

Propel Holdings Inc.
Condensed Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2021

Propel Holdings Inc.

Condensed interim consolidated statements of financial position (unaudited)

As at (in US dollars) September 30, 2021 and December 31, 2020

		<u>September 30, 2021</u>	<u>December 31, 2020</u>
	Note		
Assets			
Cash		3,413,502	5,245,917
Restricted cash	4	9,591,558	7,875,106
Loans and advances receivable	5	77,216,368	51,577,558
Other receivables		2,105,708	1,791,145
Prepays	7	720,638	450,959
Derivative financial instruments	8	38,097	352,937
Property and equipment	9	689,629	507,718
Deferred tax assets		4,294,844	3,196,258
Right-of-use assets	11	2,516,706	2,980,458
Intangible assets	10	5,068,742	5,074,777
Total assets		<u>105,655,792</u>	<u>79,052,833</u>
Liabilities			
Accounts payable	12	1,502,243	2,737,421
Accrued liabilities	12	9,858,482	8,752,679
Income taxes payable		6,059,877	5,135,619
Term loans		-	11,195,703
Lease Liabilities	11	3,179,670	3,536,260
Deferred tax liabilities		1,290,140	1,179,687
Credit facilities	13	56,850,000	38,100,000
Total liabilities		<u>78,740,412</u>	<u>70,637,369</u>
Shareholders' equity			
Share capital	14	20,116,897	4,881,037
Retained earnings		6,719,459	3,469,653
Contributed surplus	15	79,024	64,774
Total Shareholders' Equity		<u>26,915,380</u>	<u>8,415,464</u>
Total Liabilities and Shareholders' Equity		<u>105,655,792</u>	<u>79,052,833</u>

Approved on behalf of the Board

(signed) "Clive Kinross" _____, Director

(signed) "Michael Stein" _____, Director

Propel Holdings Inc.
Condensed interim consolidated statements of operations
and comprehensive income (unaudited)

For the three and nine month periods ended (in US dollars) September 30, 2021 and September 30, 2020

	Note	3 Months-Ended Sep-21	3 Months-Ended Sep-20	9 Months-Ended Sep-21	9 Months-Ended Sep-20
Revenue	6	32,742,895	16,468,013	88,471,249	51,022,187
Provision for loan losses and other liabilities	5	15,420,843	4,668,724	33,175,000	13,618,114
Operating expenses					
Acquisition and data		6,201,683	2,768,863	14,684,904	7,546,134
Salaries, wages and benefits	16, 18	5,240,934	2,372,433	14,630,381	8,881,511
General and administrative		1,184,597	551,224	2,902,125	1,942,545
Processing and technology		1,571,133	899,512	4,148,219	2,277,733
Total operating expenses		14,198,347	6,592,032	36,365,629	20,647,923
Operating income		3,123,705	5,207,257	18,930,620	16,756,150
Other income (expenses)					
Interest and fees on credit facilities	13	(1,212,845)	(456,164)	(3,237,909)	(1,601,395)
Interest on term loans		-	(446,542)	(886,852)	(1,287,558)
Interest expense on lease liabilities	11	(106,564)	(114,941)	(334,008)	(356,929)
Amortization of intangible assets	10	(493,375)	(441,239)	(1,529,846)	(1,236,002)
Depreciation of property and equipment	9	(25,186)	(38,211)	(87,191)	(127,064)
Amortization of right-of-use assets	11	(159,629)	(179,090)	(502,129)	(536,154)
Foreign exchange gain (loss)		197,830	(38,912)	224,826	(96,545)
Unrealized gain (loss) on derivative financial instruments	8	(148,960)	-	(314,841)	-
Total other income (expenses)		(1,948,729)	(1,715,099)	(6,667,950)	(5,241,647)
Income before transaction costs and income tax		1,174,976	3,492,158	12,262,670	11,514,503
Transaction costs		323,216	-	323,216	-
Income tax expense (recovery)					
Current		638,246	1,395,299	4,152,089	2,455,510
Deferred		(412,530)	(469,877)	(988,133)	595,833
Net income for the period		626,044	2,566,736	8,775,498	8,463,160
Weighted average number of shares outstanding (post 2:1 share capital split Oct 19, 2021):					
Basic		26,904,134	23,527,798	25,171,028	23,501,658
Diluted		27,480,752	24,232,468	25,728,816	24,217,468
Earnings per share (post 2:1 share capital split Oct 19, 2021):					
Basic		\$ 0.02	\$ 0.11	\$ 0.35	\$ 0.36
Diluted		\$ 0.02	\$ 0.11	\$ 0.34	\$ 0.35
Weighted average number of shares outstanding (pre 2:1 share capital split Oct 19, 2021):					
Basic		13,452,067	11,763,899	12,585,514	11,750,829
Diluted		13,740,376	12,116,234	12,864,408	12,108,734
Earnings per share (pre 2:1 share capital split Oct 19, 2021):					
Basic		\$ 0.05	\$ 0.22	\$ 0.70	\$ 0.72
Diluted		\$ 0.05	\$ 0.21	\$ 0.68	\$ 0.70

Propel Holdings Inc.

Condensed interim consolidated statements of cash flows (unaudited)

For the three and nine month periods ended (in US dollars) September 30, 2021 and September 30, 2020

