



PROSTAR HOLDINGS INC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022**

**(UNAUDITED – PREPARED BY MANAGEMENT)
(Expressed in United States Dollars)**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

This notice is being provided in accordance with National Instrument 51-102 – Continuous Disclosure Obligations.

PROSTAR HOLDINGS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared By Management)
(Expressed in United States dollars)
As at,

	September 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash	\$ 3,358,563	\$ 7,025,470
Receivables and prepayments (note 4)	265,229	99,254
	<u>3,623,792</u>	<u>7,124,724</u>
Non-Current Assets		
Equipment and right-of-use assets (note 5)	98,347	203,616
Intangible assets (note 6)	8,500	9,000
	<u>106,847</u>	<u>212,616</u>
Total Assets	<u>\$ 3,730,639</u>	<u>\$ 7,337,340</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 284,757	\$ 293,969
Deferred revenue	352,047	296,921
Lease liabilities (note 8)	53,440	123,614
	<u>690,244</u>	<u>714,504</u>
Lease liabilities (note 8)	<u>8,967</u>	<u>35,713</u>
Total Liabilities	<u>699,211</u>	<u>750,217</u>
Shareholders' Equity (note 10)		
Share capital	33,345,605	33,329,984
Reserves	3,091,969	2,593,729
Accumulated other comprehensive income	(258,794)	28,507
Deficit	(33,147,352)	(29,365,097)
	<u>3,031,428</u>	<u>6,587,123</u>
Total Liabilities and Shareholders' Equity	<u>\$ 3,730,639</u>	<u>\$ 7,337,340</u>

Nature of Operations and Going Concern (note 1)

APPROVED ON BEHALF OF THE BOARD ON NOVEMBER 10, 2022

"Herb McKim"
Director

"Page Tucker"
Director

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

PROSTAR HOLDINGS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared By Management)
(Expressed in United States dollars)

	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Revenue				
Sales	\$ 251,085	\$ 179,165	\$ 608,956	\$ 548,344
Cost of Sales	(43,585)	(64,988)	(125,934)	(182,131)
Gross Margin	207,500	114,177	483,022	366,213
Expenses				
Management	150,000	147,500	450,000	444,250
Information technology	30,121	30,436	94,453	86,585
Product development	224,498	323,202	842,112	814,291
Sales and marketing	230,323	251,760	721,298	1,067,587
Consulting	51,740	1,600	105,788	27,225
Depreciation	37,916	38,546	111,242	104,101
Foreign exchange	1,137	487	1,380	20,684
Insurance	6,753	7,599	24,413	60,580
Investor relations	64,562	56,000	220,284	56,000
Office & miscellaneous	28,591	3,882	94,631	52,731
Professional fees	251,755	96,951	570,292	394,334
Rent	13,890	8,269	22,013	23,424
Salaries and wages	57,439	43,553	197,478	162,424
Share-based payments (note 10)	351,848	432,237	508,805	1,049,286
Software support	40,414	14,387	114,987	44,281
Transfer agent and filing fees	5,534	36,118	29,855	96,063
Travel	46,102	40,284	180,555	58,176
	(1,592,623)	(1,532,811)	(4,289,586)	(4,562,022)
	(1,385,123)	(1,418,634)	(3,806,564)	(4,195,809)
Other items				
Interest	19,020	-	32,211	-
Finance costs (note 8)	(1,905)	(4,322)	(7,902)	(11,708)
	17,115	(4,322)	24,309	(11,708)
Loss for the period	(1,368,008)	(1,422,956)	(3,782,255)	(4,207,517)
Other comprehensive income:				
Exchange difference on translation of parent	(214,095)	(26,529)	(287,301)	57,762
Loss and comprehensive loss for the period	\$ (1,582,103)	\$ (1,449,485)	\$ (4,069,556)	\$ (4,149,755)
Weighted Average Number of Common Shares Outstanding				
Basic and Diluted	116,861,084	91,201,334	116,860,850	90,815,930
Loss Per Share				
Basic and Diluted	\$ (0.14)	\$ (0.02)	\$ (0.03)	\$ (0.05)

