forgiveness, wage subsidies and employment retention credits of $1,012,331 less credit facility termination and exit fees of $342,032 and less revaluation of convertible debenture of $29,825.

Adjusted operating expenses increased 15.9% to $11.0 million in 2021 compared to $9.5 million in 2020 mainly due to an increase in wages and salaries and data and IT costs as the Company continues to support the future growth in loan originations by investing in innovation and resources as part of its 2021 Post-Pandemic Growth Plan (PPGP).

The Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, increased from 10.2% in 2020 to 12.4% in 2021. Since there will be a period of investment to support the future growth in loan originations, the ratio will be higher at the beginning of this investment period as the Company continues to ramp up its loan originations.

Adjusted operating expenses increased by $1.5 million to $11.0 million in 2021 compared to $9.5 million in 2020. This increase can be primarily attributed to the following:

- an increase of $1.9 million in wages and salaries as a result of an increase in the number of full-time employees to support loan origination growth.
- an increase of $0.5 million in data services and IT costs as a result of an increase in data costs due to an increase in loan application volume compared to 2020 and costs incurred to support the IOU360 technology platform.
- a decrease of $0.7 million in legal and accounting as a result of increase in legal collection fees collected in 2021 compared to 2020.
- a decrease of $0.5 million in amortization of transaction costs on financing credit facilities.
- an increase of $0.2 million in advertising and promotion.
- an increase of $0.1 million in professional fees.

Operating expenses decreased by $0.2 million to $8.8 million in 2021 compared to $9.0 million in 2020 mainly attributable to a $1.7 million difference in non-recurring gain-net in 2021 compared to 2020 and a $1.5 million increase in adjusted operating expenses noted above in 2021 compared to 2020.

Adjusted Net Earnings (loss)

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

Adjusted Net Earnings (loss)

For the period ended December 31	**2021**	2020
	$	$
Net Earnings (Loss)	**3,722,068**	(2,819,475)
Non-Cash Gain on Sale of Loans	**(7,018,006)**	(2,857,268)
Non-Cash Amortization of Servicing Assets	**5,177,397**	3,004,811
Stock-Based Compensation	**150,213**	137,345
Non-Recurring Gain-net	**(2,358,580)**	(640,474)
Adjusted Net Loss (1)	**(326,908)**	(3,175,061)

(1) Adjusted net earnings (loss) is a non-IFRS measure and is defined as net earnings (loss) for the period prepared in accordance with IFRS less: non-cash gain on sale of loans and non-recurring gains, plus: non-cash amortization of servicing assets, stock-based compensation and non-recurring costs.

IOU closed on its year ended December 31, 2021 with an adjusted net loss of $0.3 million compared to adjusted net loss of $3.2 million for the year ended December 31, 2020.

IOU closed on its year ended December 31, 2021 with IFRS net earnings of $3.7 million, or $0.04 per share, compared to IFRS net loss of $(2.8) million or $(0.03) per share for the same period in 2020.

CONSOLIDATED FINANCIAL POSITION

The following table presents IOU Financial's consolidated statement of financial position as at December 31, 2021 and December 31, 2020. 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, 2021	As at December 31, 2020 (Revised)
	$	$
Assets		
Commercial loans receivable	**7,577,341**	13,987,002
Allowance for expected credit losses	**(788,060)**	(2,927,407)
Commercial loans receivable – net	**6,789,281**	11,059,595
Non-portfolio assets	**19,774,455**	14,112,298
Total assets	**26,563,736**	25,171,893
Liabilities		
Convertible debentures – liability component	**7,619,634**	10,815,242
Other liabilities	**3,438,544**	2,748,665
Total liabilities	**11,058,178**	13,563,907
Shareholders' equity	**15,505,558**	11,607,986

Total Assets

Total assets increased by $1.4 million (5.5%) from $25.2 million at December 31, 2020 to $26.6 million at December 31, 2021. This increase is mainly attributable to a decrease of $4.3 million in commercial loans receivable-net, offset by an increase of $5.7 million in non-portfolio assets due mainly to an increase in servicing assets of $1.9 million as well as increases to servicing fees and purchase price receivables on loans sold of $3.7 million as the Company transitioned to its marketplace strategy in 2021.

Total Liabilities

Total liabilities decreased by $2.5 million (18.6%) from $13.6 million at December 31, 2020 to $11.1 million at December 31, 2021. The decrease is mainly due to a decrease in convertible debentures of $3.2 million and offset by an increase of $0.7 million in other liabilities.

Shareholders' Equity

Shareholders' Equity increased by $ 3.9 million (33.6%) from $11.6 million at December 31, 2020 to $15.5 million at December 31, 2021. This increase is mainly attributable to the current period comprehensive earnings of $3.7 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 decreased from $9.9 million at December 31, 2020 to $7.3 million at December 31, 2021. The Company repurchased approximately $3.7 million of its convertible debentures in the capital of the Company (the "Debentures"). Such transactions were carried out pursuant to repurchase agreements entered into with individual holders of Debentures. Without the repurchase of Debentures, IOU’s corporate cash position would be approximately $11.0 million at December 31, 2021.

Flow of funds

The following table presents a summary of cash flows for the years ended December 31, 2021 and 2020.

Consolidated Statement of Cash Flows

For the year ended December 31	**2021** **$**	2020 $
Cash generated in operating activities	**1,805,407**	41,898,271
Cash (used) generated in investing activities	**(775,289)**	66,505
Cash used in financing activities	**(3,607,491)**	(37,153,841)
(Decrease) increase in cash	**(2,577,373)**	4,810,935
Exchange rate loss on cash	**(22,852)**	(184,490)
Net (decrease) increase in cash	**(2,600,225)**	4,626,445

Cash used in operating activities

The $40.1 million decrease in cash generated in operating activities for the year ended December 31, 2021, compared to the same period in 2020, was primarily related to an increase of $162.0 million in the cash outflow from the net change in non-cash working capital items (2021: $201.3 million compared to 2020: $39.3 million) and an increase of $116.9 million in the cash inflow from the sale of commercial loans (2021: $201.5 million compared to 2020: $84.6 million).

Cash used in investing activities

The $0.8 million increase in cash used by investing activities for the year ended December 31, 2021, compared to the same period in 2020, is primarily due to the additions of intangible assets of $0.8 million ($0.8 million in 2021 compared to $0 in $2020).