		3 Months-Ended	3 Months-Ended	9 Months Ended	9 Months Ended
		September 30 2021	September 30 2020	September 30 2021	September 30 2020
	Note				
Cash flows from (used in) operating activities					
Net income		626,044	2,566,736	8,775,498	8,463,160
Items not affecting cash:					
Provision for loan losses	5	14,742,312	4,431,498	31,626,323	13,751,757
Net change in unrealized gain from fair value of derivative financial instruments	8	148,961	72,484	314,840	72,484
Deferred income tax expense (recovery)		(412,530)	(469,877)	(988,133)	595,833
Amortization of deferred acquisition and data costs		1,279,533	396,355	3,454,743	1,233,862
Depreciation of property and equipment	9	25,186	38,211	87,191	127,064
Amortization of intangible assets	10	493,375	441,239	1,529,846	1,236,003
Amortization of right-of-use assets	11	159,628	179,089	502,129	536,153
Share-based compensation	15	4,750	-	14,250	-
		<u>17,067,259</u>	<u>7,655,735</u>	<u>45,316,687</u>	<u>26,016,316</u>
Changes in:					
Restricted cash		(1,132,984)	(1,600,830)	(1,716,452)	828,423
Prepays	7	(191,830)	(56,102)	(269,679)	255,992
Deferred acquisition and data costs	5	(1,491,978)	(915,574)	(4,404,172)	(1,864,148)
Other receivables		(446,924)	(212,258)	(314,563)	(98,554)
Income taxes recoverable/payable		522,651	1,187,079	924,258	2,445,000
Accounts payable and accrued liabilities		(82,788)	1,679,643	216,157	(4,487,194)
Net additions of loans and advances receivable	5	(26,426,773)	(14,166,423)	(60,631,108)	(23,523,449)
Principal recoveries	5	1,896,699	1,216,119	4,315,404	3,551,508
Net cash from (used in) operating activities		(10,286,668)	(5,212,611)	(16,563,468)	3,123,894
Cash flows from (used in) financing activities					
Advances from credit facilities	13	9,000,000	7,500,000	18,750,000	13,000,000
Payments on credit facilities	13	-	-	-	(14,000,000)
Advances (repayments) from term loans		-	32,254	(11,195,703)	1,803,902
Payments on lease liabilities	11	(237,297)	(244,750)	(740,499)	(747,236)
Dividends paid		(672,913)	(826,397)	(5,525,692)	(826,397)
Proceeds from shares issued	15	-	-	14,999,849	-
Proceeds from options exercised	15	58,352	14,300	236,011	14,310
Net cash from (used in) financing activities		8,148,142	6,475,407	16,523,966	(755,421)
Cash flows from (used in) investing activities					
Purchases of property and equipment	9	(25,786)	(24,442)	(269,102)	(256,918)
Cost of internally generated intangible assets	10	(725,507)	(450,000)	(1,523,811)	(1,350,000)
Net cash from (used in) investing activities		(751,293)	(474,442)	(1,792,913)	(1,606,918)
Net change in cash		(2,889,819)	788,354	(1,832,415)	761,555
Cash, beginning of period		6,303,321	6,176,096	5,245,917	6,202,895
Cash, end of period		3,413,502	6,964,450	3,413,502	6,964,450
Supplemental cash flow information					
Interest received		4,196,753	3,821,425	13,067,923	15,694,856
Interest paid		1,117,461	873,596	4,131,539	3,303,965
Income taxes paid		-	-	3,150,734	-

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

Propel Holdings Inc.

Condensed interim consolidated statements of changes in equity (unaudited)

For the nine months ended (in US dollars) September 30, 2021 and September 30, 2020

	Share Capital	Contributed surplus	Retained earnings	Total equity
Balance as at December 31, 2020	4,881,037	64,774	3,469,653	8,415,464
Net income for the period	-	-	8,775,498	8,775,498
Transactions recorded directly in equity				
Dividends declared and paid	-	-	(5,525,692)	(5,525,692)
Share-based payment transactions	-	14,250	-	14,250
Shares issued	14,999,849	-	-	14,999,849
Options exercised	236,011	-	-	236,011
Balance as at September 30, 2021	20,116,897	79,024	6,719,459	26,915,380
	Share Capital	Contributed surplus	Retained earnings	Total equity
Balance as at December 31, 2019	4,743,332	69,791	(1,197,054)	3,616,069
Net income for the period	-	-	8,463,160	8,463,160
Transactions recorded directly in equity				
Dividends declared and paid	-	-	(826,397)	(826,397)
Share-based payment transactions	-	-	-	-
Shares issued	-	-	-	-
Options exercised	14,310	-	-	14,310
Balance as at September 30, 2020	4,757,642	69,791	6,439,709	11,267,142

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

Propel Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

1. Incorporation and operations

Propel Holdings Inc. (the "Company"), was incorporated under the Business Corporations Act (Ontario) on June 16, 2011 and its head office is located in Toronto, Ontario, Canada.

The Company is a leading financial technology company, committed to credit inclusion and helping underserved consumers by providing fair, fast, and transparent access to credit with exceptional service. The Company operates through its two brands: *MoneyKey* and *CreditFresh*.

The Company, through its MoneyKey brand, is a state-licensed direct lender and currently offers either Installment Loans or Lines of Credit to new customers in several US states. The type of product offered in each state are dependent on the specific regulatory requirements within each operational state. As of September 30, 2021, the Company, through its MoneyKey brand, offered products as a state-licensed direct lender in 10 states across the US.

The Company, through its MoneyKey brand, is also a state-licensed Credit Access Business ("CAB") and Credit Services Organization ("CSO") in the state of Texas. Through its CSO programs, the Company provides services related to unaffiliated third-party lenders' consumer loan products in accordance with applicable state laws. These services include arranging loans, assisting in the preparation of loan applications and documents, and providing guarantees of consumer loan payment obligations to the unaffiliated third-party lender in the event that the customer defaults on their loan payments ("CSO Guarantee Liabilities").

The Company, through its MoneyKey brand, also operates as a servicer which provides marketing, analytics, and loan servicing services to an unaffiliated non-bank financial institution ("NBF1"). The NBF1 has a program agreement with a Federal Deposit Insurance Corporation (FDIC) insured Utah state-chartered bank ("NBF1 Bank Partner" and together with NBF1, "Bank Service Partners") to whom it provides certain services, some of which have been outsourced by the NBF1 to the Company. The NBF1 Bank Partner offers unsecured open-ended lines of credit ("the "Bank Service Program"). The Company provides, among other things, technology and underwriting services required for the Bank Service Program. The NBF1 Bank Partner approves all key decisions regarding the marketing, underwriting, product features and pricing of the Bank Service Program. Under the program, the Company also entered an agreement to purchase loans originated through the Bank Service Program should the loans default or become non-performing ("Bank Service Program Liability"). As of September 30, 2021, the Bank Service Program was offered in 10 states across the US and is regulated by the FDIC and other bank regulators.

The Company, through its CreditFresh brand, operates as a bank servicer which provides marketing, technology, and loan servicing services to unaffiliated, FDIC insured, state-chartered banks in the US ("Bank Program"). As of September 30, 2021, the Company maintained two Bank Programs with a Kansas state-chartered, FDIC insured, bank and a Utah state-chartered, FDIC insured, bank ("Bank Partner(s)"). Through the Bank Program, the Bank Partner offers unsecured open-ended lines of credit and is the sole originator of such lines of credit. The Bank Partner licenses technology, proprietary credit decisioning and underwriting capabilities from the Company and approves all key decisions regarding the marketing, underwriting, product features and pricing of the lines of credit offered through the Bank Program. A Delaware Statutory Trust (the "DST" and "DST II") has the obligation to purchase an economic interest in the principal balances of the lines of credit originated by the Bank Partner (such purchased economic interest referred to as "Bank Program Advances") once offered by such Bank Partner. The Company, through its wholly owned subsidiaries, has the sole beneficial interest in the DST and DST II. As of September 30, 2021, the CreditFresh Bank Program was offered in 18 states across the US and is regulated by the FDIC and other bank regulators.