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

PROSTAR HOLDINGS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(Unaudited – Prepared By Management)
(Expressed in United States dollars)

	2022	2021
Cash Flows used in Operating Activities		
Loss for the period	\$ (3,782,255)	\$ (4,207,517)
Non-cash items		
Depreciation	111,242	104,101
Accrued interest and finance expense	7,902	14,431
Share-based payments	508,805	1,049,286
Loss on sale of equipment	61	-
Changes in non-cash working capital items:		
Receivables and prepayments	(161,936)	(155,625)
Accounts payable and accrued liabilities	(11,956)	(323,010)
Deferred revenue	55,126	89,886
	<u>(3,273,011)</u>	<u>(3,428,448)</u>
Cash Flows used in Investing Activities		
Purchase of equipment	(6,084)	(38,543)
Disposal of equipment	550	-
	<u>(5,534)</u>	<u>(38,543)</u>
Cash Flows (used in) provided by Financing Activities		
Common shares – private placement	-	790,649
Common shares – exercise of warrants	5,056	32,029
Share issuance costs	-	(55,424)
Repayment of lease liability	(104,822)	(91,276)
Repayment of loan	-	(50,000)
	<u>(99,766)</u>	<u>625,978</u>
Change in cash during the period	(3,378,311)	(2,841,013)
Effect of foreign exchange on cash	(288,596)	53,279
Cash – beginning of period	7,025,470	3,404,012
Cash – end of period	\$ 3,358,563	\$ 616,278

Supplemental Information (note 12)

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

PROSTAR HOLDINGS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

(Unaudited – Prepared By Management)

(Expressed in United States dollars)

	Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2020	89,676,811	\$ 25,200,821	\$ 1,064,502	\$ -	\$ (23,658,842)	\$ 2,606,481
Private placement	1,430,000	790,649	-	-	-	790,649
Share issuance costs	-	(84,298)	28,874	-	-	(55,424)
Exercise of warrants	94,523	45,643	(13,614)	-	-	32,029
Share-based payments	-	-	1,049,286	-	-	1,049,286
Net comprehensive loss for the period	-	-	-	57,762	(4,207,517)	(4,149,755)
Balance – September 30, 2021	91,201,334	\$ 25,952,815	\$ 2,129,048	\$ 57,762	\$ (27,866,359)	\$ 273,266
Balance – December 31, 2021	116,845,084	\$ 33,329,984	\$ 2,593,729	\$ 28,507	\$ (29,365,097)	\$ 6,587,123
Exercise of warrants	16,000	15,621	(10,565)	-	-	5,056
Share-based payments	-	-	508,805	-	-	508,805
Net comprehensive loss for the period	-	-	-	(287,301)	(3,782,255)	(4,069,556)
Balance –September 30, 2022	116,861,084	\$ 33,345,605	\$ 3,091,969	\$ (258,794)	\$ (33,147,352)	\$ 3,031,428

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

PROSTAR HOLDINGS INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(figures in tables are expressed in United States dollars, except per share amounts)

1. Nature of Operations

ProStar Holdings Inc (“PHI” or the “Company”) was incorporated under the Business Corporations Act (British Columbia) on February 13, 2007. On December 29, 2020 the Company completed a Reverse Take-Over (“RTO”) whereby the Company was the target and acquired all the issued and outstanding securities of ProStar GeoCorp Inc (“ProStar GeoCorp”), changed its name to ProStar Holdings Inc, and completed a change of business.

The principal business of the Company is a developer of Software-as-a-Service (“SaaS”)–based solutions, providing patented Geospatial Intelligence Software designed to enhance the management and maintenance of the asset lifecycle for asset centric industries. The Company is listed on the Toronto Stock Exchange Venture (“TSXV”), as a Tier 2 technology issuer on the TSXV and trades under the symbol MAPS.