Cash generated from financing activities

The $33.5 million decrease in cash used in financing activities for the year ended December 31, 2021, compared to the same period in 2020, is primarily due to the repayment of $38.9 million to the financing credit facilities in 2020 ($0 in 2021) and offset by the redemption of convertible debentures of $3.5 million in 2021 ($0 in 2020).

SUMMARY OF QUARTERLY RESULTS

Quarterly Results

For the quarters ended	Dec 31/21 $	Sept 30/21 $	Jun 30/21 $	Mar 31/21 $
Gross revenue	3,098,178	4,421,079	2,754,135	2,644,675
Net loss revenue	2,826,606	4,586,301	2,789,588	2,362,443
Net earnings	690,507	3,100,271	10,754	(79,464)
Net earnings (loss) per share(1)	0.01	0.03	0.00	(0.00)

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 revenue (loss)	2,925,855	4,069,970	(1,222,449)	427,277
Net earnings (loss)	703,292	1,698,588	(3,079,747)	(2,141,608)
Net earnings (loss) per share(1)	0.01	0.02	(0.04)	(0.02)

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 Management Inc ("PMI"). PMI which is indirectly owned by The Marleau Capital Corporation ("MCC"). Philippe Marleau, a director of the Company, holds a significant number of shares of MCC which has significant influence over the Company. The terms of this lease are similar to those that would have been present for an arm's-length transaction. The amount of $114,406 is expensed as rental expense for the period (2020: rent expense of $122,874). 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 $1,682,028.

ii) The Company sells loans to funds managed by NB Specialty Finance Fund LP who has significant influence over the Company. In 2021, the Company sold loans in the amount of US$41.8 million (2020: US$4.1 million) and earned service fees of $2.0 million (2020: $23,815) and recorded service fees and purchase price receivables in the amount of $4 million as at December 31, 2021 (2020: $283,216).

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, 2021 and 2020 is shown below:

Key Management Compensation

For the year ended December 31	**2021**	2020
Salaries and other short-term employee benefits	**820,926**	749,925
Share-based payments	**97,076**	92,483
	918,002	842,408

LOANS UNDER MANAGEMENT

IOU Financial maintains a geographically and industry diversified loans under management which reduces the risk of loss arising from adverse regional or industrial economic conditions to IOU Financial and its base of institutional loan buyers.

The following tables present the portfolio by geography and industry as at December 31, 2021.

Industry Category	**Portfolio %**
Specialty trade contractors and home building renovation	18%
Other store or online retailers and wholesalers	8%
Medical services	6%
Other professional services	7%
Manufacturing	4%
Automotive garage	3%
Other	54%
Total	100%

State	**Portfolio %**
California	12%
Florida	12%
Texas	11%
Georgia	5%
New York	4%
Ohio	4%
North Carolina	4%
Arizona	4%
Pennsylvania	3%
New Jersey	3%
Other US states	38%
Total	100%

OUTSTANDING SHARE DATA

The following table presents IOU Financial's outstanding share data as at April 27, 2022

Outstanding Share data

Ordinary shares issued and outstanding:	**Number of shares issued**
December 31, 2020	104,643,928
Shares issued between January 1, 2021 and December 31, 2021	346,668
Shares cancelled between January 1, 2021 and December 31,2021	-
Shares outstanding on April 27, 2022	**104,990,596**
Options issued and outstanding:	**Number of Options issued**
December 31, 2020	7,566,500
Options granted between January 1, 2021 and December 31, 2021	2,695,000
Options forfeited between January 1, 2021 and December 31, 2021	(539,832)
Options exercised between January 1, 2021 and December 31, 2021	(346,668)
Options granted after December 31, 2021	55,000
Options forfeited after December 31, 2021	(61,667)
Options outstanding on April 27, 2022	**9,368,333**

The Company granted, on May 3, 2021, options entitling its senior officers, directors, and certain employees and consultants to acquire up to an aggregate of 2,625,000 Common Shares of the Corporation ("Shares") at an exercise price of $0.12. 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) which will vest on each of the first and second anniversaries of the date of grant, except for the following:

i) 200,000 of these options, granted to a company engaged by the Company to assist it with a variety of capital markets and corporate development related projects, including the provision of certain investor relation services, will vest as follows: one twelfth (1/12) of the options will vest at each three (3) month period during the first 12 months of the date of grant, and one-third (1/3) vest on each of the first and second anniversaries of the date of grant.

ii) 105,000 of these options granted to a consultant will vest on February 2, 2026.

The Company granted, on August 30, 2021, options entitling its employees to acquire up to an aggregate of 70,000 Common Shares of the Corporation ("Shares") at an exercise price of $0.18. 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) which will vest on each of the first and second anniversaries of the date of grant.

In September 2021, the Company amended 105,000 options granted to a consultant on July 28, 2020 to vest on April 28, 2025.

The Company granted, on February 1, 2022, options entitling a director to acquire up to an aggregate of 55,000 Common Shares of the Corporation ("Shares") at an exercise price of $0.2005. 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) which will vest on each of the first and second anniversaries of the date of grant.

EVENT AFTER THE REPORTING DATE

The Company repurchased approximately $1.2 million of its convertible debentures in the capital of the Company (the "Debentures") at par. Such transactions were carried out pursuant to repurchase agreements entered into with individual holders of Debentures and brings the total repurchases to $4.9 million as of April 27, 2022, leaving approximately $6.8 million of outstanding principal value of Debentures which mature December 2023.

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
   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 adopted on January 1, 2021 Interest Rate Benchmark Reform phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7). The amendment issued by IASB in August 2020 address issues that arise from the implementation of the reforms including the replacement of one benchmark with an alternative one. The adoption of these amendments did not have a significant effect on the consolidated financial statements of the Company.

The Company has not adopted any other new or amended standards and interpretations that became effective on January 1, 2021.

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.

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 reduced the net earnings by approximately $1.5 million (2020: increased the net loss by $1.8 million), 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, commencing October 2020, has an agreement with an investor to sell interests in certain of its commercial loans receivable of up to US$150 million per year. For 2021, US$74.9 million (2020- US$4.1 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 were in the form of revolving credit facilities for which the availability was determined by the collateral value of the loans pledged thereunder.

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, commercial loans receivable and other receivables. 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. Since the financing credit facilities were repaid in full in 2020 and in 2021, the Company is not significantly affected by interest rate risk.

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 for OTH loans.

