

Propel Holdings Inc.
Condensed Interim Consolidated Financial Statements (Unaudited)
As at September 30, 2022 and for the three and nine month period ended September 30, 2022

Propel Holdings Inc.
Condensed interim consolidated statements of financial position (unaudited)
(expressed in US dollars)

		As at	
		September 30, 2022	December 31, 2021
	<u>Note</u>		
Assets			
Cash		6,326,042	7,238,761
Restricted cash	4	19,857,907	16,286,887
Loans and advances receivable	5	166,268,986	103,849,824
Other receivables		5,354,020	4,371,616
Prepays	7	1,013,203	1,486,572
Derivative financial instruments	8	-	40,173
Property and equipment	9	549,194	499,858
Deferred tax assets		8,229,853	5,333,560
Right-of-use assets	11	2,118,010	2,478,979
Intangible assets	10	11,094,815	7,912,535
Total Assets		220,812,030	149,498,765
Liabilities			
Accounts payable	12	2,829,670	2,725,548
Accrued liabilities	12	14,496,924	16,971,189
Derivative financial instruments	8	367,639	-
Credit facilities	13	116,075,000	46,870,000
Income taxes payable		5,033,077	4,343,009
Lease liabilities	11	2,632,559	3,183,737
Deferred tax liabilities		849,866	76,040
Total Liabilities		142,284,735	74,169,523
Shareholders' Equity			
Share capital	14	78,951,062	78,951,062
Retained earnings (deficit)		(1,585,012)	(4,041,467)
Contributed surplus		1,161,245	419,647
Total Shareholders' Equity		78,527,295	75,329,242
Total Liabilities and Shareholders' Equity		220,812,030	149,498,765

Approved on behalf of the Board

(signed) "Clive Kinross", Director

(signed) "Karen Martin", Director

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

Propel Holdings Inc.

Condensed interim consolidated statements of operations and comprehensive income (unaudited)

(expressed in US dollars)

	Note	Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2022	2021	2022	2021
Revenue	6	59,738,072	32,742,895	164,335,709	88,471,249
Provision for loan losses and other liabilities	5	32,553,505	15,420,843	87,265,435	33,175,000
Operating expenses					
Acquisition and data	10	6,186,628	6,201,683	21,900,406	14,684,904
Salaries, wages and benefits	15, 18	6,870,706	5,240,934	19,337,967	14,630,381
General and administrative		2,045,216	1,184,597	6,055,527	2,902,125
Processing and technology		2,561,008	1,571,133	7,452,001	4,148,219
Total operating expenses		17,663,558	14,198,347	54,745,901	36,365,629
Operating income		9,521,009	3,123,705	22,324,373	18,930,620
Other income (expenses)					
Interest and fees on credit facilities	13	(2,714,756)	(1,212,845)	(5,737,791)	(3,237,909)
Interest on term loan		-	-	-	(886,852)
Interest expense on lease liabilities	11	(92,240)	(106,564)	(292,845)	(334,008)
Amortization of internally developed software	10	(607,419)	(493,375)	(1,804,475)	(1,529,846)
Depreciation of property and equipment	9	(44,844)	(25,186)	(111,657)	(87,191)
Depreciation of right-of-use assets	11	(149,187)	(159,629)	(463,649)	(502,129)
Foreign exchange gain		39,669	197,830	156,653	224,826
Unrealized loss on derivative financial instruments	8	(299,984)	(148,960)	(407,812)	(314,841)
Total other income (expenses)		(3,868,761)	(1,948,729)	(8,661,576)	(6,667,950)
Income before transaction costs and income tax		5,652,248	1,174,976	13,662,797	12,262,670
Transaction Costs		-	323,216	-	323,216
Income tax expense (recovery)					
Current		2,781,087	638,246	5,702,002	4,152,089
Deferred		(1,322,470)	(412,530)	(2,122,467)	(988,133)
Net income for the period		4,193,631	626,044	10,083,262	8,775,498
Weighted average number of shares outstanding):					
Basic	14	34,325,120	26,904,134	34,325,120	25,171,028
Diluted	14	35,642,370	27,480,752	35,554,759	25,728,816
Earnings per share:					
Basic	14	0.12	0.02	0.29	0.35
Diluted	14	0.12	0.02	0.28	0.34

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

Propel Holdings Inc.
Condensed interim consolidated statements of cash flows (unaudited)
(expressed in US dollars)

		Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2022	2021	2022	2021
	Note				
Cash flows from (used in) operating activities					
Net income for the period		4,193,631	626,044	10,083,262	8,775,498
Items not affecting cash:					
Provision for loan losses	5	33,981,085	14,742,312	86,893,114	31,626,323
Unrealized loss on derivative financial instruments	8	299,984	148,961	407,812	314,840
Deferred income tax recovery		(1,322,470)	(412,530)	(2,122,467)	(988,133)
Amortization of acquisition transaction costs and customer acquisition data	5,10	2,365,591	1,279,533	6,913,395	3,454,743
Depreciation of property and equipment	9	44,844	25,186	111,657	87,191
Amortization of internally developed software	10	607,419	493,375	1,804,475	1,529,846
Depreciation of right-of-use assets	11	149,187	159,628	463,649	502,129
Share-based compensation	15	206,940	4,750	741,598	14,250
		40,526,211	17,067,259	105,296,495	45,316,687
Changes in:					
Restricted cash	4	(3,674,960)	(1,132,984)	(3,571,020)	(1,716,452)
Prepays	7	(40,477)	(191,830)	473,369	(269,679)
Acquisition transaction costs and customer acquisition data	5,10	(2,380,400)	(1,491,978)	(8,443,164)	(4,404,172)
Other receivables		(751,990)	(446,924)	(982,404)	(314,563)
Income taxes recoverable/payable		2,135,815	522,651	690,068	924,258
Accounts payable and accrued liabilities	12	(1,229,726)	(82,788)	(2,297,514)	216,157
Net additions of loans and advances receivable	5	(64,358,115)	(26,426,773)	(159,984,229)	(60,631,108)
Principal recoveries	5	4,762,551	1,896,699	10,916,704	4,315,404
Net cash used in operating activities		(25,011,091)	(10,286,668)	(57,901,695)	(16,563,468)
Cash flows from (used in) financing activities					
Advances from credit facilities	13	31,405,000	9,000,000	75,805,000	18,750,000
Payments on credit facilities	13	(2,100,000)	-	(6,600,000)	-
Advances (repayments) from term loans		-	-	-	(11,195,703)
Payments on lease liabilities	11	(236,100)	(237,297)	(726,487)	(740,499)
Dividends paid		(2,484,108)	(672,913)	(7,626,807)	(5,525,692)
Proceeds from shares issued	15	-	-	-	14,999,849
Proceeds from options exercised	15	-	58,352	-	236,011
Net cash from financing activities		26,584,792	8,148,142	60,851,706	16,523,966
Cash flows from (used in) investing activities					
Purchases of property and equipment	9	(53,349)	(25,786)	(160,993)	(269,102)
Cost of internally generated intangible assets	10	(1,329,551)	(725,507)	(3,701,737)	(1,523,811)
Net cash used in investing activities		(1,382,900)	(751,293)	(3,862,730)	(1,792,913)
Net change in cash		190,801	(2,889,819)	(912,719)	(1,832,415)
Cash, beginning of period		6,135,241	6,303,321	7,238,761	5,245,917
Cash, end of period		6,326,042	3,413,502	6,326,042	3,413,502
Supplemental cash flow information					
Interest received		3,572,912	4,196,753	13,486,807	13,067,923
Interest paid		2,318,964	1,117,461	5,042,122	4,131,540
Income taxes paid		715,862	-	5,062,731	3,150,734

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

Propel Holdings Inc.
Condensed interim consolidated statements of changes in equity (unaudited)
(expressed in US dollars)

	Share Capital	Contributed surplus	Retained earnings/(deficit)	Total equity
Balance as at December 31, 2021	78,951,062	419,647	(4,041,467)	75,329,242
Net income for the period	-	-	10,803,262	10,803,262
Transactions recorded directly in equity				
Dividends declared and paid	-	-	(7,626,807)	(7,626,807)
Stock-based compensation (note 15)	-	741,598	-	741,598
Balance as at September 30, 2022	78,951,062	1,161,245	(1,585,012)	78,527,295
	Share Capital	Contributed surplus	Retained earnings/(deficit)	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)
Stock-based compensation (note 15)	-	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

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

Propel Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (in US dollars)

1. Incorporation and operations

Propel Holdings Inc. was incorporated under the Business Corporations Act (Ontario) on June 16, 2011 and its head office is located in Toronto, Ontario, Canada. The Company issued shares publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "PRL" on October 20, 2021.

Propel Holdings Inc. and all of the companies that it controls (collectively referred to as 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 United States ("US") states. The type of product offered in each state is dependent on the specific regulatory requirements within each operational state. As of September 30, 2022, the Company, through its MoneyKey brand, offered products as a state-licensed direct lender in 9 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 ("NBF"). The NBF has a program agreement with a Federal Deposit Insurance Corporation ("FDIC") insured Utah state-chartered bank ("NBF Bank Partner" and together with NBF, "Bank Service Partners") to whom it provides certain services, some of which have been outsourced by the NBF to the Company. The NBF 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 NBF 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, 2022, the Bank Service Program was offered in 15 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, 2022, 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. The Delaware Statutory Trusts (the "DST I" and "DST II", collectively the "DSTs") have 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 DSTs. As of September 30, 2022, the CreditFresh Bank Program was offered in 25 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 Company. Following the purchase by the DSTs 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 DSTs 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 DSTs.