The Company maintains its registered office at 1000-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5 and keeps its records at 488-1090 West Georgia Street, Vancouver, British Columbia, Canada, V6E 3V7.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as recorded in these condensed consolidated interim financial statements. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. As at September 30, 2022, the Company had not achieved profitable operations, had accumulated a deficit of \$33,147,352 since inception and expects to incur further operating losses as it develops and expands its business. The Company’s ability to continue as a going concern is dependent upon the ability to develop its business units, develop marketable software, potentially find, acquire and develop various other business segments with growth potential, its ability to obtain the necessary financing to carry out this strategy, and to meet its corporate overhead needs and discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Since March 31, 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global markets have experienced significant volatility. The duration and enduring impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. While this has not had a material impact on the Company to date, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The condensed consolidated interim financial statements of the Company are presented in United States Dollars, unless stated otherwise.

PROSTAR HOLDINGS INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(figures in tables are expressed in United States dollars, except per share amounts)

2. Basis of Preparation (cont'd...)

Basis of Consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The condensed consolidated interim financial statements include the financial statements of the Company and its 100% owned subsidiary, ProStar Geocorp Inc., Delaware, United States.

Significant accounting judgments, estimates, and assumptions

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Actual results could differ from these estimates.

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

Revenue and deferred revenue

Revenue is recognized when the revenue recognition criteria expressed in the accounting policy stated below for Revenue Recognition have been met. Judgment may be required when allocating revenue or discounts on sales amongst the various elements in a sale involving multiple performance obligations.

Functional currency

The functional currency of an entity is assessed on a standalone basis to determine the economic substance of the currency in which each entity performs its operations. The functional currency of the Company is the Canadian dollar and the functional currency of its wholly owned subsidiary, ProStar Geocorp, is the United States dollar.

Estimate useful life

The useful life of some of the Company's non-current assets is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any non-current asset would increase the recorded operating expenses and decrease long-term assets.

PROSTAR HOLDINGS INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(figures in tables are expressed in United States dollars, except per share amounts)

2. Basis of Preparation (cont'd...)

Critical accounting judgments (cont'd...)

Impairment of accounts receivable

The Company exercises judgment in identifying impaired accounts receivable, the collection of which may be uncertain.

Deferred income tax

The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

Going concern

The assessment of the Company's ability to continue as a going concern involves critical judgment based on historical experience. Significant judgments are used in the Company's assessment of its ability to continue as a going concern which are described in Note 1.

Software development costs

Management monitors progress of internal research and development projects. Significant judgment is required in distinguishing research from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred. Judgment is required when determining when development is complete, the software may be commercially released and if incremental features and functionality will generate enough incremental revenue to warrant capitalization. The Company's management monitors, at each reporting period, whether the recognition requirements for development costs are or continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Critical accounting estimates

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

Share-based payment

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them (Note 10).

Right-of-use assets and lease liability

The Company uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency, and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms and security in a similar environment.

3. Significant Accounting Policies

The accounting policies applied in preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's annual financial statements for the year ended December 31, 2021.

PROSTAR HOLDINGS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021***(figures in tables are expressed in United States dollars, except per share amounts)***4. Receivables and prepayments**

	September 30, 2022	December 31, 2021
Trade receivables	\$ 172,064	\$ 3,270
Other receivables and prepayments	93,165	95,984
	\$ 265,229	\$ 99,254

5. Equipment and Right-of-Use Assets

	Office furniture and equipment	Computer equipment and software	Survey equipment	Right-of-use assets (Office leases)	Total
Cost					
Balance – December 31, 2020	\$ 42,645	\$ 112,250	\$ 10,560	\$ 86,981	\$ 252,436
Additions	-	16,407	2,938	193,541	212,886
Balance – December 31, 2021	42,645	128,657	13,498	280,522	465,322
Additions	-	6,084	-	-	6,084
Disposals	-	(2,073)	-	-	(2,073)
Balance – September 30, 2022	\$ 42,645	\$ 132,668	\$ 13,498	\$ 280,522	\$ 469,333
Accumulated Depreciation					
Balance – December 31, 2020	\$ 15,617	\$ 80,676	\$ 8,330	\$ 18,120	\$ 122,743
Depreciation	7,939	15,476	1,239	114,309	138,963
Balance – December 31, 2021	23,556	96,152	9,569	132,429	261,706
Depreciation	4,260	13,464	975	92,043	110,742
Disposals	-	(1,462)	-	-	(1,462)
Balance – September 30, 2022	\$ 27,816	\$ 108,154	\$ 10,544	\$ 224,472	\$ 370,986
Balance – December 31, 2021	\$ 19,089	\$ 32,505	\$ 3,929	\$ 148,093	\$ 203,616
Balance – September 30, 2022	\$ 14,829	\$ 24,514	\$ 2,954	\$ 56,050	\$ 98,347