Interest revenue presented in the consolidated statement of comprehensive income (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

There continues to be general economic risk associated with COVID-19 since the onset of the pandemic in 2020 and the full impact of the crisis remains unknown. COVID-19 has resulted in a material adverse effect on IOU Financial's business, operating results, financial condition and liquidity. In 2020, 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 possible that these conditions that had existed in 2020 and 2021 could return and may adversely impact such businesses who may or may not 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

Since the 2016 and 2019 financing credit facilities have been terminated, no financial covenants are applicable at December 31, 2021.

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 and on its website www.ioufinancial.com

IOU FINANCIAL INC.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Robert Gloer, Director, President & CEO

David Kennedy, Chief Financial Officer and Corporate Secretary

Philippe Marleau, Director

Kathleen Miller, 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 documents regarding the Company are available on SEDAR's website (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 27, 2022.

(s) David Kennedy

David Kennedy
Chief Financial Officer

Montreal, Canada
April 27, 2022

IOU Financial

Business Lending. Simplified.

IOU Financial Inc.

Consolidated Financial Statements

For the Years Ended
December 31, 2021 and 2020

Independent auditor's report

To the Shareholders of IOU Financial Inc.

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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of comprehensive income (loss) 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 the consolidated financial statements, which include significant accounting policies and other explanatory information.

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.
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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.

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.

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.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
April 27, 2022

[1] CPA auditor, CA, public accountancy permit No. A125840

IOU FINANCIAL INC.

Consolidated Financial Statements

For the Years Ended
December 31, 2021 and 2020

IOU FINANCIAL INC.

Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(in Canadian dollars)

	Note	**2021** $	2020 (Revised - Note 22) $
Assets			
Cash and cash equivalents		**7,358,752**	9,958,977
Restricted cash		**1,205,688**	1,291,646
Sales taxes receivable		**152,559**	49,161
Commercial loans receivable, net	**4**	**6,789,281**	11,059,595
Servicing assets	**4**	**3,092,164**	1,237,550
Service fees receivable	**5**	**1,368,210**	283,216
Other receivables	**6**	**4,553,282**	322,714
Prepaid expenses and deposits		**440,077**	92,886
Equipment and leasehold improvements	**7**	**118,416**	103,721
Intangible assets	**8**	**763,782**	-
Right-of-use assets	**9**	**213,955**	672,456
Lease receivable	**9**	**507,570**	-
Unamortized financing transaction costs	**11**	**-**	99,971
Total Assets		**26,563,736**	25,171,893
Liabilities			
Accounts payable and accrued liabilities	**10**	**2,654,698**	2,017,542
Convertible Debentures	**12**	**7,619,634**	10,815,242
Lease liabilities	**9**	**783,846**	731,123
Total Liabilities		**11,058,178**	13,563,907
Shareholders' Equity			
Share capital	**14**	**28,929,953**	28,887,186
Contributed surplus		**4,764,941**	4,614,728
Accumulated other comprehensive income		**1,711,442**	1,728,918
Deficit		**(19,900,778)**	(23,622,846)
Total Shareholders' Equity		**15,505,558**	11,607,986
Total Liabilities and Shareholders' Equity		**26,563,736**	25,171,893

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

Approved by the Board on April 27, 2022

Robert Gloer (*signed*), Director
Neil Wolfson (*signed*), Director

IOU FINANCIAL INC.

Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2021 and 2020
(in Canadian dollars)

	Note	2021 $	2020 $
Revenue			
Interest revenue	**16**	**986,092**	11,815,590
Servicing income and other fees	**16**	**2,835,939**	1,624,994
Net gain recognized on sale of loans	**4**	**9,096,036**	3,544,205
Gross Revenue		**12,918,067**	16,984,789
Cost of Revenue			
Interest expense		**1,278,677**	2,800,963
Net provision (Recovery) for loan losses		**(925,548)**	7,983,173
Total Cost of Revenue		**353,129**	10,784,136
Net Revenue		**12,564,938**	6,200,653
Operating expenses	**18**	**8,824,958**	9,020,128
Earnings (Loss) Before Income Taxes		**3,739,980**	(2,819,475)
Income tax expense	**17**	**17,912**	-
Net Earnings (Loss) for the Year		**3,722,068**	(2,819,475)
Currency translation differences		**(17,476)**	(348,245)
Income tax	**17**	**-**	-
Other comprehensive Income (Loss)		**3,704,592**	(3,167,720)
Comprehensive Income (Loss) for the Year		**3,704,592**	(3,167,720)
Earnings (Loss) per Share:			
Basic	**13**	**0.04**	(0.03)
Diluted	**13**	**0.03**	(0.03)

Net Earnings (Loss) and Comprehensive Income (Loss) are entirely attributable to the shareholders of the Company. Other Comprehensive Income (Loss) is entirely subject to be reclassified to Net Earnings (Loss).

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, 2021 and 2020
(in Canadian dollars, except as otherwise noted)

	Note	Common Shares (#)	Share Capital ($)	Contributed Surplus ($)	Accumulated OCI [1] ($)	Income/ (Deficit) ($)	Shareholders' Equity ($)
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	14	18,009,806	1,937,644	-	-	-	1,937,644
Shares repurchased	14	(279,000)	(55,388)	-	-	-	(55,388)
Stock options exercised	14	205,000	16,400	-	-	-	16,400
Stock-based compensation	14	-	-	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
Correction of convertible debentures opening balance	21	-	-	-	-	(410,673)	(410,673)
Revised Balance as at December 31, 2020		104,643,928	28,887,186	4,614,728	1,728,918	(23,622,846)	11,607,986
Comprehensive income for the year		**-**	**-**	**-**	**(17,476)**	**3,722,068**	**3,704,592**
Stock options exercised	**14**	**346,668**	**42,767**	**-**	**-**		**42,767**
Stock-based compensation	**14**	**-**	**-**	**150,213**	**-**	**-**	**150,213**
Balance as at December 31, 2021		**104,990,596**	**28,929,953**	**4,764,941**	**1,711,442**	**(19,900,778)**	**15,505,558**

[1] OCI: Other Comprehensive Income

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(in Canadian dollars)