Pursuant to the Bank Program agreements, the Bank Partners earn all program fees during the mutually agreed upon period of time prior to any offer being made to the Issuer. Following the purchase by the DST of the loan and advance receivable, the Bank Partners continue to hold legal title to the loan and maintain the relationship with the customer, which includes the funding of any future advances under the line of credit. The DST acquires an economic interest in the line of credit advances and the Company records the same as a loan and advance receivable on its balance sheet. Additionally, the Bank Partners continue to earn a trailing fee calculated based on the amounts collected by the DST.

Propel Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

2. Basis of preparation

Statement of compliance

The unaudited condensed interim consolidated financial statements for the nine-month period ended September 30, 2021 was prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Company's audited annual consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read together with the audited annual consolidated financial statements.

These interim condensed consolidated financial statements for the period ended September 30, 2021, were authorized for issue by the Company's Board of Directors on November 12, 2021.

Functional and presentation currency

These interim condensed consolidated financial statements are presented in US dollars, which is the Company's, and all of its wholly owned subsidiaries' functional currency and presentation currency.

Significant Accounting Judgements, Estimates and Assumptions

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

- Continued impact of COVID-19

Throughout the COVID-19 pandemic, the Company has been closely monitoring all related developments and managing any potential impact on the business. Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, and the unpredictable and continuously changing nature of the pandemic and related government responses, there is uncertainty associated with the related assumptions, expectations, and estimates.

At this time, the long-term impact of the COVID-19 outbreak on the Company is unknown. Despite the global economy beginning to reopen, the extent of the impact will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the spread of the disease from current, new, and emerging variants of the virus which may have an impact on the overall global economy. Management continues to monitor the impact of the virus on the Company and our customer base. The COVID-19 virus continues to be a source of uncertainty with respect to managements significant judgements and estimates.

3. Future Changes in Accounting Policies

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the current fiscal year, and have not been applied in preparing our consolidated financial statements. Future changes to our existing accounting policies and other note disclosures may result. The Company is assessing the impact these new pronouncements may have on its results of operations, financial position and disclosure.

Propel Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

3. Future Changes in Accounting Policies (continued)

Initial application of standards, interpretations and amendments to standards and interpretations

Interest rate benchmark reform (amendments to IFRS 9, IFRS 4, and IFRS 16)

In August 2020, the International Accounting Standards Board issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments:

Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The amendments are effective for periods beginning on or after January 1, 2021.

Standards issued but not effective

Classification of liabilities as current or non-current (Amendments to IAS 1)

In January 2020, IASB issued Classification of Liabilities as “Current” or “Non-current”, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Cost of Fulfilling a contract (Amendments to IAS 37)

In May 2020, amendments to IAS 37, clarified which costs should be included in determining the cost of fulfilling a contract when assessing whether a contract is onerous. In assessing whether a contract is onerous, cost of fulfilling a contract comprise both of (i) incremental costs and (ii) an allocation of other direct costs. The amendments are effective for annual periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. Early adoption is permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

Presentation of Financial Statements (amendments to IFRS 1)

In February 2021, the International Accounting Standards Board issued narrow-scope amendments to IAS 1, Presentation of Financial Statements, IFRS Practice Statement 2, Making Materiality Judgements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application is permitted.

Income taxes (amendments to IAS 12)

In May 2021, the International Accounting Standards Board issued targeted amendments to IAS 12, Income Taxes. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application is permitted.

The Company has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

4. Restricted cash

Restricted cash is comprised of (a) reserves held as a form of collateral by unaffiliated third-party lenders (for CSO programs), Bank Partner, Bank Service Partners, banks, trustees, and payment processors for processing payments, and (b) funds held in restricted accounts for the benefit of credit facility lenders. Such restricted cash is redeemable when the stipulations for release within the related agreements have been met. As of September 30, 2021, the restricted cash balance was \$9,591,588 (December 31, 2020 - \$7,875,106).

5. Loans and advances receivable

Loans and advances receivable are comprised of gross consumer loans receivable (including installment loans, line of credit (LOC) advances, Bank Program Advances, and non-performing loans originated through the Bank Service Program), fees and interest receivable on such loans and advances, allowance for credit losses, and deferred acquisition and data costs. Allowance for credit losses consists of the expected credit losses ("ECLs") of the associated loans and advance receivables based on their portfolio and stages. The term of the loans and advances varies based on compliance with individual state regulations applicable to each type of product. Deferred acquisition and data costs consist of costs that are directly attributable to originated loans and are deferred and expensed over the estimated term of the related customer. Amortization of deferred acquisition and data costs was \$3,454,743 for the 9 months ended September 30, 2021 (September 30, 2020 - \$1,233,862) and is included in acquisition and data expense on the consolidated statement of operations and comprehensive income.

A breakdown of the Company's Loans and advances receivable balance is as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Gross Loans and advances receivable	84,118,425	56,839,547
Fees receivable	7,696,996	4,107,793
Interest receivable	1,379,165	1,154,388
Allowance for credit losses	(19,809,595)	(13,406,118)
Deferred acquisition and data costs	3,831,377	2,881,948
	<u>77,216,368</u>	<u>51,577,558</u>

The allocation of the Company's gross loans and advances receivable by product type is as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Bank Program Advances (CreditFresh)	68,527,357	42,785,266
Installment loans and LOC advances (MoneyKey)	14,868,276	13,906,344
Bank Service Program Advances (MoneyKey)	722,792	147,937
	<u>84,118,425</u>	<u>56,839,547</u>

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

5. Loans and advances receivable (continued)

Bank Program Advances and Bank Service Program Advances above all consist of open-ended lines of credit with no specific maturity date. LOC advances of \$4,783,011 (December 31, 2020 - \$5,006,417) are also open-ended lines of credit with no specific maturity date. Management expects to realize materially all of these assets within a 12-month period from the reporting date. Installment loans of \$8,630,054 (December 31, 2020 - \$8,899,927) will mature within a 12-month period.