6. Intangible assets

	Patent
Cost	
Balance – December 31, 2020, 2021 and September 30, 2022	\$ 505,000
Accumulated Amortization	
Balance – December 31, 2020	\$ 495,333
Amortization	667
Balance – December 31, 2021	496,000
Amortization	500
Balance – September 30, 2022	\$ 496,500
Balance – December 31, 2021	\$ 9,000
Balance – September 30, 2022	\$ 8,500

Patents

A total of \$505,000 had been expended to acquire certain patents. The patents are being amortized over a period of 15 years.

PROSTAR HOLDINGS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021***(figures in tables are expressed in United States dollars, except per share amounts)***7. Accounts Payable and Accrued Liabilities**

	September 30, 2022	December 31, 2021
Trade accounts payable	\$ 169,856	\$ 181,432
Payroll liabilities	114,901	112,537
	\$ 284,757	\$ 293,969

8. Lease liabilities

The changes in lease liabilities is shown in the table below:

Lease liabilities	
Balance, December 31, 2020	\$ 72,069
Recognition of lease liability	193,541
Accrued finance expense	18,459
Lease payments	(124,742)
Balance, December 31, 2021	159,327
Accrued finance expense	7,902
Lease payments	(104,822)
Balance, September 30, 2022	\$ 62,407
Current	\$ 53,440
Long-term	\$ 8,967

The Company has applied an incremental borrowing rate of 9.00%.

9. Loans*Small Business Administration Payroll Protection Program Loan*

As part of the US Government response to the COVID-19 global pandemic, certain businesses were eligible to apply for a Small Business Administration Payroll Protection Program Loan (“SBA PPP Loan”). The SBA PPP Loan amount was calculated based on 2019 payroll expenses. Borrowers can apply for loan forgiveness if evidenced that minimum of 75% of loan proceeds were used for qualified payroll expenses and up to 25% used for qualified office utilities mortgage / lease expenses. During the period, the Company applied for the SBA PPP loan and received \$267,400 in loan proceeds, which was also forgiven during the year. During the year ended December 31, 2021 the Company received an additional \$10,084, which was also forgiven during the year.

Line of credit

The Company has a line of credit facilities totaling \$150,000. The facilities incur interest at a rate of 1.00% above the Wall Street Journal U.S Prime Rate, were for terms of one year, and are secured over the assets of the Company. In the event of default the interest rate increased to 21%. During fiscal 2020 the Company drew down \$50,000, which was repaid during the year ended December 31, 2021.

PROSTAR HOLDINGS INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

(figures in tables are expressed in United States dollars, except per share amounts)

10. Share Capital

(a) Authorized Share Capital

An unlimited number of common shares without par value.

(b) Common Shares

During the period ended September 30, 2022, the Company:

- a) Issued 16,000 common shares upon exercise of 16,000 warrants at \$0.32 (CDN\$0.40) per warrant for gross proceeds of \$5,056 (CDN\$6,400).

During the year ended December 31, 2021, the Company:

- a) Completed a non-brokered financing and issued a total of 1,430,000 units at a price of \$0.55 (CDN\$0.70) per unit for gross proceeds of \$790,649 (CDN\$1,001,000). Each Unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a Common Share at an exercise price of CDN\$1.00 for a period of 24 months. The Company paid share issuance costs of \$55,424 (CDN\$70,070) and issued 100,100 broker warrants valued at \$28,874 using Black-Scholes. The Company used the following assumptions when valuing the underwriters warrants: expected volatility of 100%, risk free interest rate of 0.25%, life of 2 years, dividend yield of 0% and forfeiture rate of 0%. Each broker warrant entitles the holder to purchase a Common Share at an exercise price of CDN\$0.70 for a period of 24 months.
- b) Completed a brokered and a non-brokered private placement for gross proceeds of \$8,093,373 (CDN\$10,200,000).