	Note	2021 $	2020 $
Operating Activities			
Net Earnings (Loss) for the year		**3,722,068**	(2,819,475)
Non-cash items included in net earnings	**19**	**(3,826,757)**	(11,299,387)
Change in non-cash working capital items	**19**	**(201,302,709)**	(39,279,996)
Sale of commercial loans	**4**	**201,520,850**	84,570,685
Interest received		**1,453,129**	10,253,056
Interest expense		**1,278,677**	2,854,977
Interest paid		**(1,039,851)**	(2,381,589)
Cash generated in operating activities		**1,805,407**	41,898,271
Investing Activities			
Additions to equipment and leasehold improvements	**7**	**(79,305)**	(20,838)
Additions to intangible assets	**8**	**(781,942)**	-
Deductions to restricted cash		**85,958**	87,343
Cash (used) generated in investing activities		**(775,289)**	66,505
Financing Activities			
Redemption of convertible debentures	**12**	**(3,456,931)**	-
Issuance of equity, net of transaction costs	**14**	**42,767**	1,898,656
Repayment of financing credit facilities	**11**	**-**	(38,936,865)
Decrease in lease receivable	**9**	**21,401**	-
Payment of lease liabilities	**9**	**(214,728)**	(115,632)
Cash used in financing activities		**(3,607,491)**	(37,153,841)
(Decrease) Increase in Cash		**(2,577,373)**	4,810,935
Exchange rate difference on cash		**(22,852)**	(184,490)
Cash			
Beginning of period		**9,958,977**	5,332,532
End of period		**7,358,752**	9,958,977

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

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 subsidiaries 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 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 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 27, 2022.

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.

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.

3.1 Current and Future Changes in Accounting Policies

a) New standards adopted during the year

The Company adopted on January 1, 2021 Interest Rate Benchmark Reform phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7). The amendment issued by IASB in August 2020 address issues that arise from the implementation of the reforms including the replacement of one benchmark with an alternative one. The adoption of these amendments did not have a significant effect on the consolidated financial statements of the Company.

The Company has not adopted any other new or amended standards and interpretations that became effective on January 1, 2021.

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

A number of new or amended standards and interpretations are expected to become effective on January 1, 2022 and beyond. There are no new or amended standards and interpretations that are expected to have a significant effect on the consolidated financial statements of the Company. The Company has not early adopted any new or amended standards and interpretations that has been issued but is not yet effective.

3.2 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

The recognition of deferred tax assets and liabilities involves making assumptions including estimating the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the

foreseeable future.

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".

1.4 Service Fees Receivable

Management exercises judgment to determine the expected future cash flows of certain OTS Loans based on all available, reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions.

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

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

A. Company as a Lessee

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).

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.

B. Company as a Lessor

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.

In a finance lease, the Company recognizes lease receivable measured at the present value of lease payments receivable over the lease term, discounted at the Company's incremental borrowing rate. Each month, the lease payments for the period are apportioned between the reduction in the lease receivable and interest income.

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.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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).

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 or asset.

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.

Business Model	**Business Objective**	**Classification**
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

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.

Financial Assets	Classification
Cash	Amortized cost
Restricted cash	Amortized cost
OTH loans	Amortized cost
OTS loans	FVTPL
Servicing fees receivable	Amortized cost
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. OTS loans are presented at fair value on the consolidated statements of financial position.

The interest income on OTH and OTS loans are 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, current conditions, and forecasts of future events and economic conditions.

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

Stage	**Credit Quality – Reporting Date vs. Initial Recognition**	**Impairment Amount**
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.

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.

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

Definitions – Financial Instruments

Term	Meaning
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: - 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 - fair values are reliable.
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 statements 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 statements of financial position date and on future economic conditions that have, or will have, an impact on credit risk.

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.

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.

Interest Expense

Interest expense comprises interest expense on debt borrowings and is recognized in the statement of 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.

Servicing Income and Other Fees

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 accordance with the commercial terms of the various arrangements. In some instances, the ultimate service fee revenue to be recognized is based on the total future cash flows of the loans sold to institutional purchasers and the amount recognized in the current year as a service fee revenue is based on the best estimate on the future cash flows 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.

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. Contributed surplus is increased by the compensation charge over the vesting period.

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.

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, 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.

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.

(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 (loss) 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 (loss) per share is equal to the basic earnings (loss) per share due to the anti-dilutive effect of these elements.

4. Commercial Loans Receivable

As at December 31, 2021 and 2020, the Company held commercial loans receivable as part of its regular operations.

	2021 $	2020 $
Principal balance of OTH loans	2,647,198	13,466,093
Unamortized fees and transaction costs	49,160	520,909
OTH loans	2,696,358	13,987,002
Allowance for expected credit losses	(788,060)	(2,927,407)
Net carrying amount of OTH loans	1,908,298	11,059,595
OTS loans	4,880,983	-
Commercial loans receivable, net	6,789,281	11,059,595

The OTH loans bear fixed interest at a rate of 9.25% (2020: 9.25%) and mature no later than 18 months (2020:18). As at December 31, 2021 and 2020, no OTH loans have a maturity date over 12 months. Guarantee fees charged on each loan range between 9.00% and 29.00% (2020: 7.00% and 30.00%) of the original OTH loan amount. At inception, the OTH loans had an average date to maturity of 12.9 months (2020: 12.9 months). The OTH loans are being repaid daily or weekly over their terms. Transaction costs and unamortized fees comprise broker commissions and loan closing fees and are recognized over the term of the OTH loan through the effective rate mechanism. The fair value of the OTH loans is estimated to be equivalent to the carrying amount, due to the residual short-term nature of these loans.

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.

Credit Quality of OTH Loans

The commercial loans 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, 2021, 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	6.29	169,587	(4,172)	165,415
Stage 2	0.00	-	-	-
Stage 3 Tier 1	66.82	1,801,822	(621,629)	1,180,193
Stage 3 Tier 2	7.16	193,166	(162,259)	30,907
Inactive	19.72	531,783	-	531,783
Total	**100.00**	**2,696,358**	**(788,060)**	**1,908,298**

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

(in Canadian dollars, except as otherwise noted)

	%	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
Total	**100.00**	**13,987,002**	**(2,927,407)**	**11,059,595**

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, 2021.