Propel Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (in US dollars)

2. Basis of presentation

Statement of compliance

The unaudited condensed interim consolidated financial statements as at September 30, 2022 and for the three and nine-month periods ended September 30, 2022 were 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 condensed interim consolidated financial statements do not include all of the disclosures included in the Company’s audited annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read together with the audited annual consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Company’s Board of Directors on November 10, 2022.

Functional and presentation currency

These condensed interim 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 condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the condensed interim 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.

The estimates, judgements and assumptions used in the audited annual consolidated financial statements do not differ materially from those used for these condensed interim consolidated financial statements.

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 future changes in accounting policies described in the audited annual consolidated financial statements do not differ materially from those used for these condensed interim consolidated financial statements.

There are no new standards issued but not yet effective as at January 01, 2022 that have a material impact to the Company’s consolidated financial statements.

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

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (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, 2022, the restricted cash balance was \$19,857,907 (December 31, 2021 - \$16,286,887).

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 acquisition transaction costs. Allowance for credit losses consists of the expected credit losses ("ECLs") of the associated loans and advances receivable based on their portfolio and stages. The term of the loans and advances receivable varies based on compliance with individual state regulations applicable to each type of product. Acquisition transaction costs consist of costs that are directly attributable and incremental to originated loans and advances receivable and are deferred and expensed over the estimated lifetime of the loans and advances receivable. Amortization of acquisition transaction costs was \$1,320,767 for the three months ended September 30, 2022 (September 30, 2021 - \$1,279,533) and \$3,939,787 for the nine months ended September 30, 2022 (September 30, 2021 - \$3,454,743) and is included in acquisition and data expense on the condensed interim consolidated statement of operations and comprehensive income.

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

	As at	
	September 30, 2022	December 31, 2021
Gross loans and advances receivable	184,636,630	112,800,270
Fees receivable	16,212,254	10,655,439
Interest receivable	2,092,024	1,379,165
Allowance for credit losses	(39,632,397)	(23,700,774)
Acquisition transaction costs	2,960,475	2,715,724
	166,268,986	103,849,824

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

	As at	
	September 30, 2022	December 31, 2021
Bank Program Advances (CreditFresh)	170,346,993	94,457,753
Installment loans and LOC advances (MoneyKey)	11,722,362	17,181,189
Bank Service Program Advances (MoneyKey)	2,567,275	1,161,328
	184,636,630	112,800,270

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

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (in US dollars)

5. Loans and advances receivable (continued)

Bank Program Advances and Bank Service Program Advances all consist of open-ended lines of credit with no specific maturity date. LOC advances of \$5,040,054 (December 31, 2021 - \$5,873,527) are also open-ended lines of credit with no specific maturity date. Management expects to realize materially all of these assets within a twelve-month period from the reporting date. Installment loans of \$6,682,308 (December 31, 2021 - \$11,307,662) will mature within a twelve-month period.

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

	As at September 30, 2022			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Installment loans and LOC advances (MoneyKey)	7,737,462	2,784,395	1,200,505	11,722,362
Bank Program Advances (CreditFresh)	138,750,689	24,034,660	7,561,644	170,346,993
Bank Service Program Advances (MoneyKey)	-	-	2,567,275	2,567,275
	146,488,151	26,819,055	11,329,424	184,636,630

	As at December 31, 2021			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Installment loans and LOC advances (MoneyKey)	11,667,619	3,731,782	1,781,788	17,181,189
Bank Program Advances (CreditFresh)	81,173,630	8,963,485	4,320,638	94,457,753
Bank Service Program Advances (MoneyKey)	-	-	1,161,328	1,161,328
	92,841,249	12,695,267	7,263,754	112,800,270

Aging of Stage 2 and Stage 3 gross loans and advances receivable from date of delinquency:

	As at September 30, 2022		
	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
0-30	16,709,523	1,806,009	18,515,532
31-60	3,164,350	7,333,273	10,497,623
61-90	3,574,015	1,318,963	4,892,978
91-120	2,034,779	604,134	2,638,913
120+	1,336,388	267,045	1,603,433
	26,819,055	11,329,424	38,148,479

	As at December 31, 2021		
	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
0-30	9,914,511	796,143	10,710,654
31-60	2,050,667	4,020,007	6,070,674
61-90	231,806	1,735,244	1,967,050
91-120	158,938	536,922	695,860
120+	339,345	175,438	514,783
	12,695,267	7,263,754	19,959,021

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

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (in US dollars)

5. Loans and advances receivable (continued)

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

	For the nine-month periods ended September 30, 2022			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Balance as at January 1, 2022	92,841,249	12,695,267	7,263,754	112,800,270
Additions to gross loans and advances receivable	231,549,182	8,042,613	19,062,475	258,654,270
Principal payments and other adjustments	(97,239,270)	(6,505,075)	(1,195,370)	(104,939,715)
Transfers to (from)				
Stage 1 (Performing)	(101,303,307)	101,303,307	-	-
Stage 2 (Under-Performing)	20,640,297	(20,640,297)	-	-
Stage 3 (Non-Performing)	-	(68,076,760)	68,076,760	-
Gross charge offs	-	-	(81,878,195)	(81,878,195)
Balance as at September 30, 2022	146,488,151	26,819,055	11,329,424	184,636,630