The Company issued 14,375,000 units, at a price of CDN\$0.40 per unit in the brokered financing for gross proceeds of \$4,562,441 (CDN\$5,750,000). Each unit consists of one common share of the Company and one-half of one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional share at an exercise price of CDN\$0.56 per share for a period of 24 months.

Concurrently, the Company completed a non-brokered private placement for gross proceeds of \$3,530,932 (CDN\$4,450,000) through the issuance of 11,125,000 units on the same terms as the brokered private placement.

The Company paid cash commission to the agent of \$319,371 (CDN\$402,500 - 7% of the aggregate gross proceeds of the brokered financing) and issued 1,006,250 broker warrants valued at \$237,316 using Black-Scholes. The Company used the following assumptions when valuing the underwriters warrants: expected volatility of 100%, risk free interest rate of 1.05%, life of 2 years, dividend yield of 0% and forfeiture rate of 0%. Each broker warrant is exercisable at a price of CDN\$0.40 for a period of two years into one common share. In addition, the Company issued 143,750 units (1% of the aggregate gross proceeds) to the agent, having the same terms as the units sold in the brokered offering, valued at \$45,624 (C\$57,500). The Company paid other share issuance costs of \$154,971.

(c) Escrow

As at September 30, 2022, 7,733,555 common shares are held in escrow and an additional 6,696,541 are subject to contractual release resale restrictions. The escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

PROSTAR HOLDINGS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2022 AND 2021***(figures in tables are expressed in United States dollars, except per share amounts)***10. Share Capital (Cont'd...)****Stock options and warrants**

Stock option and warrant transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price CDN	Number	Weighted Average Exercise Price CDN
Outstanding, December 31, 2020	7,000,000	\$ 0.40	17,878,937	\$ 0.57
Granted	2,285,000	0.58	14,643,225	0.57
Exercised	-	-	(94,523)	(0.43)
Expired / cancelled	(485,000)	0.44	-	-
Outstanding, December 31, 2021	8,800,000	0.45	32,427,639	0.57
Granted	2,604,000	0.27	-	-
Exercised	-	-	(16,000)	(0.40)
Expired / cancelled	(560,000)	0.38	-	-
Outstanding, September 30, 2022	10,844,000	\$ 0.33	32,411,639	\$ 0.57
Exercisable, September 30, 2022	7,609,833	\$ 0.37	32,411,639	\$ 0.57

The following stock options were outstanding as at September 30, 2022:

Exercise Price	Outstanding	Exercisable	Expiry	Remaining Life (Years)
CDN\$0.40	4,900,000	3,266,667	December 29, 2025	3.25
CDN\$0.25	1,480,000	986,667	December 29, 2025	3.25
CDN\$0.73	125,000	83,333	January 25, 2026	3.32
CDN\$0.73	125,000	83,333	January 29, 2026	3.33
CDN\$0.73	125,000	83,333	February 26, 2026	3.41
CDN\$0.70	110,000	73,333	April 13, 2026	3.54
CDN\$0.70	150,000	150,000	May 26, 2026	3.65
CDN\$0.25	50,000	50,000	May 26, 2026	3.65
CDN\$0.65	125,000	62,500	July 8, 2026	3.77
CDN\$0.48	250,000	250,000	August 9, 2026	3.86
CDN\$0.25	250,000	250,000	August 9, 2026	3.86
CDN\$0.25	550,000	183,333	December 10, 2026	4.20
CDN\$0.45	375,000	191,667	April 22, 2027	4.56
CDN\$0.25	2,229,000	1,895,667	September 9, 2027	4.95
	10,844,000	7,609,833		

The following weighted average assumptions were used for the valuation of stock options:

	2022	2021
Weighted average fair value (CDN\$)	\$0.167	\$0.424
Risk-free interest rate	3.24%	0.63%
Expected life of options	5 years	5 years
Annualized volatility	80.45%	100%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

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10. Share Capital (Cont'd...)