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2020	131,235	12,584	2,783,588	2,927,407
Transfers to stage 1	235,029	(21,791)	(213,238)	-
Transfers to stage 2	(20,063)	20,063	-	-
Transfers to stage 3	-	(20,063)	20,063	-
Impact of originations	18,100	-	-	18,100
Net remeasurement	(356,062)	9,597	(693,739)	(1,040,204)
Net variation of the allowance	(122,996)	(12,194)	(886,914)	(1,022,104)
Loans written off	-	-	(1,354,104)	(1,354,104)
Recoveries of loans previously written off	-	-	327,609	327,609
Net write offs	-	-	(1,026,495)	(1,026,495)
Translation differences	(4,067)	(390)	(86,291)	(90,748)
Balance, December 31, 2021	**4,172**	**-**	**783,888**	**788,060**

(in Canadian dollars, except as otherwise noted)

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)
Balance, December 31, 2020	**131,235**	**12,584**	**2,783,588**	**2,927,407**

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

Loans with a contractual amount of $1,354,104 (2020: $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. All loans that participated in the deferral program had been subject to the normal staging process for ECL purposes, however given the extraordinary circumstances of COVID-19, as at December 2021, if a credit-impaired OTH loan improved such that there was no longer a significant increase in credit risk since initial recognition, the credit-impaired OTH loan reverted from stage 3 to either stage 2 or stage 1.

Loan sales and servicing assets

During the year ended December 31, 2021, the Company sold some of its commercial loans receivable, on a non-recourse basis, at face value, for total proceeds of $201.5 million (2020: $84.6 million). At the time of sale of certain loans, the Company neither transfers nor retains substantially all rights and risks associated with the loans sold to the purchaser, and the Company determined that the criteria for derecognition had been met. For other loans, 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 $9.1 million for the year ended December 31, 2021 (2020: $3.5 million), along with servicing assets that are amortized to the consolidated statements of comprehensive income (loss) over the term of the assignment agreements. As at December 31, 2021, the carrying amount of these assets amounted to $3.1 million (2020: $1.2 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.

(in Canadian dollars, except as otherwise noted)

5. Service fees receivable

	2021	2020
	$	$
Service fees receivable	**1,368,210**	283,216

Service fees receivable relates to service fees recognized as revenue based on the expected future cash flows of loans sold but not yet collected. These service fees are expected to be collected from the institutional purchaser over the next twelve months once certain threshold levels of cash flows are received on the loans sold to the institutional purchaser.

6. Other receivables

	2021	2020
	$	$
Purchase price receivable on loans sold	**2,604,411**	-
Employee retention and wage credits	**1,567,962**	-
Other	**380,909**	322,714
Total	**4,553,282**	322,714

Purchase price receivable on loans sold relates to a portion of the sale proceeds to be collected with respect to certain loan sales pursuant to the contractual terms with an institutional loan purchaser once certain thresholds of expected cash flows are received by the institutional purchaser.

During the period, the Company's wholly owned subsidiary, IOU Central Inc. (USA), met the eligibility criteria required to receive US$1,206,349 ($1.5 million) under the US Employee Retention Credit (ERC) program for Q4 2020, Q1 2021, Q2 2021 and Q3 2021. In September 2021, the Company received a credit of US$248,814 ($315,446) from its payroll service provider which was applied against wages and salaries otherwise payable. The Company is reasonably assured of receiving all the remaining credits as such the Company recognized the balance of US$957,535 ($1.2 million) as a receivable. The total amount of the ERC of US$1,206,349 ($1.5 million) was recorded as a reduction to operating expenses (Note 18).

(in Canadian dollars, except as otherwise noted)

7. Equipment and Leasehold Improvements

The following table presents the carrying amount of the equipment and leasehold improvements as at December 31, 2021 and 2020.

	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
Cost				
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
Balance at December 31, 2020	179,312	205,273	213,534	598,119
Translation differences	(386)	(29)	(148)	(563)
Additions	-	79,305	-	79,305
Balance at December 31, 2021	**178,926**	**284,549**	**213,386**	**676,861**
Accumulated Depreciation				
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
Balance at December 31, 2020	176,482	178,882	139,034	494,398
Translation differences	(377)	(340)	(20)	(737)
Depreciation expense for the year	1,594	28,473	34,717	64,784
Balance at December 31, 2021	**177,699**	**207,015**	**173,731**	**558,445**
Carrying Amounts				
At December 31, 2020	2,830	26,391	74,500	103,721
At December 31, 2021	**1,227**	**77,534**	**39,655**	**118,416**

(in Canadian dollars, except as otherwise noted)

8. Intangible Assets

The following table presents the carrying amount of the intangible assets as at December 31, 2021 and 2020. Intangible assets comprise internal use software.

	2021 **$**	2020 $
Cost		
Balance at beginning of year	**1,710,478**	1,750,978
Translation differences	**(1,074)**	(40,500)
Additions	**781,942**	-
Balance at end of year	**2,491,346**	1,710,478
Accumulated Amortization		
Balance at beginning of year	**1,710,478**	1,696,038
Translation differences	**(7,130)**	(42,297)
Amortization charge for the year	**24,216**	56,737
Balance at end of year	**1,727,564**	1,710,478
Carrying Amount	**763,782**	-

(in Canadian dollars, except as otherwise noted)

9. 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, 2021 and 2020.

	2021 **$**	2020 $
Right-of-use Assets		
Balance at beginning of year	**672,456**	716,787
Additions	**270,223**	-
Derecognition of right-of-use assets	**(497,831)**	-
Depreciation of right-of-use assets	**(228,780)**	(137,441)
Translation differences	**(2,113)**	93,110
Balance at end of year	**213,955**	672,456
Lease receivable		
Balance at beginning of year	**-**	-
Additions	**528,971**	-
Depreciation of Net investment	**(21,401)**	-
Balance at end of year	**507,570**	-
Lease Liabilities		
Balance at beginning of year	**731,123**	753,645
Additions	**270,223**	-
Principal payments	**(214,728)**	(115,632)
Translation differences	**(2,772)**	93,110
Balance at end of year	**783,846**	731,123

On October 1, 2021, the following events occurred:

1. The Company modified and revised the existing sub-lease for its office space located in Canada resulting in a $209,907 increase in the right-of-use assets and lease liability.

(in Canadian dollars, except as otherwise noted)

2. The Company entered into a sub-sub lease with a third party for its entire office space located in Canada, making the Company an intermediate lessor. The sub-sub lease is classified as a finance lease and is accounted separately from the Company's contract with the sub- lessor. At the commencement of the sub-sub lease, the Company derecognized the right-of-use assets and accumulated depreciation of right-of-use assets relating to its sub-lease amounting to a $497,831 decrease in right-of-use assets and recognized a lease receivable of $528,971. The sub sub-lease contract will expire April 20, 2027 consistent with the Company's sub-lease.