Classification of the gross loans and advances receivable by stage is as follows:

	September 30, 2021			Total
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	
Installment loans and LOC advances (MoneyKey)	10,642,514	2,799,703	1,426,059	14,868,276
Bank Program Advances (CreditFresh)	58,590,715	6,500,266	3,436,376	68,527,357
Bank Service Program Advances (MoneyKey)	-	-	722,792	722,792
	69,233,229	9,299,969	5,585,227	84,118,425

	December 31, 2020			Total
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	
Installment loans and LOC advances (MoneyKey)	9,761,370	2,729,362	1,415,612	13,906,344
Bank Program Advances (CreditFresh)	37,830,244	3,710,064	1,244,958	42,785,266
Bank Service Program Advances (MoneyKey)	-	-	147,937	147,937
	47,591,614	6,439,426	2,808,507	56,839,547

	As at September 30, 2021		
	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
0-30	6,613,450	429,255	7,042,705
31-60	1,823,351	2,630,974	4,454,325
61-90	447,017	2,022,178	2,469,195
91-120	100,219	357,378	457,597
120+	315,932	145,442	461,374
	9,299,969	5,585,227	14,885,196

	As at December 31, 2020		
	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
0-30	4,837,305	246,995	5,084,300
31-60	1,119,943	1,462,287	2,582,230
61-90	137,471	821,508	958,979
91-120	65,711	170,936	236,647
120+	278,996	106,780	385,776
	6,439,426	2,808,507	9,247,933

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the periods ended September 30, 2021 and 2020 (in US dollars)

5. Loans and advances receivable (continued)

An analysis of the changes in the classification of gross consumer loans receivable is as follows:

	Nine Months Ended September 30, 2021			Total
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	
Balance as at January 1, 2021	47,591,614	6,439,426	2,808,507	56,839,547
Additions to gross loans receivable	110,551,225	4,218,615	3,714,441	118,484,281
Principal payments and other adjustments	(57,647,822)	(3,448,199)	(571,132.00)	(61,667,153)
Transfers to (from)	-	-	-	-
Stage 1 (Performing)	(40,316,205)	40,316,205	-	-
Stage 2 (Under-Performing)	9,054,417	(9,054,417)	-	-
Stage 3 (Non-Performing)	-	(29,171,661)	29,171,661	-
Gross charge offs	-	-	(29,538,250)	(29,538,250)
Balance as at September 30, 2021	69,233,229	9,299,969	5,585,227	84,118,425

	Year ended December 31, 2020			Total
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	
Balance as at January 1, 2020	24,026,155	5,985,950	3,202,360	33,214,465
Additions to gross loans receivable	81,802,823	7,196,924	221,602	89,221,349
Principal payments and other adjustments	(34,411,696)	(3,798,176)	(1,326,621.00)	(39,536,493)
Transfers to (from)	-	-	-	-
Stage 1 (Performing)	(29,392,882)	29,392,882	-	-
Stage 2 (Under-Performing)	5,567,214	(5,567,214)	-	-
Stage 3 (Non-Performing)	-	(26,770,940)	26,770,940	-
Gross charge offs	-	-	(26,059,774)	(26,059,774)
Balance as at December 31, 2020	47,591,614	6,439,426	2,808,507	56,839,547

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
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For the periods ended September 30, 2021 and 2020 (in US dollars)

5. Loans and advances receivable (continued)

An analysis of the changes in the classification of the allowance for credit losses is as follows:

	Nine Months Ended September 30, 2021			Total
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	
Balance as at January 1, 2021	7,441,773	3,520,869	2,443,476	13,406,118
Additions to loans receivable	18,939,659	2,490,084	3,096,061	24,525,804
Principal payments and other adjustments	(8,481,240)	(1,914,266)	(495,515)	(10,891,021)
Remeasurement of allowance before transfers	(1,866,818)	-	-	(1,866,818)
Transfers to (from) including remeasurement				
Stage 1 (Performing)	(6,616,584)	21,490,269	-	14,873,685
Stage 2 (Under-Performing)	652,769	(4,453,938)	-	(3,801,169)
Stage 3 (Non-Performing)	-	(16,171,074)	24,537,733	8,366,659
Net amounts written off against allowance	-	-	(24,803,663)	(24,803,663)
Balance as at September 30, 2021	10,069,559	4,961,944	4,778,092	19,809,595

	Year ended December 31, 2020			Total
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	
Balance as at January 1, 2020	5,046,916	3,473,467	2,825,414	11,345,797
Additions to loans receivable	14,725,079	4,599,968	183,176	19,508,223
Principal payments and other adjustments	(5,262,426)	(2,138,645)	(1,172,190)	(8,573,261)
Remeasurement of allowance before transfers	(1,793,006)	(22,899)	-	(1,815,905)
Transfers to (from) including remeasurement				
Stage 1 (Performing)	(5,788,232)	15,913,116	-	10,124,884
Stage 2 (Under-Performing)	513,442	(2,772,316)	-	(2,258,874)
Stage 3 (Non-Performing)	-	(15,531,822)	22,720,092	7,188,270
Net amounts written off against allowance	-	-	(22,113,016)	(22,113,016)
Balance as at December 31, 2020	7,441,773	3,520,869	2,443,476	13,406,118

Changes in allowance for credit losses were as follows:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Balance at beginning of period	13,406,118	11,345,797
Charge-offs	(29,538,250)	(20,344,316)
Recoveries	4,315,404	3,551,508
Provision for Loan Losses	31,626,323	13,751,757
Balance at end of period	19,809,595	8,304,746

Propel Holdings Inc.
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5.Loans and advances receivable (continued)

Provisions for loan losses and other liabilities is as follows:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Provision for loan losses	31,626,323	13,751,757
Other lending program costs	310,050	281,801
Provision for CSO Guarantee liabilities (MoneyKey)	127,894	(454,736)
Provision for Bank Service Program liabilities (MoneyKey)	1,110,733	39,292
Total Provision for loan losses and other liabilities	33,175,000	13,618,114

Breakdown of Provision for Loan Losses:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Provision for loan losses on Installment loans and LOC advances (MoneyKey)	11,240,247	7,487,838
Provision for loan losses on Bank Program Advances (CreditFresh)	20,386,076	6,263,919
Total Provision for loan losses	31,626,323	13,751,757

As of September 30, 2021, the outstanding amount of active installment loans originated by an unaffiliated third party lender under the CSO programs was \$3,204,174 (2020 - \$2,487,802), for which the risk of customer default is guaranteed by the Company. As of September 30, 2021, the outstanding amount of active line of credit advances originated by NBF Bank Partner under the Bank Service Program ("Bank Service Program Advances") was \$9,519,178 (2020 - \$3,316,385). These CSO loans and Bank Service Program Advances are not included in the tables above and are not included on the Company's interim condensed statement of financial position.

	Nine Months Ended September 31, 2021	Nine Months Ended September 31, 2020
<u>CSO Program Products (MoneyKey)</u>		
Revenue	8,362,429	11,964,425
Loans and Advance receivables (On Balance Sheet)	1,383,742	1,205,548
CSO Guarantee Liability	788,523	617,948
CSO Obligation	2,172,027	2,968,956
Installment loan borrower balances (Off Balance Sheet)	3,204,174	2,493,102
Reserve balances (Reflected in Company's Restricted cash)	1,949,455	2,005,365
<u>Bank Service Program Advances (MoneyKey)</u>		
Revenue	6,396,659	2,478
Loan and Advances receivable (On Balance Sheet)	722,792	-
Bank Service Program Guarantee Liability	1,689,814	39,292
Line of credit borrower balances (Off Balance Sheet)	9,519,178	280,498
Reserve balances (Reflected in Company's Restricted cash)	1,628,038	-

Propel Holdings Inc.