	For the year ended December 31, 2021			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Balance as at January 1, 2021	47,591,614	6,439,426	2,808,507	56,839,547
Additions to gross loans and advances receivable	178,634,363	6,937,683	6,490,452	192,062,498
Principal payments and other adjustments	(83,395,694)	(4,976,459)	(831,134)	(89,203,287)
Transfers to (from)				
Stage 1 (Performing)	(62,857,574)	62,857,574	-	-
Stage 2 (Under-Performing)	12,868,540	(12,868,540)	-	-
Stage 3 (Non-Performing)	-	(45,694,417)	45,694,417	-
Gross charge offs	-	-	(46,898,488)	(46,898,488)
Balance as at December 31, 2021	92,841,249	12,695,267	7,263,754	112,800,270

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

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (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:

	For the nine-month period ended September 30, 2022			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Balance as at January 1, 2022	10,117,649	7,682,876	5,900,249	23,700,774
Additions to gross loans and advances receivable	26,020,067	4,483,989	15,750,098	46,254,154
Principal payments and other adjustments	(8,559,032)	(2,241,813)	(1,674,819)	(12,475,664)
Remeasurement of allowance before transfers	(2,189,806)	(145,765)	5,650	(2,329,921)
Transfers to (from) including remeasurement				
Stage 1 (Performing)	(12,676,627)	49,546,895	-	36,870,268
Stage 2 (Under-Performing)	2,608,981	(9,076,629)	-	(6,467,648)
Stage 3 (Non-Performing)	-	(34,642,211)	53,809,732	19,167,521
Net amounts written off against allowance	-	-	(65,087,087)	(65,087,087)
Balance as at September 30, 2022	15,321,232	15,607,342	8,703,823	39,632,397

	For the year ended December 31, 2021			
	Stage 1 (Performing)	Stage 2 (Under- Performing)	Stage 3 (Non- Performing)	Total
Balance as at January 1, 2021	7,441,773	3,520,869	2,443,476	13,406,118
Additions to gross loans and advances receivable	30,099,294	4,050,040	5,407,159	39,556,493
Principal payments and other adjustments	(11,951,539)	(1,545,578)	(675,011)	(14,172,128)
Remeasurement of allowance before transfers	(6,214,099)	(184,633)	-	(6,398,732)
Transfers to (from) including remeasurement				
Stage 1 (Performing)	(10,228,104)	33,380,013	-	23,151,909
Stage 2 (Under-Performing)	970,324	(6,215,162)	-	(5,244,838)
Stage 3 (Non-Performing)	-	(25,322,673)	38,111,374	12,788,701
Net amounts written off against allowance	-	-	(39,386,749)	(39,386,749)
Balance as at December 31, 2021	10,117,649	7,682,876	5,900,249	23,700,774

Changes in allowance for credit losses were as follows:

	For the nine-month periods ended	
	September 30, 2022	September 30, 2021
Balance at beginning of period	23,700,774	13,406,118
Charge-offs	(81,878,195)	(29,538,250)
Recoveries	10,916,704	4,315,404
Provision for loan losses	86,893,114	31,626,323
Balance at end of period	39,632,397	19,809,595

Propel Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
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5. Loans and advances receivable (continued)

Provisions for loan losses and other liabilities is as follows:

	For the nine-month periods ended	
	September 30, 2022	September 30, 2021
Provision for loan losses	86,893,114	31,626,323
Other lending program costs	651,173	310,050
Provision for CSO Guarantee Liabilities (MoneyKey)	(482,740)	127,894
Provision for Bank Service Program Liabilities (MoneyKey)	(203,888)	1,110,733
Total Provision for loan losses and other liabilities	87,265,435	33,175,000

Breakdown of Provision for loan losses:

	For the nine-month periods ended	
	September 30, 2022	September 30, 2021
Provision for loan losses on installment loans and LOC advances and Bank Service program advances (MoneyKey)	27,675,185	11,240,247
Provision for loan losses on Bank Program Advances (CreditFresh)	59,217,929	20,386,076
Total Provision for loan losses	86,893,114	31,626,323

As of September 30, 2022, the outstanding amount of active installment loans originated by an unaffiliated third party lender under the CSO programs was \$3,171,971 (September 30, 2021 - \$3,204,174), for which the risk of customer default is guaranteed by the Company. As of September 30, 2022, the outstanding amount of active line of credit advances originated by NBF Bank Partner under the Bank Service Program ("Bank Service Program Advances") was \$20,571,559 (September 30, 2021 - \$9,519,178). These CSO loans and Bank Service Program Advances are not included in the tables above and are not included on the Company's condensed interim consolidated statement of financial position.