3. The Company entered into a new separate sub- lease agreement and recognized a right-of-use assets and lease liability of $60,316 at the commencement of the sub lease. The sub-lease contract will expire April 20, 2027.

10. Accounts Payable and Accrued Liabilities

	2021 **$**	2020 $
Trade payables	**567,502**	252,097
Payable to loan purchasers	**201,491**	814,339
Commissions payable	**619,961**	45,836
Other payables and accruals	**1,265,744**	905,270
Total	**2,654,698**	2,017,542

11. Financing Credit Facilities / Unamortized Financing Transaction Costs

	2021 **$**	2020 $
Balance at beginning of year	**(99,971)**	37,954,729
Repayments	**-**	(38,936,865)
Exit fee	**-**	222,810
Amortization of transaction costs	**99,569**	662,409
Translation differences	**402**	(3,054)
Balance at end of year	**-**	(99,971)

(in Canadian dollars, except as otherwise noted)

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

	2021	2020
	$	$
Unamortized financing transaction costs	**-**	(99,971)
	-	(99,971)

The financing credit facilities were comprised as follows:

1. 2016 Credit Facility

On April 22, 2016, the Company entered into a US$50 million credit facility with a third-party lender (the "2016 Credit Facility"). The facility consisted of a US$25 million term loan, expandable to US$50 million at the Company's request and the lender's acceptance.

In April 2020, the Company received default notices from the 2016 Credit Facility as a result 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 million to US$15 million.

The amount outstanding as at December 31, 2020 was 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 18).

2. 2019 Credit Facility

On March 5, 2019, the Company entered into a new US$50 million credit facility (the "2019 Credit Facility"). The facility had an initial commitment of US$50 million and was expandable to US$100 million at the Company's request and the lender's acceptance. The interest rate on the facility was 90-day LIBOR, subject to a minimum LIBOR of 1.5%, plus 4.50%, which represented 6.00% as at December 31, 2020. The term of the facility was 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.

On October 29, 2021, 2019 Credit Facility was officially terminated.

(in Canadian dollars, except as otherwise noted)

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, 2021, amortization of $99,569 (2020: $662,409) has been included in operating expenses (Note 18).

Pledged assets

Since the financing credit facilities have been terminated, there are no pledged assets at December 31, 2021 (2020-$13,744,735 comprised of commercial loans receivable, net of $10,280,749 and cash of $3,463,986)
Since the credit facilities have been terminated, no financial covenants are applicable at year end.

12. Convertible Debentures

The Convertible Debentures recognized in the consolidated statements of financial position are calculated as follows:

	2021 **$**	Revised 2020 $
Par value of the Convertible Debentures	**8,075,368**	11,760,434
Unamortized discount and transaction costs	**(455,734)**	(1,355,865)
Revision of financial information (Note 22)	-	410,673
Liability component amount	**7,619,634**	10,815,242

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 initially matured on December 31, 2020 and bear interest at a rate of 10% per annum, payable monthly. The Debentures were initially 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 had the right to force the conversion of the Debentures into common shares at any time on or after December 31, 2018 had the

20-day volume weighted average price of the common shares on the TSX-V exceeded 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%.

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.

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 expired at 5:00 p.m. on the last business day prior to December 31, 2020.

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.

In 2021, the Company redeemed $3,685,066 of principal value of certain convertible debentures for cash payments of $3,456,932. The company incurred a net loss of $22,498 on redemption of the convertible debentures due to the difference between $250,632 accounted for as accelerated amortization of transaction costs and a discount to the principal amount of convertible debentures in the amount of $228,134 on redemption.

(in Canadian dollars, except as otherwise noted)

13. Earnings per Share

	2021 **$**	2020 $
Basic and Diluted Earnings per Share		
Net earnings (loss)	**3,722,068**	(2,819,475)
Weighted average number of common shares for the purposes of basic earnings per share	**104,747,738**	87,854,907
Basic earnings (loss) per share	**0.04**	(0.03)
Effect of dilutive securities: Options	**2,147,265**	-
Weighted average number of common shares for the purposes of diluted earnings per share	**106,895,003**	87,854,907
Diluted earnings (loss) per share	**0.03**	(0.03)

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 (loss) per share.

	2021	2020
Stock options	**7,227,735**	7,566,500
Number of shares	**7,227,735**	7,566,500

14. Share Capital

Authorized

Unlimited number of common shares

Issued and Outstanding

	2021 **$**	**2020** **$**
104,990,596 Common shares	**28,929,953**	
104,643,928 Common shares		**28,887,186**

(in Canadian dollars, except as otherwise noted)

In 2021, 346,668 options were exercised at an average exercise price of approximately $0.12 for total proceeds of $42,767.

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.

In 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.

Stock-Based Compensation

Movements in options for the years presented are as follows:

	Options Outstanding (#)	**Average Exercise Price ($)**
Balance as at December 31, 2019	6,861,500	0.28
Granted	2,000,000	0.08
Exercised	(205,000)	0.08
Forfeited/Expired	(1,090,000)	0.39
Balance as at December 31, 2020	**7,566,500**	**0.13**
Granted	2,695,000	0.12
Exercised	(346,668)	0.12
Forfeited/Expired	(539,832)	0.13
Balance as at December 31, 2021	**9,375,000**	**0.12**

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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.

(in Canadian dollars, except as otherwise noted)

The following summarizes information about stock options outstanding as at December 31, 2021:

Exercise Price ($)	Outstanding Options (#)	Exercisable (#)	Expiry Date
0.27	1,150,000	1,150,000	June 2022
0.08	360,000	360,000	June 2022
0.08	200,000	200,000	January 2023
0.27	500,000	500,000	July 2023
0.20	650,000	650,000	July 2023
0.08	525,000	525,000	July 2023
0.27	500,000	500,000	March 2024
0.22	650,000	650,000	March 2024
0.08	725,000	725,000	March 2024
0.08	1,690,000	1,056,667	July 2025
0.11	55,000	36,667	December 2025
0.12	2,300,000	731,666	May 2026
0.18	70,000	23,333	August 2026
Total	**9,375,000**	**7,108,333**	

The Company granted, on May 3, 2021, options entitling its senior officers, directors, and certain employees and consultants to acquire up to an aggregate of 2,625,000 Common Shares of the Corporation ("Shares") at an exercise price of $0.12. 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) which will vest on each of the first and second anniversaries of the date of grant, except for the following:

i) 200,000 of these options, granted to a company engaged by the Company to assist it with a variety of capital markets and corporate development related projects, including the provision of certain investor relation services, will vest as follows: one twelfth (1/12) of the options will vest at each three (3) month period during the first 12 months of the date of grant, and one-third (1/3) vest on each of the first and second anniversaries of the date of grant.

ii) 105,000 of these options granted to a consultant will vest on February 2, 2026.