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5. Loans and advances receivable (continued)

The Company's measurement of ECLs is influenced by forward looking indicators (FLIs) which include the impact of macroeconomic forces on the business as well as internal portfolio constitution and operational factors. With respect to macroeconomic forces, consideration is given to variables such as GDP growth, unemployment rate, inflation rate, and oil prices that have an influence on the business. In light of the COVID-19 pandemic, further analysis is conducted on the possibility of a prolonged economic recession as well as the continued availability of government subsidies to our customer segment. Portfolio constitution and operational factors at period end have an impact on the go forward performance of loans and advances receivable and consequently ECLs in so far as how such factors have evolved, changed, or been modified relative to the prior period. An analysis is then performed to assess the impact of such factors on i) changes in accounts going into delinquency and ii) changes in the efficiency of curing delinquent accounts, and overall recoveries both of which consequently have an impact on the ECLs. As part of the process, 3 forward looking scenarios are developed 1) Optimistic; 2) Neutral; and 3) Pessimistic. The table below shows the impact of the FLIs under each scenario which is developed using a number of internally developed credit risk models. Management judgement is then applied to determine probability weightings to each of these scenarios to determine a probability weighted allowance for credit losses as of the reporting date.

Impact of Market Forces	Optimistic	Neutral	Pessimistic
Changes in accounts going into delinquency	2.0%	3.0%	5.5%
Changes in cure and recovery rates	-0.5%	-2.0%	-5.5%
Portfolio Constitution & Operational Forces			
Changes in accounts going into delinquency	-5.0%	-3.0%	0.0%
Changes in cure and recovery rates	3.0%	2.0%	0.0%

This assignment of probability weighting for the multiple scenarios using these FLIs involves, in addition to judgement, a robust internal modelling process, review, and analysis to arrive at a collective view on the likelihood of each scenario. If management were to assign a 100% probability to the Pessimistic scenario, the increase in the allowance for credit losses would be approximately \$2,451,673. Conversely, if 100% probability were to be assigned to the Optimistic scenario, the decrease in the allowance would be approximately \$1,225,836. Note, such sensitivity does not consider the proactive and reactive steps management would in reality action to alter exposure and/or modify credit risk to mitigate any potential impact to credit losses.

6. Revenue

Disaggregation of revenue:

	Three Months-Ended September 31, 2021	Three Months-Ended September 31, 2020	Nine Months-Ended September 31, 2021	Nine Months-Ended September 31, 2020
Fees from borrowers on purchased receivables (CreditFresh)	20,186,753	7,365,275	53,591,961	17,274,843
Interest from borrowers in direct lending (MoneyKey)	4,152,106	4,169,734	13,067,923	15,694,856
Fees from borrowers in direct lending (MoneyKey)	2,895,454	1,767,709	7,052,277	6,085,585
Fees from CSO program (MoneyKey)	2,516,334	3,162,817	8,362,429	11,964,425
Fees from Bank Service Program (MoneyKey)	2,992,248	2,478	6,396,659	2,478
	32,742,895	16,468,013	88,471,249	51,022,187

Propel Holdings Inc.

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For the periods ended September 30, 2021 and 2020 (in US dollars)

7. Prepaids

Prepaid expenses consist of operating costs that are expensed over the periods they benefit.

Prepaid costs are as follows:

	As at September 30, 2021	As at December 31, 2020
Prepaid expenses	720,638	450,959

8. Derivative financial instruments

The nature of the Company's business activities expose it to foreign currency risk. The Company has forward contracts available to reduce its exposure to foreign exchange rate fluctuations.

As at September 30, 2021, the Company had entered into forward exchange contracts with a financial institution that matures between October 29, 2021 and June 30, 2022 and obligates the Company to sell US\$8,600,000 at prevailing forward market exchange rates. The contracts were entered into by the Company for the purpose of managing its foreign exchange exposure on Canadian expenditures. As at September 30, 2021, the fair value of the Company's open foreign exchange forward contracts was in an unrealized gain position of approximately \$38,097 (December 31, 2020 - \$352,937 gain) based on the mark-to-market adjustment provided by the financial institution.

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
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9. Property and equipment

	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost				
Balance, December 31, 2020	469,286	732,949	500,539	1,702,774
Additions	3,338	44,981	220,783	269,102
Disposals	-	(20,975)	-	(20,975)
Balance, September 30, 2021	472,624	756,955	721,322	1,950,901
Accumulated depreciation and impairment				
Balance, December 31, 2020	375,097	662,080	157,879	1,195,056
Depreciation	33,043	48,142	6,006	87,191
Eliminated on disposals	-	(20,975)	-	(20,975)
Balance, September 30, 2021	408,140	689,247	163,885	1,261,272
Net book value				
Balance, December 31, 2020	94,189	70,869	342,660	507,718
Balance, September 30, 2021	64,484	67,708	557,437	689,629

	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost				
Balance, December 31, 2019	469,287	711,289	406,760	1,587,336
Additions	-	(11,522)	247,465	235,943
Disposals	-	-	-	-
Balance, September 30, 2020	469,287	699,767	654,225	1,823,279
Accumulated depreciation and impairment				
Balance, December 31, 2019	311,821	572,371	149,423	1,033,615
Depreciation	49,387	71,223	6,454	127,064
Eliminated on disposals	-	(20,975)	-	(20,975)
Balance, September 30, 2020	361,208	622,619	155,877	1,139,704
Net book value				
Balance, December 31, 2019	157,466	138,918	257,337	553,721
Balance, September 30, 2020	108,079	77,148	498,348	683,575

As of September 30, 2021, property and equipment with a cost of \$528,938 (December 31, 2020 - \$325,000) was not amortized as it was not in use.