A breakdown of the Company's gross loans and advances receivables and off-balance sheet arrangements is as follows:

	For the nine-month periods ended	
	September 30, 2022	September 30, 2021
CSO Program Products (MoneyKey)		
Revenue (Note 6)	8,697,973	8,362,429
Loans and advances receivable (On Balance Sheet)	1,521,412	1,383,742
CSO Guarantee Liability (Note 12)	430,907	788,523
CSO Obligation	1,692,827	2,172,027
Installment loan borrower balances (Off Balance Sheet)	3,171,971	3,204,174
Reserve balances (Reflected in Company's Restricted cash)	1,863,839	1,949,455
Bank Service Program Advances (MoneyKey)		
Revenue (Note 6)	24,392,594	6,396,659
Loans and advances receivable (On Balance Sheet)	2,567,275	722,792
Bank Service Program Guarantee Liability (Note 12)	4,842,938	1,689,814
Line of credit borrower balances (Off Balance Sheet)	20,571,559	9,519,178
Reserve balances (Reflected in Company's Restricted cash)	4,164,365	1,628,038

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5. Loans and advances receivable (continued)

As part of calculating the allowance for credit losses, the Company utilizes internally developed credit risk models considering the probability of default, loss given default, and exposure at default based on historical performance, as well as quantitative and qualitative adjustments for other relevant risk factors. The Company's measurement of ECLs is influenced by forward looking indicators (FLIs) which include the impact of macroeconomic forces on the business. With respect to macroeconomic forces, consideration is given to variables such as unemployment rate, inflation rate, and wage growth 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 availability of government subsidies to our customer segment. 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 internally developed models in consideration of each macroeconomic factor. 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.

	Optimistic	Neutral	Pessimistic
Impact of macroeconomic factors	-3.5%	+1.5%	+11%

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 \$4,685,107. Conversely, if 100% probability were to be assigned to the Optimistic scenario, the decrease in the allowance would be approximately \$1,490,716. 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		Nine Months-Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Fees from borrowers on purchased receivables (CreditFresh)	43,543,176	20,186,753	111,220,620	53,591,961
Interest from borrowers in direct lending (MoneyKey)	3,572,912	4,152,106	13,486,808	13,067,923
Fees from borrowers in direct lending (MoneyKey)	2,092,024	2,895,454	6,537,714	7,052,277
Fees from CSO program (MoneyKey)	2,581,753	2,516,334	8,697,973	8,362,429
Fees from Bank Service Program (MoneyKey)	7,948,207	2,992,248	24,392,594	6,396,659
Total revenue	59,738,072	32,742,895	164,335,709	88,471,249

Propel Holdings Inc.

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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, 2022	December 31, 2021
Prepaids	1,013,203	1,486,572

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 (refer to note 17).

As at September 30, 2022, the Company had entered into forward exchange contracts with a financial institution that matures between October 31, 2022 and March 31, 2023 and obligates the Company to sell US\$7,000,000 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 dollar expenditures. As at September 30, 2022, the Company has open foreign exchange forward contracts with a positive (negative) fair market value of (\$367,639) (December 31, 2021 – \$40,173). For the three months ended September 30, 2022, the Company recorded an unrealized loss on derivative financial instruments of \$299,984 (2021: \$148,960) and for the nine months ended September 30, 2022, the Company recorded an unrealized loss on derivative financial instruments of \$407,812 (2021: \$314,841).

Propel Holdings Inc.
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9. Property and equipment

	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost				
Balance, December 31, 2021	614,536	780,337	390,770	1,785,643
Additions	11,498	128,598	20,897	160,993
Balance, September 30, 2022	626,034	908,935	411,667	1,946,636
Accumulated depreciation				
Balance, December 31, 2021	416,085	703,813	165,887	1,285,785
Depreciation	38,561	45,652	27,444	111,657
Balance, September 30, 2022	454,646	749,465	193,331	1,397,442
Net Book Value				
Balance, December 31, 2021	198,451	76,524	224,883	499,858
Balance, September 30, 2022	171,388	159,470	218,336	549,194
	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				
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

As of September 30, 2022, property and equipment with a cost of \$9,771 was considered a work-in-progress (December 31, 2021 - \$340,803).