The Company granted, on August 30, 2021, options entitling its employees to acquire up to an aggregate of 70,000 Common Shares of the Corporation ("Shares") at an exercise price of $0.18. 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) which will vest on each of the first and second anniversaries of the date of grant.

In September 2021, the Company amended 105,000 options granted to a consultant on July 28, 2020 to vest on April 28, 2025.

15. 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.

15.1 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 for OTH loans 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 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.

(in Canadian dollars, except as otherwise noted)

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, commencing October 2020, has an agreement with an institutional loan buyer to sell interests in certain of its commercial loan receivable of up to US$150 million per year for two years (2020 - US$150 million). As at December 31, 2021, US$72.9 million (2020- US$4.1 million) of certain commercial loans receivable were sold to this loan buyer pursuant to the contractual terms of the agreement.

The following table presents the contractual maturities of financial liabilities.

	As at December 31, 2021				
	Carrying Amount	**0 to 1 Month**	**1 to 12 Months**	**12 to 36 Months**	**36 Months and Over**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,654,698	1,893,970	760,728	-	-
Convertible debentures	7,619,634	67,268	739,946	8,882,582	-
Lease liabilities	783,846	22,420	268,930	303,194	309,711

Amounts denominated in foreign currency or based on variable rates are determined based on the spot rates as at December 31, 2021.

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, 2021 and 2020 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 reduced the net earnings gain by approximately $1.5 million (2020: increased the net loss by $1.8 million), 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. Since the financing credit facilities were repaid in full in 2020 and in 2021, the Company is not significantly affected by interest rate risk.

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.

15.2 Management of Capital

The Company defines capital to be total shareholders' equity, which includes share capital, and certain debt, specifically the financing credit facilities if any 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, financing credit facilities and 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 both 2016 Credit Facility and 2019 Credit Facility are terminated, there are no financial covenants related to these facilities as at December 31, 2021.

(in Canadian dollars, except as otherwise noted)

16. Revenue by Category

The following table presents an analysis of revenue by category.

	2021 **$**	2020 $
Interest Revenue	**986,092**	11,815,590
Servicing Income and Other Fees		
Servicing fees	**6,048,422**	3,746,601
Other fees	**1,964,914**	883,204
Amortization of servicing assets	**(5,177,397)**	(3,004,811)
Total servicing income and other fees	**2,835,939**	1,624,994

17. Income Tax

Income tax expense comprises:

	2021 **$**	2020 $
Current tax expense	**17,912**	-
Deferred tax expense	**-**	-
Total income tax expense	**17,912**	-

The tax on the Company's income before income tax differs from the theoretical amount that would rise using the federal and provincial statutory rates applicable to income of the consolidated entities. The statutory tax rates remained unchanged in 2021 at 26.5%.
The difference between the Company's income tax and theoretical tax is as follows:

	2021	2020
Canadian statutory tax rates	**26.5%**	**26.5%**
Statutory income taxes	**991,095**	**(747,161)**
Non-deductible expenses (non-taxable income)	**(170,217)**	**86,614**
Difference in foreign tax rates	**(80,562)**	**28,818**
Net change to unrecognized tax assets	**(722,404)**	**631,729**
Income tax expense	**17,912**	**-**

(in Canadian dollars, except as otherwise noted)

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.

Recognized Deferred Tax Assets and Liabilities

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

	For the Year Ended December 31, 2021		
	Opening balance (revised) $	Recognized in net earnings $	Closing balance $
Temporary Differences			
Tax credit for salaries and wages	(26,232)	(30,776)	(57,008)
Financing fees	-	-	-
Fixed assets / ROU assets	(39,190)	(16,099)	(55,289)
Intangibles	-	10,397	10,397
Capital lease obligation	39,190	5,702	44,892
Unrealized foreign exchange gain	-	-	-
Convertible debentures	(228,239)	107,470	(120,770)
	(254,471)	76,693	(177,778)
Tax Losses and Credits			
Tax losses	254,471	(76,693)	177,778
	-		-

	For the Year Ended December 31, 2020		
	Opening balance $	Recognized in net earnings $	Closing Balance (revised) $
Temporary Differences			
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)	130,292	(228,239)
	(248,733)	(5,738)	(254,471)
Tax Losses and Credits			
Tax losses	248,733	5,738	254,471
	-		-

As at December 31, 2021, no deferred income tax asset has been recognized on approximately 10,596,000 and $10,794,000 of Federal and Provincial tax loss carryforwards, respectively and on approximately $2,157,000 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	136,000	136,000	-
2031	420,000	414,000	-
2032	373,000	373,000	-
2033	243,000	243,000	-
2034	502,000	502,000	-
2035	2,551,000	2,551,000	-
2036	1,465,000	1,465,000	-
2037	1,478,000	1,478,000	750,000
2038	1,288,000	1,492,000	-
2039	804,000	804,000	-
2040	945,000	945,000	-
2041	362,000	362,000	-
No expiry			1,407,000
Total	10,596,000	10,794,000	2,157,000

As at December 31, 2021, the Company had approximately $98,000 of unused Federal tax and $67,000 of unused United States tax credits that are not recognized in the consolidated financial statements. Those unused Federal tax credits will expire between 2026 and 2033 and those unused United States tax credits will expire between 2038 and 2040.

As at December 31, 2021, the Company had other deductible temporary differences of approximately $1,144,000 for the Federal, $1,147,000 for the Provincial and $3,093,000 in the United States (expressed in Canadian dollars) for which no deferred income tax asset is recognized.