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
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For the periods ended September 30, 2021 and 2020 (in US dollars)

10. Intangible assets

	Internally developed software
Cost	
Balance, December 31, 2020	8,314,145
Additions	1,523,811
Disposals	-
Balance, September 30, 2021	9,837,956
Accumulated amortization and impairment	
Balance, December 31, 2020	3,239,368
Amortization	1,529,846
Eliminated on disposals	-
Balance, September 30, 2021	4,769,214
Net book value	
Balance, December 31, 2020	5,074,777
Balance, September 30, 2021	5,068,742

	Internally developed software
Cost	
Balance, December 31, 2019	6,300,830
Additions	1,350,000
Disposals	-
Balance, September 30, 2020	7,650,830
Accumulated amortization and impairment	
Balance, December 31, 2019	1,666,072
Amortization	1,236,003
Eliminated on disposals	-
Balance, September 30, 2020	2,902,075
Net book value	
Balance, December 31, 2019	4,634,758
Balance, September 30, 2020	4,748,755

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
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11. Right-of-use assets and lease obligations

Right-of-use asset

Under IFRS 16, the recognition of assets and present value of all lease obligations not settled within one year as liabilities are presented on the interim condensed consolidated statements of financial position as right-of-use assets and lease liabilities. The Company's incremental borrowing rate of capital was determined to be 13% and was used as the discount rate for measuring the lease payments. The capitalized value of the assets on the transition date, as reflected in the interim condensed consolidated statements of financial position is listed below:

	ROU Asset
Cost	
Balance, January 1, 2021	4,800,276
Additions	38,377
Balance, September 30, 2021	4,838,653
Accumulated depreciation	
Balance, January 1, 2021	1,819,818
Charge for the period	502,129
Balance, September 30, 2021	2,321,947
Net book value	
Balance, January 1, 2021	2,980,458
Balance, September 30, 2021	2,516,706

	ROU Asset
Cost	
Balance, January 1, 2020	4,753,005
Additions	14,393
Balance, September 30, 2020	4,767,398
Accumulated depreciation	
Balance, January 1, 2020	1,102,881
Charge for the period	536,153
Balance, September 30, 2020	1,639,034
Net book value	
Balance, January 1, 2020	3,650,124
Balance, September 30, 2020	3,128,364

The Company's lease assets include office spaces and office equipment, with the majority made up of office space. The weighted average lease term is 6.5 years (December 31, 2020 - 7 years).

Propel Holdings Inc.
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11. Right-of-use assets and lease obligations (continued)

Lease liabilities

Carrying amount of lease liabilities are as follows:

	Lease Liability
Cost	
Balance, January 1, 2021	3,536,260
Additions	38,377
Interest	334,008
Payments	(740,499)
Foreign currency translation	11,524
Balance, September 30, 2021	3,179,670

Reported as:

Current:	
Balance, January 1, 2021	515,912
Balance, September 30, 2021	529,443
Non-current:	
Balance, January 1, 2021	3,020,348
Balance, September 30, 2021	2,650,227
Carrying amount	
Balance, January 1, 2021	3,536,260
Balance, September 30, 2021	3,179,670

	Lease Liability
Cost	
Balance, January 1, 2020	3,945,143
Additions	14,393
Interest	356,930
Payments	(747,236)
Foreign currency translation	56,157
Balance, September 30, 2020	3,625,387

Reported as:

Current:	
Balance, January 1, 2020	524,297
Balance, September 30, 2020	523,704
Non-current:	
Balance, January 1, 2020	3,420,846
Balance, September 30, 2020	3,101,683
Carrying amount	
Balance, January 1, 2020	3,945,143
Balance, September 30, 2020	3,625,387

Propel Holdings Inc.
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11. Right-of-use assets and lease obligations (continued)

The maturity analysis of lease liabilities is presented below:

	September 30, 2021
Year 1	529,443
Year 2	599,452
Year 3	644,066
Year 4	627,365
Year 5	713,962
Onwards	65,382
Total	3,179,670

12. Accounts payable and accrued liabilities

	September 30, 2021	December 31, 2020
Accounts Payable	1,502,243	2,737,421
Accrued Liabilities		
Other Accrued Liabilities	5,432,152	4,187,001
CSO Obligations	1,947,993	3,325,996
CSO Guarantee liabilities	788,523	660,600
Bank Service Program Liabilities	1,689,814	579,082
Total Accrued Liabilities	9,858,482	8,752,679

CSO Obligations are comprised of: a) principal and interest to which unaffiliated third-party lenders are entitled but which was collected by the Company on such third-party lender's behalf, b) unearned CSO fees advanced to the Company by unaffiliated third-party lenders on the consumer's behalf. CSO Guarantee liabilities are expected net losses on all originated CSO loans on which the Company is obligated to guarantee principal and interest (net of expected collections and recoveries on guaranteed loans transferred to the Company), which represents the estimated fair value of the guarantees at that date. The fair value of the CSO Guarantee liabilities are classified as Level 3 under IFRS 7. The allowance is included in accrued liabilities as the Company does not take title to the CSO loans and they are not included in the consolidated statements of financial position.

Bank Service Program Liabilities are comprised of expected net losses on all outstanding Bank Service Program Advances which the Company shall purchase upon default (non-performing), which represents the estimated fair value of the liabilities at that date. The fair value of the Bank Service Program liabilities are classified as Level 3 under IFRS 7. The allowance is included in accrued liabilities as the Company does not take title to the Bank Service Program Advances and they are not included in the consolidated statements of financial position.

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13. Credit facilities

	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
MoneyKey Facility		
Opening Balance	4,400,000	11,900,000
Advances from credit facility	3,900,000	2,900,000
Payments on credit facility	-	(10,400,000)
Ending Balance	8,300,000	4,400,000
CreditFresh Facility		
Opening Balance	33,700,000	7,900,000
Advances from credit facility	14,850,000	29,400,000
Payments on credit facility	-	(3,600,000)
Ending Balance	48,550,000	33,700,000
	56,850,000	38,100,000

Reported as:

	MoneyKey Facility	CreditFresh Facility	Total
Current:			
Balance, September 30, 2021	8,300,000	-	8,300,000
Balance, December 31, 2020	4,400,000	-	4,400,000
Non-current:			
Balance, September 30, 2021	-	48,550,000	48,550,000
Balance, December 31, 2020	-	33,700,000	33,700,000

MoneyKey Facility

In 2019, the Company amended its existing credit facility (the "MoneyKey Facility") which provided a borrowing limit of \$20,000,000 to be used to fund the Company's MoneyKey brand products. On August 24, 2021, the MoneyKey Facility was amended to extend the maturity from November 15, 2021 to May 15, 2022. The facility continues to bear interest at 10% plus the bank's three-month LIBOR rate per annum. The amount drawn on the facility as of September 30, 2021 was \$8,300,000 (December 31, 2020 - \$4,400,000). The MoneyKey facility is secured by a general security agreement over all of the assets of the Company, and the lender's agent on the credit facility is named as additional insured and loss payee of the Company's errors and omissions insurance policy of \$2,000,000 (2020 - \$2,000,000).

As at September 30, 2021, the maximum borrowing base under the MoneyKey Facility was approximately \$9,533,194 (December 31, 2020 - \$9,432,660).

Under the terms of the credit facility agreement, the Company is subject to certain financial and non financial covenants. As of September 30, 2021, the Company was in compliance with these covenants.