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10. Intangible assets

	Customer acquisition data	Internally developed software	Total
Cost			
Balance, December 31, 2021	5,305,544	10,974,665	16,280,209
Additions	4,258,626	3,701,737	7,960,363
Removal of fully amortised costs*	(2,845,941)	-	(2,845,941)
Balance, September 30, 2022	6,718,229	14,676,402	21,394,631
Accumulated amortization			
Balance, December 31, 2021	2,987,940	5,379,734	8,367,674
Amortization	2,973,608	1,804,475	4,778,083
Removal of fully amortised costs*	(2,845,941)	-	(2,845,941)
Balance, September 30, 2022	3,115,607	7,184,209	10,299,816
Net Book Value			
Balance, December 31, 2021	2,317,604	5,594,931	7,912,535
Balance, September 30, 2022	3,602,622	7,492,193	11,094,815
	Customer acquisition data	Internally developed software	Total
Cost			
Balance, December 31, 2020	4,171,583	8,314,145	12,485,728
Additions	1,931,596	1,523,811	3,455,407
Removal of fully amortised costs*	(1,620,175)	-	(1,620,175)
Balance, September 30, 2021	4,483,004	9,837,956	14,320,960
Accumulated amortization			
Balance, December 31, 2020	2,371,483	3,239,368	5,610,851
Amortization	1,889,276	1,529,846	3,419,122
Removal of fully amortised costs*	(1,620,175)	-	(1,620,175)
Balance, September 30, 2021	2,640,584	4,769,214	7,409,798
Net Book Value			
Balance, December 31, 2020	1,800,100	5,074,777	6,874,877
Balance, September 30, 2021	1,842,420	5,068,742	6,911,162

* There are no gains or losses on derecognition

Amortization of customer acquisition data is recorded in the acquisition and data line on the condensed interim consolidated statements of operations and comprehensive income. When the future economic benefits of the Customer acquisition data costs have been fully realized the costs are treated as a disposal in the table above.

There have been no indicators of impairment identified during the three and nine months ended September 30, 2022. As a result there were no impairment charges of intangible assets recorded in the period ended September 30, 2022 (September 30, 2021 – nil).

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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 with a lease term greater than one year are presented on the condensed interim consolidated statements of financial position as right-of-use assets and lease liabilities. The Company's incremental borrowing rate was determined to be 13% and was used as the discount rate for measuring the lease liabilities. The carrying amount of the right-of use asset is listed below:

	<u>ROU Asset</u>
Cost	
Balance, December 31, 2021	4,959,577
Additions	102,681
Disposals	(27,149)
Balance, September 30, 2022	<u>5,035,109</u>
Accumulated depreciation	
Balance, December 31, 2021	2,480,598
Charge for the period	463,649
Eliminated on disposals	(27,149)
Balance, September 30, 2022	<u>2,917,099</u>
Net Book Value	
Balance, December 31, 2021	2,478,979
Balance, September 30, 2022	<u>2,118,010</u>
	<u>ROU Asset</u>
Cost	
Balance, December 31, 2020	4,800,278
Additions	38,377
Balance, September 30, 2021	<u>4,838,655</u>
Accumulated depreciation	
Balance, December 31, 2020	1,819,820
Charge for the period	502,129
Balance, September 30, 2021	<u>2,321,949</u>
Net Book Value	
Balance, December 31, 2020	2,980,458
Balance, September 30, 2021	<u>2,516,706</u>

The Company's right-of-use assets include office spaces and office equipment, with the majority made up of office space. The weighted average lease term is 6 years (December 31, 2021 – 6 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:

	<u>Lease Liability</u>
Cost	
Balance, December 31, 2021	3,183,737
Additions	102,681
Interest	292,845
Payments	(726,487)
Foreign currency translation	(220,217)
Balance, September 30, 2022	<u>2,632,559</u>

Reported as:

Current:	
Balance, December 31, 2021	592,759
Balance, September 30, 2022	<u>622,024</u>
Non-current:	
Balance, December 31, 2021	2,590,978
Balance, September 30, 2022	<u>2,010,535</u>
Carrying amount:	
Balance, December 31, 2021	3,183,737
Balance, September 30, 2022	<u>2,632,559</u>

	<u>Lease Liability</u>
Cost	
Balance, December 31, 2020	3,536,260
Additions	38,377
Interest	334,008
Payments	(740,499)
Foreign currency translation	11,524
Balance, September 30, 2021	<u>3,179,670</u>

Reported as:

Current:	
Balance, December 31, 2020	515,912
Balance, September 30, 2021	529,443
Non-current:	
Balance, December 31, 2020	3,020,348
Balance, September 30, 2021	2,650,227
Carrying amount:	
Balance, December 31, 2020	3,536,260
Balance, September 30, 2021	<u>3,179,670</u>

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

The maturity analysis of lease liabilities is presented below:

	<u>As at September 30, 2022</u>
Year 1	622,024
Year 2	670,286
Year 3	613,372
Year 4	666,101
Year 5	60,776
Total	<u>2,632,559</u>

12. Accounts payable and accrued liabilities

	<u>As at</u>	
	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Accounts Payable	2,829,670	2,725,548
Accrued Liabilities		
Other accrued liabilities	7,530,252	8,883,456
CSO Obligations	1,692,827	2,535,085
CSO Guarantee liabilities	430,907	913,599
Bank Service Program Liabilities	4,842,938	4,639,049
Total Accrued Liabilities	<u>14,496,924</u>	<u>16,971,189</u>

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 expected net losses is included in accrued liabilities as the Company does not take title to the CSO loans and they are not included in the condensed interim 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 expected net losses 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 condensed interim consolidated statements of financial position.