Stock options and warrants

During the period ended September 30, 2022 the Company repriced a total of 2,940,000 stock options of the Company. The repriced stock options had a weighted average exercise price of \$0.485 and were repriced to an exercise price of \$0.25 per common share. The Company recorded incremental fair value of \$103,667 using the Black-Sholes Options Pricing Model.

The following warrants were outstanding as at September 30, 2022:

Exercise Price	Number	Expiry	Remaining Life (Years)
Warrants:			
CDN\$0.56	10,000,000	December 29, 2022	0.25
CDN\$0.60	6,987,500	December 29, 2022	0.25
CDN\$1.00	715,000	March 23, 2023	0.48
CDN\$0.56	<u>12,750,000</u>	November 24, 2023	1.15
	30,452,500		
Broker Warrants:			
CDN\$0.40	780,914	December 29, 2022	0.25
CDN\$0.70	100,100	March 23, 2023	0.48
CDN\$0.40	1,006,250	November 24, 2023	1.15
CDN\$0.76	<u>71,875</u>	November 24, 2023	1.15
	1,959,139		

11. Management of Capital

The capital managed by the Company includes the components of shareholders' equity as described in the statements of shareholders' equity. The Company is not subject to externally imposed capital requirements.

The Company's objectives of capital management are to create long-term value and economic returns for its shareholders. It does this by seeking to maximize the availability of funds for growth and development of its projects, and to support the working capital required to maintain its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Company considers all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part. The Company has not changes its capital management strategy during the period ended September 30, 2022.

12. Supplemental Cash Flow Information

There were no material non-cash transactions during the period ended September 30, 2022.

During the period ended September 30, 2021 the Company:

- a) Issued broker warrants valued at \$70,170 as share issuance costs.
- b) Entered into lease agreements and recognized right of use assets and lease liabilities of \$193,541.

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13. Related Party Transactions

During the period ended September 30, 2022, the Company paid or accrued, to key management personnel, directors and their related companies:

	2022	2021
Chief Executive Officer	\$ 225,000	\$ 125,000
Chief Operating Officer	225,000	125,000
Chief Financial Officer	90,000	45,000
Share-based payments	209,633	-
Total	\$ 749,633	\$ 295,000

Included in accounts payable is \$12,190 (December 31, 2021 - \$nil) owing to officers of the Company.

14. Financial Risk Management

Fair value of financial instruments

The Company classifies the fair value of its financial instruments according to a fair value hierarchy based on the significance of observable inputs used to value the instrument as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

As at September 30, 2022, the Company does not carry any financial instruments at fair value and believes that the carrying values of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, and preferred shares approximate their fair values because of their nature and/or relatively short maturity dates or durations.

Classification of financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, loans payable and lease liabilities. The Company classifies its cash and accounts receivable, as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities, loans payable, and lease liabilities are classified as other financial liabilities, which are measured at amortized cost.

Financial and capital risk management

The Company examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market risk, foreign currency risk, interest rate risk, credit risk, and liquidity risk. These risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Discussions of risks associated with financial assets and liabilities are detailed below:

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at September 30, 2022 and December 31, 2021, the Company was not subject to significant market risk.

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14. Financial Risk Management (Cont'd...)

Foreign currency risk

The international nature of the Company's operations results in foreign exchange risk. Fluctuations in the exchange rate between the Canadian dollar and US dollar may have an adverse effect on the Company's business and costs to proceed with preferred vendors. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk mainly arises from changes in the interest rates on cash. Cash generates interest based on market interest rates. As at September 30, 2022, the Company was not subject to material interest rate risk.

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and accounts receivables. The Company holds cash at a major Canadian and United States banks in chequing accounts.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining adequate cash balances. If necessary, the Company may raise funds through the issuance of debt, or equity. The Company ensures that there is sufficient capital to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows and matching the maturity profile of financial assets to development, capital and operating needs.

15. Segmented Information

The Company operates in one reportable segments, providing Geospatial Intelligence Software for asset centric industries and earns revenue in one region, North America.