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13. Credit facilities (continued)

CreditFresh Facility

On March 24, 2021, DST and DST II jointly entered into a new unitranche credit facility (the “CreditFresh Facility”) which provides DST and DST II with a combined borrowing limit of \$120,000,000 (increased from \$45,000,000) to be used to fund the Company’s CreditFresh brand products. The CreditFresh Facility matures on March 23, 2024. The amount drawn on the CreditFresh Facility as of September 30, 2021 was \$48,550,000 (December 31, 2020 - \$33,700,000). The CreditFresh Facility is secured by a pledge of the beneficial interest certificate in the DST and DST II to the agent for the unaffiliated third-party lenders. The CreditFresh Facility replaced the previous CreditFresh facility upon close of this new facility.

As of September 30, 2021, the maximum borrowing base under the CreditFresh Facility was approximately \$54,334,490 (December 31, 2020 - \$36,494,014).

Under the terms of the CreditFresh Facility, the DST is subject to certain financial and non-financial covenants. As of September 30, 2021, the DST was in compliance with these covenants.

Under these credit facilities, for the 9 months ended September 30, 2021 the Company incurred interest expenses of \$2,299,136 (September 30, 2020 - \$1,460,852) and other fees related to the credit facilities of \$245,772 (September 30, 2020 - \$141,077) and is recorded as “interest and fees on credit facilities” on the interim condensed consolidated statements of operations

14. Share capital

Ordinary shares Authorized

Unlimited number of Common Shares and unlimited number of Class B Preferred Shares as at September 30, 2021.

Issued

As at September 30, 2021, the Company had (i) 24,113,392 Common Shares; and (ii) 2,803,118 Class B Preferred Shares, issued and outstanding (December 31, 2020 – (i) 12,800,000 Class A Common Shares; and (ii) 10,941,866 Class B Common Shares).

	Nine Months Ended		Year Ended	
	# of shares	\$	# of shares	\$
<u>Common and Preferred shares</u>				
Balance, opening	23,741,866	4,881,037	23,486,506	4,743,332
Common and Preferred shares issued	2,803,118	14,999,849	-	-
Transaction costs	-	-	-	-
Cancelled shares	-	-	-	-
Share-based payment transactions	-	-	-	-
Share options exercised	371,526	236,011	255,360	137,705
<u>Balance, closing</u>	<u>26,916,510</u>	<u>20,116,897</u>	<u>23,741,866</u>	<u>4,881,037</u>

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14. Share capital (continued)

In accordance with IAS 33 – Earnings per share, basic and diluted earnings per share amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the period after giving effect, on a retrospective basis, to share capital changes due to a share split that occurred as part of the initial public offering subsequent to October 19, 2021 as described in Note 19. The table below reflects the number of shares outstanding prior to the 2:1 share capital split October 19, 2021.

	Nine Months Ended September 30, 2021		Year Ended December 31, 2020	
	# of shares	\$	# of shares	\$
Common and Preferred shares				
Balance, opening	11,870,933	4,881,037	11,743,253	4,743,332
Common and Preferred shares issued	1,401,559	14,999,849	-	-
Transaction costs	-	-	-	-
Cancelled shares	-	-	-	-
Share-based payment transactions	-	-	-	-
Share options exercised	185,763	236,011	127,680	137,705
Balance, closing	13,458,255	20,116,897	11,870,933	4,881,037

15. Stock-based compensation

The Company has an employee stock option plan. The purpose of the plan is to advance the interests of the Company by encouraging key employees to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. The general terms of award under the plan provide that options in the common shares of the Company are granted to employees, officers, directors and consultants for their services. These options vest on a straight-line basis over 4 years and expire after a maximum of 10 years. Under the terms of the stock option plan, the number of shares reserved for issuance pursuant to the exercise of all options may not exceed 10% of the issued and outstanding common shares on a diluted basis at any time.

Options issued and outstanding are as follows:

	Nine Months Ended September 30, 2021		Year Ended December 31, 2020	
	Number of share options	Weighted average	Number of share options	Weighted average exercise
Outstanding at beginning of period	245,299	1.40	305,479	1.15
Granted during the period	483,916	10.70	67,500	1.50
Forfeited during the period	-	-	-	-
Exercised during the period	(185,766)	-	(127,680)	-
Outstanding at the end of the period	543,449	9.68	245,299	1.40
Exercisable at the end of the period	-	-	-	-

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15. Stock-based compensation (continued)

The weighted average share price at the date of exercise for share options exercised during the period was \$1.50. The options outstanding September 30, 2021, had a weighted average exercise price of \$9.68, and a weighted average remaining contractual life of 3.5 years. The aggregate of the estimated fair values of the options granted during the period was approximately \$2,144,758 (2020 - \$39,758). The inputs into the Black Scholes model are as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Weighted average share price	\$ 10.70	\$ 1.50
Weighted average exercise price	\$ 10.70	\$ 1.50
Expected volatility	69.50%	69.53%
Expected life (years)	4	4
Risk-free rate	1.09%	1.29%
Expected dividend yields	0.00%	0.00%

Expected volatility was determined by calculating the historical volatility of comparable companies' share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During the period, stock based compensation cost of \$14,250 (2020 - \$nil) was recognized in salaries, wages and benefits with a corresponding credit to contributed surplus. There were no forfeited or terminated options during the period (2020 – nil).

The Company operates and manages its business in one industry segment – providing lending related services to borrowers, banks, and other institutions in the US. The Company does not present segmented information as it has determined that its operations fall under this one segment and operates primarily in one geographic region. The chief operating decision maker ("CODM") is the Chief Executive Officer and Chief Financial Officer. The CODM makes decisions and assesses performance of the Company at the consolidated level.

Revenue for the period ended September 30, 2021 was earned fully in the US. All equipment and leased assets are domiciled in Canada.

17. Financial instruments and risk management

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed below.

Credit risk and concentration of credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, restricted cash, Loans and advances receivable, and CSO and Bank service program liabilities. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances. Cash is maintained with Canadian and US financial institutions. Deposits held with banks may exceed the amount of federal insurance provided on such deposits. Unless otherwise disclosed, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk. In relation to Loans and advances receivable and CSO and Bank service program liabilities, the Company closely monitors default rates and overall recovery per dollar funded for all credit products originated through the Company's proprietary technology platform. The Company, its non-bank, and/or Bank Partners adjust lending terms and policies as deemed necessary. The Company establishes an allowance for credit losses on all loans or advances originated through its proprietary technology platform in accordance with IFRS 9. The gross exposure to the Company for CSO and Bank service program amounts are disclosed in note 5 above. Under the CSO programs, as at September 30, 2021 the amount was \$3,204,174 (December 31, 2020 - \$2,487,802) and under the Bank Service Program the amount \$9,519,178 (December 31, 2020 - \$3,316,385). The associated maximum amount of credit risk exposure on such amounts are reflected in the CSO and Bank service program liabilities as outlined above.