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13. Credit facilities

	As at	
	September 30, 2022	December 31, 2021
MoneyKey Facility		
Opening Balance	4,650,000	4,400,000
Advances from credit facility	-	4,600,000
Payments on credit facility	-	(4,350,000)
Ending Balance	4,650,000	4,650,000
CreditFresh Facility		
Opening Balance	42,220,000	33,700,000
Advances from credit facility	75,805,000	32,520,000
Payments on credit facility	(6,600,000)	(24,000,000)
Ending Balance	111,425,000	42,220,000
Total Credit facilities	116,075,000	46,870,000

	MoneyKey Facility	CreditFresh Facility	Total
Current:			
Balance, September 30, 2022	-	-	-
Balance, December 31, 2021	4,650,000	-	4,650,000
Non-current:			
Balance, September 30, 2022	4,650,000	111,425,000	116,075,000
Balance, December 31, 2021	-	42,220,000	42,220,000

MoneyKey Facility

On May 12, 2022, the MoneyKey facility was amended to extend the maturity date from May 15, 2022 to May 12, 2025. The MoneyKey facility bears interest at 10.2% plus the bank's three-month Term SOFR. The amount drawn on the Moneykey facility as of September 30, 2022 was \$4,650,000 (December 31, 2021 - \$4,650,000). The MoneyKey facility is secured by a general security agreement over all of the assets of the Company, and has a requirement for the Company to maintain an errors and omissions insurance policy of \$2,000,000 (December 31, 2021 - \$2,000,000).

As at September 30, 2022, the maximum borrowing base under the MoneyKey facility was approximately \$7,479,425 (December 31, 2021 - \$11,046,205).

Under the terms of the MoneyKey facility, the Company is subject to certain financial and non-financial covenants. As of September 30, 2022, the Company was in compliance with these covenants.

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13. Credit facilities (continued)

CreditFresh Facility

On August 16, 2022, the DSTs amended its existing CreditFresh facility to increase the total borrowing limit from \$120,000,000 to \$155,000,000. On September 29, 2022, the DST amended its existing CreditFresh facility to increase the total borrowing limit from \$155,000,000 to \$160,000,000. The CreditFresh facility matures on March 23, 2024. The CreditFresh facility has a blended effective interest rate of up to 10.0% (based on the current prime rate and three-month LIBOR rates; excluding other lenders fees). The amount drawn on the CreditFresh facility as of September 30, 2022 was \$111,425,000 (December 31, 2021 - \$42,220,000). The CreditFresh facility is secured by a pledge of the beneficial interest certificate in the DSTs' to the agent for the unaffiliated third-party lenders.

As of September 30, 2022, the maximum borrowing base under the CreditFresh facility was \$133,671,559 (December 31, 2021 \$91,758,685).

Under the terms of the CreditFresh facility, the DSTs' are subject to certain financial and non-financial covenants. As of September 30, 2022, the DSTs' were in compliance with these covenants.

Under these credit facilities, for the three months ended September 30 2022, the Company incurred interest expenses of \$2,630,518 (September 30, 2021 - \$1,071,146) and other fees related to the credit facilities of \$84,238 (September 30, 2021 - \$141,699) and for the nine months ended September 30, 2022 the Company incurred interest expenses of \$5,411,057 (September 30, 2021 - \$2,992,137) and other fees related to the credit facilities of \$326,734 (September 30, 2021 - \$245,772) and is recorded as "interest and fees on credit facilities" on the condensed interim consolidated statements of operations and comprehensive income.

14. Share capital

Ordinary shares Authorized

Unlimited number of common shares as at September 30, 2022.

Unlimited blank cheque preferred shares as at September 30, 2022.

Issued

As at September 30, 2022, the Company had 34,325,120 common shares issued and outstanding (December 31, 2021 – 34,325,120).

	As at			
	September 30, 2022		December 31, 2021	
	# of shares	\$	# of shares	\$
<u>Common shares</u>				
Balance, opening	34,325,120	78,951,062	23,741,866	4,881,037
Common shares issued	-	-	9,990,618	77,724,262
Transaction costs	-	-	-	(4,052,869)
Share options exercised	-	-	592,636	398,632
Balance, closing	34,325,120	78,951,062	34,325,120	78,951,062

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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.

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2022	2021	2022	2021
Net income	4,193,631	626,044	10,083,262	8,775,498
Weighted average number of shares outstanding	34,325,120	26,904,134	34,325,120	25,171,028
Basic earnings per common share	\$0.12	\$0.02	\$0.29	\$0.35
Weighted average number of shares outstanding	34,325,120	26,904,134	34,325,120	25,171,028
Dilutive effect of stock-based compensation	1,317,250	576,618	1,229,639	557,788
Dilutive weighted average number of share outstanding	35,642,370	27,480,752	35,554,759	25,728,816
Diluted earnings per share	\$0.12	\$0.02	\$0.28	\$0.34

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. Options are generally granted at exercise price equal to the fair market value at the grant date, vest over a 4 year period 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.