(in Canadian dollars, except as otherwise noted)

18. Operating Expenses

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

	Note	2021 $	2020 $
Wages and salaries		**6,853,415**	4,916,626
Credit on qualifying wages		**(100,320)**	(128,987)
Stock-based compensation		**150,213**	137,345
Depreciation of right-of-use assets	9	**228,780**	195,541
Rental liability interest expense	9	**68,225**	54,014
Rental expense		**138,152**	148,467
Insurance		**173,757**	179,924
Amortization of transaction costs – financing credit facilities	11	**99,569**	662,409
Bank charges		**132,301**	206,723
Professional fees		**308,071**	162,379
Legal and accounting fees		**694,179**	1,383,682
Business fees and licences		**28,414**	125,001
Travel and entertainment		**79,818**	58,715
Telecommunications		**88,808**	82,438
Data services and IT costs		**1,234,103**	770,323
Advertising and promotion		**686,398**	440,352
Depreciation and amortization		**89,000**	118,402
Other		**230,655**	147,248
Revaluation of convertible debenture		**-**	29,825
Net loss on redemption of convertible debentures	12	**22,498**	-
PPP loan forgiveness, wage subsidies and employment retention credits (1) (2) (3)		**(2,381,078)**	(1,012,331)
Credit facility termination and exit fees	11	**-**	342,032
Total Operating Expenses		**8,824,958**	9,020,128

(1) On May 11th, 2020, the Company received funds from the US Small Business Administration (SBA) through the Payroll Protection Program ("PPP") 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 and, as such, the Company recognized the PPP loan forgiveness and wage subsidies as a reduction to operating expenses in 2020.

(in Canadian dollars, except as otherwise noted)

(2) On April 16th, 2021, the Company received additional funds from the US Small Business Administration (SBA) through the PPP in the amount of US$699,800. All the forgiveness criteria for the loan was met in 2021 and, as such, the Company recognized the PPP loan forgiveness as a reduction to operating expenses in 2021.

(3) Additional non-recurring gain in 2021 relates to the recognition of the US Employee Retention Credit of US$1.2 million (refer to note 6).

19. Supplemental Cash Flow Information

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

	Note	2021 $	2020 $
Depreciation of equipment and leasehold improvements	7	**64,784**	61,665
Amortization of intangible assets	8	**24,216**	56,737
Amortization of servicing assets	20	**5,177,397**	3,004,811
Amortization of right-of-use asset	9	**228,780**	137,441
Additions to right-of-use asset	9	**(270,223)**	-
Derecognition of right-of-use asset	9	**497,831**	-
Additions to lease liability	9	**270,223**	-
Additions to lease receivable	9	**(528,971)**	-
Stock-based compensation	18	**150,213**	137,345
Interest revenue		**(467,037)**	(11,815,590)
Net gain recognized on sale of loans		**(9,096,036)**	(3,544,205)
Amortization of transaction costs – financing credit facility	11	**99,569**	662,409
Accumulated accreted interest on redeemed convertible debentures		**(228,135)**	-
Accelerated amortization of unamortized transaction cost due to redemption of convertible debentures		**250,632**	-
		(3,826,757)	(11,299,387)

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

	2021 $	2020 $
Sales taxes receivable	**(103,398)**	(25,875)
Commercial loans receivable	**(196,173,714)**	(38,856,682)

(in Canadian dollars, except as otherwise noted)

Service fees receivable	**(1,084,994)**	(283,216)
Other receivables	**(4,230,568)**	(110,774)
Prepaid and deposits	**(347,191)**	21,886
Accounts payable and accrued liabilities	**637,156**	(25,335)
	(201,302,709)	(39,279,996)

20. 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 Management Inc ("PMI"). PMI which is indirectly owned by The Marleau Capital Corporation ("MCC"). Philippe Marleau, a director of the Company, holds a significant number of shares of MCC which has significant influence over the Company. The terms of this lease are similar to those that would have been present for an arm's-length transaction. The amount of $114,406 is expensed as rental expense for the period (2020: rent expense of $122,874). 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 $1,682,028.

ii) The Company sells loans to funds managed by NB Specialty Finance Fund LP who has significant influence over the Company. In 2021, the Company sold loans in the amount of US$41.8 million (2020: US$4.1 million) and earned service fees of $2.0 million (2020: $23,815) and recorded service fees and purchase price receivables in the amount of $4 million as at December 31, 2021 (2020: $283,216).

Key Management Compensation

	2021 **$**	2020 $
Salaries and other short-term employee benefits	**820,926**	749,925
Stock-based payments	**97,076**	92,483
	918,002	842,408

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:

(in Canadian dollars, except as otherwise noted)

21. 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:

	2021			2020		
	Lending $	**Servicing $**	**Total $**	Lending $	Servicing $	Total $
Revenue						
Interest revenue	**986,092**	**-**	**986,092**	11,815,590	-	11,815,590
Other fees	**1,964,914**	**-**	**1,964,914**	883,204	-	883,204
Servicing fees	**-**	**6,048,422**	**6,048,422**	-	3,746,601	3,746,601
Accelerated recognition of transaction costs on loans sold	**-**	**2,078,030**	**2,078,030**	-	686,937	686,937
Amortization of servicing assets	**-**	**(5,177,397)**	**(5,177,397)**	-	(3,004,811)	(3,004,811)
Gain on sale of loans	**-**	**7,018,006**	**7,018,006**	-	2,857,268	2,857,268
Gross Revenue	**2,951,006**	**9,967,061**	**12,918,067**	12,698,794	4,285,995	16,984,789

(in Canadian dollars, except as otherwise noted)

22. Revision of Financial Information

The Company has revised certain financial information related to convertible debentures, that was previously included in the financial statements for the year ended December 31, 2020. At December 31, 2020, convertible debentures were understated by $410,673 due to an error in the carrying amount at amortised cost calculated using the effective interest method.

The related corrections as at December 31, 2020 are noted in the 'Revision' column in the following table:

	December 31, 2020 as previously reported	Revision due to error	Revised December 31, 2020
	$	$	$
Liabilities			
Convertible debentures	10,404,569	410,673	10,815,242
Total Liabilities	13,153,234	410,673	13,563,907
Shareholders' Equity			
Deficit	(23,212,173)	(410,673)	(23,622,846)
Total Shareholders' Equity	12,018,659	(410,673)	11,607,986

The impact of the error on the consolidated statements of comprehensive income (loss) and consolidated statements of cash flows was negligible for the year ended December 31, 2020.

23. Event after the reporting date

The Company repurchased approximately $1.2 million of its convertible debentures in the capital of the Company (the "Debentures") at par. Such transactions were carried out pursuant to repurchase agreements entered into with individual holders of Debentures and brings the total repurchases to $4.9 million as of April 27, 2022, leaving approximately $6.8 million of outstanding principal value of Debentures which mature December 2023.