Propel Holdings Inc.
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17. Financial instruments and risk management (continued)

The Company has a concentration of credit risk because substantially all of its Loans and advances receivable balance is comprised of unsecured small dollar, high interest/financing fee advances and loans to US customers with similar credit characteristics.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Company is exposed to interest rate cash flow risk on its credit facilities as it bears interest at a rate plus a base rate of three-month LIBOR (with a floor of 1%). If interest rates had been 50 basis points higher and all other variables were held constant, the Company's interest expense for the period ended September 30, 2021 would not be impacted (December 31, 2020: 35,125). If interest rates had been 50 basis points lower and all other variables were held constant, the Company's interest expense for the period ended September 30, 2021 would not be impacted (December 31, 2020 – 31,692). The Company will not always incur the full impact of an interest rate increase or decrease due to the 1% floor in the three-month LIBOR base rate.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities or will not have sufficient funds to issue loans and/or advances to its customers. The Company is exposed to liquidity risk depending on the timing of customer payments, customer default rates and the availability of third-party financing. The Company manages its liquidity risk by closely monitoring its available cash on hand, available financing and expected collection rates and timing to ensure it has sufficient cash to meet its financial obligations as they come due and provide loans and advances to customers when requested.

The Company is obligated to the following contractual maturities of undiscounted cash flows as at September 30, 2021:

	<u>Carrying amount</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Onwards</u>
Accounts Payable	1,502,243	(1,502,243)	-	-	-
Accrued Liabilities	9,858,482	(9,858,482)	-	-	-
Incomes taxes payable	6,059,877	(6,059,877)	-	-	-
Lease obligations	4,304,494	(909,571)	(909,422)	(871,725)	(1,613,776)
Credit facilities	56,850,000	(8,300,000)	-	-	(48,550,000)
Total	78,575,096	(26,630,173)	(909,422)	(871,725)	(50,163,776)

The Company is also obligated to purchase Bank Program advances that are offered for sale to the Company by both Bank Partners. The amount of Bank Program advances that were funded by the Bank Partners but not yet offered for sale to the Company as of September 30, 2021 was \$1,713,959 (December 31, 2020 – \$1,332,558). Management has determined no provisions are required on these amounts as of the balance sheet date, but regularly assesses these amounts and considers whether provisions may be required in advance of an offer to sell.

Propel Holdings Inc.
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17. Financial instruments and risk management (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into transactions denominated in Canadian dollar ("CAD") for which the related expenses, accounts payable and term loan balances are subject to exchange rate fluctuations. As at September 30, 2021 and December 31, 2020 the following items are denominated in CAD:

	<u>As at September 30, 2021</u>	<u>As at December 31, 2020</u>
Cash	146,829	174,988
Accounts Payable	173,811	359,117
Accrued Liabilities	703,656	954,371
Term loans	-	3,317,703

As at September 30, 2021, if a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately \$93,118 (December 31, 2020 - \$436,925) due to the fluctuation, and this would be recorded in the interim condensed consolidated statements of operations and comprehensive income.

Fair value measurement

All assets and liabilities for which fair value was measured or disclosed in the consolidated financial statements were categorized within the fair value hierarchy, described as follows, based on the lowest level input that was significant to the fair value measurement as a whole:

- Level 1 - valuation based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	Derivative financial instruments	Loans and advances receivables
Restricted cash		Income tax receivable
		Other receivable
		Accounts payable
		Accrued liabilities
		Income tax payable
		Credit facilities
		Term loan

The fair value of financial instruments classified at amortized cost approximates their fair values due to the short term to maturity and market interest rates. The fair value of derivative financial instruments is determined using level 2 inputs. The fair value of the CSO Guarantee Liabilities and Bank Service Program Liabilities are determined using level 3 inputs.

Propel Holdings Inc.
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For the periods ended September 30, 2021 and 2020 (in US dollars)

17. Financial instruments and risk management (continued)

Financial instruments measured at fair value using level 3 inputs:

	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and FV
CSO Guarantee Liabilities	Allowance for losses on the guarantee of managed receivables.	-Borrower Default rates	- Increases can increase the expected credit loss estimates and these liabilities
Bank Service Program Liabilities	Allowance for losses on the obligation of managed receivables.	- Recovery rates - Macroeconomic Variables - Operational factors	- Decreases can increase expected credit loss estimates and these liabilities - See note 5 above - See note 5 above

18. Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly including all Executives and Directors.

Compensation expense for the Company's key management personnel is as follows:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Salaries and benefits	3,801,468	2,704,306
Share-based compensation	14,250	-
	<u>3,815,718</u>	<u>2,704,306</u>

19. Subsequent events

In anticipation of its initial public offering ("Offering"), the Company filed articles of amendment on October 15, 2021 and on October 19, 2021 to effect a number of pre-Offering re-organization steps. Such steps included, but were not limited to, (i) creating a new class of Class A Common Shares ("Class A Common Shares") to facilitate a tax efficient inter-corporate deemed dividend by the Company to its two founding shareholders, MPI Capital Inc. and Kinross Family Holdings Inc.; by way of US\$6,000,000 increase to the stated capital of the Class A Common Shares (ii) implementing a subdivision of the share capital of the Company on an equal basis whereby all issued and outstanding shares were split on a 2:1 basis; (iii) immediately following (ii) all issued and outstanding shares of the Company were exchanged on a 1:1 basis into Toronto Stock Exchange listed common shares ("Pubco Common Shares"). After giving effect to all such re-organization steps, the share capital of the Company consists of an unlimited number of Pubco Common Shares and an unlimited number of blank cheque preferred shares, issuable in series ("Pubco Preferred Shares").

On October 20, 2021, the Company closed the Offering of 6,250,000 common shares at a price of C \$9.75 per share for gross proceeds of C \$60,937,500. The Pubco Common Shares are listed and began trading on the Toronto Stock Exchange on October 20, 2021 under the symbol "PRL". The Offering was completed pursuant to the Company's final prospectus dated October 13, 2021 and filed with the securities regulators in each of the provinces and territories of Canada. The Offering was made through a syndicate of underwriters (the "Underwriters") led by Canaccord Genuity and Scotiabank, as joint bookrunners, and Raymond James, TD Securities, INFOR Financial, Roth Canada and Stifel Nicolaus Canada.

On October 26, 2021, the Underwriters exercised their over-allotment option in full and the Company received aggregate gross proceeds of \$9,140,625 for the sale of an additional 937,500 common shares pursuant to the over-allotment.

After the closing of the Offering and the over-allotment option, the total issued and outstanding Pubco Common Shares is 34,325,120 and nil Pubco Preferred Shares.