During the three months ending September 30, 2022, zero options were granted by the Company (three months ending September 30, 2021 – 784,000) and for the nine months ending September 30, 2022, 394,250 options were granted by the Company (nine months ending September 30, 2021 – 967,784). For the three months ending September 30, 2022, the Company recorded stock based compensation expense of \$206,940 (three months ending September 30, 2021 - \$4,750) and for the nine months ending September 30, 2022, the Company recorded stock based compensation expense of \$741,599 (nine months ending September 30, 2021 - \$14,250) in salaries, wages and benefits with a corresponding adjustment to contributed surplus.

The fair value of options granted were determined using the Black-Scholes option pricing model with the following assumptions:

	For the nine-month periods ended September 30, 2022	For the year ended December 31, 2021
Weighted average share price	\$7.13	\$10.70
Weighted average exercise price	\$7.13	\$10.70
Expected volatility	71.60%	69.36%
Expected life (years)	2.22	2.22
Risk-free rate	1.99%	1.15%
Expected dividend yields	3.90%	3.90%

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.

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16. Segment information

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, 2022 was earned fully in the US. All equipment and leased assets are domiciled in Canada.

17. Financial instruments and risk management

As part of normal operations, the Company is exposed to a variety of financial risks: credit risk, interest rate risk, liquidity risk, foreign currency risk and industry risk. The Company manages these through an integrated risk management framework, including ongoing identification, measurement and monitoring of risks potentially arising in financial and economic markets.

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, other receivables 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 liabilities are disclosed in note 5 above. Under the CSO programs, as at September 30, 2022 the amount was \$3,171,971 (December 31, 2021 - \$4,260,648) and under the Bank Service Program the amount \$20,571,559 (December 31, 2021 - \$17,782,252). The associated maximum amount of credit risk exposure on such amounts are reflected in the CSO and Bank Service Program liabilities as outlined above.

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%) on the CreditFresh facility and at a rate plus a base rate of three-month SOFR on the MoneyKey facility. 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, 2022 would increase by approximately \$124,027 (December 31, 2021: \$nil). 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, 2022 would decrease by approximately \$107,740 (December 31, 2021 – \$nil). 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.

Propel Holdings Inc.
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As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (in US dollars)

17. Financial instruments and risk management (continued)

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, 2022	Carrying amount	Year 1	Year 2	Year 3	Onwards
Accounts Payable	2,829,670	(2,829,670)	-	-	-
Accrued Liabilities	14,496,924	(14,496,924)	-	-	-
Credit facilities	116,075,000	-	-	-	(116,075,000)
Total	133,401,594	(17,326,594)	-	-	(116,075,000)

As at December 31, 2021	Carrying amount	Year 1	Year 2	Year 3	Onwards
Accounts Payable	2,725,548	(2,725,548)	-	-	-
Accrued Liabilities	16,971,189	(16,971,189)	-	-	-
Credit facilities	46,870,000	(4,650,000)	-	-	(42,220,000)
Total	66,566,737	(24,346,737)	-	-	(42,220,000)

The Company is 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, 2022 was \$2,346,931 (December 31, 2021 – \$2,449,154). 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.

The Company is obligated to guarantee the principal and interest (net of expected collections and recoveries on guaranteed loans transferred to the Company) of CSO programs in the event that the customer defaults on their loan payments. Management has provided for this allowance and is included in accrued liabilities as the Company. Refer to note 12 for further details.

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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, accrued liabilities balances and lease liabilities are subject to exchange rate fluctuations. As at September 30, 2022 management had entered into foreign currency forward contracts with a notional value of \$7,000,000 to manage the risk from fluctuations in foreign currency risk over time (2021: \$3,750,000). As at September 30, 2022 and December 31, 2021 the following items are denominated in CAD:

	As at	
	September 30, 2022	December 31, 2021
Cash	133,374	3,586,764
Accounts Payable	1,484,951	1,272,244
Accrued Liabilities	601,590	1,256,955
Lease liabilities	2,632,559	3,183,737

As at September 30, 2022, 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 \$441,134 (December 31, 2021 - \$845,427) due to the fluctuation, and this would be recorded in the condensed interim consolidated statements of operations and comprehensive income.

Fair value measurement

All assets and liabilities for which fair value was measured or disclosed in the condensed interim 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).

Level 1	Level 2	Level 3
Cash	Derivative financial instruments	Loans and advances receivables
Restricted cash		Other receivables
		Accounts payable
		Accrued liabilities
		Credit facilities

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

Propel Holdings Inc.
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As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 (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 and CSO Obligations	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

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:

	For the nine-month periods ended	
	September 30, 2022	September 30, 2021
Salaries	8,681,453	3,801,468
Stock-based compensation	674,233	14,250
Total	9,355,686	3,815,718

19. Subsequent events

There have been no subsequent events between the end of the period and the date of filing of these condensed interim financial statements.