



PROSTAR HOLDINGS INC

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in United States Dollars)**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
ProStar Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of ProStar Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 12, 2022

PROSTAR HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT,
(Expressed in United States dollars)

	December 31, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash	\$ 7,025,470	\$ 3,404,012
Receivables and prepayments (note 5)	99,254	18,620
	<u>7,124,724</u>	<u>3,422,632</u>
Non-Current Assets		
Equipment and right-of-use assets (note 6)	203,616	129,693
Intangible assets (note 7)	9,000	9,667
	<u>212,616</u>	<u>139,360</u>
Total Assets	<u>\$ 7,337,340</u>	<u>\$ 3,561,992</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 293,969	\$ 561,292
Deferred revenue	296,921	272,150
Lease liabilities (note 9)	123,614	18,505
Loans (note 10)	-	50,000
	<u>714,504</u>	<u>901,947</u>
Lease liabilities (note 9)	<u>35,713</u>	<u>53,564</u>
Total Liabilities	<u>750,217</u>	<u>955,511</u>
Shareholders' Equity		
Share capital (note 13)	33,329,984	25,200,821
Reserves (note 13)	2,593,729	1,064,502
Accumulated other comprehensive income (note 13)	28,507	-
Deficit	(29,365,097)	(23,658,842)
	<u>6,587,123</u>	<u>2,606,481</u>
Total Liabilities and Shareholders' Equity	<u>\$ 7,337,340</u>	<u>\$ 3,561,992</u>

Nature of Operations and Going Concern (note 1)

APPROVED ON BEHALF OF THE BOARD ON APRIL 12, 2022

"Herb McKim"
Director

"Page Tucker"
Director

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

PROSTAR HOLDINGS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in United States dollars)

	December 31, 2021	December 31, 2020
Revenue		
Sales	\$ 750,200	\$ 1,122,984
Cost of Sales	<u>(145,240)</u>	<u>(150,158)</u>
Gross Margin	604,960	972,826
Expenses		
Management	660,917	588,222
Information technology	119,308	103,074
Product development	1,191,330	918,201
Sales and marketing	1,320,010	447,590
Consulting	156,002	96,075
Depreciation	139,631	51,728
Foreign exchange	(36,714)	1,119
Insurance	66,435	37,518
Investor relations	135,141	-
Office & miscellaneous	111,481	105,469
Professional fees	531,656	440,820
Rent	28,010	117,854
Salaries and wages	215,638	184,292
Share-based payments (note 13)	1,276,651	542,952
Software support	157,240	47,981
Transfer agent and filing fees	124,187	30,475
Travel	110,089	59,540
	<u>(6,307,012)</u>	<u>(3,772,910)</u>
	(5,702,052)	(2,800,084)
Other items		
Listing expense (note 4)	-	(4,118,192)
Gain on disposal of asset	-	1,416
Gain on forgiveness of loans (Note 10)	10,084	267,400
Interest income	4,172	-
Finance costs (note 9 and 11)	(18,459)	(78,469)
	<u>(5,706,255)</u>	<u>(6,727,929)</u>
Loss for the year	(5,706,255)	(6,727,929)
Other comprehensive income:		
Exchange difference on translation of parent	28,507	-
Loss and comprehensive loss for the year	<u>\$ (5,677,748)</u>	<u>\$ (6,727,929)</u>
Weighted Average Number of Common Shares Outstanding		
Basic and Diluted	93,512,577	7,116,227
Loss Per Share		
Basic and Diluted	<u>\$ (0.06)</u>	<u>\$ (0.95)</u>

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

PROSTAR HOLDINGS INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in United States dollars)

	December 31, 2021	December 31, 2020
Cash Flows used in Operating Activities		
Loss for the year	\$ (5,706,255)	\$ (6,727,929)
Non-cash items		
Depreciation	139,631	51,728
Accrued interest and finance expense	18,459	66,898
Share-based payments	1,276,651	542,168
Loss on disposal of assets	-	(1,416)
Listing expense	-	4,118,192
Gain on forgiveness of loan	(10,084)	(267,400)
Changes in non-cash working capital items:		
Receivables and prepayments	(79,810)	13,540
Accounts payable and accrued liabilities	(263,810)	337,026
Deferred revenue	24,771	9,937
	<u>(4,600,447)</u>	<u>(1,857,256)</u>
Cash Flows used in Investing Activities		
Disposition of equipment	-	2,180
Purchase of equipment	(19,346)	(32,442)
	<u>(19,346)</u>	<u>(30,262)</u>
Cash Flows provided by Financing Activities		
Preferred shares	-	1,450,000
Proceeds received on shares issuances	8,916,051	-
Share issuance costs	(534,312)	(274,539)
Loans, net received (repaid)	(39,916)	317,400
Repayment of notes payable	-	(694,085)
Repayment of lease liability	(124,742)	(19,986)
Cash acquired from Reverse Take-Over	-	4,382,603
	<u>8,217,081</u>	<u>5,161,393</u>
Change in cash during the year	3,597,288	3,273,875
Effect of foreign exchange on cash	24,170	-
Cash – beginning of year	3,404,012	130,137
Cash – end of year	\$ 7,025,470	\$ 3,404,012

Supplemental Information (note 15)

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

PROSTAR HOLDINGS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in United States dollars)

	Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2019	6,661,348	\$ 1,635,813	\$ 379,160	\$ -	\$ (16,930,913)	\$ (14,915,940)
Conversion of preferred shares (note 12)	55,957,032	15,530,922	-	-	-	15,530,922
Listing expense (note 4)	13,058,431	4,078,848	-	-	-	4,078,848
Subscription receipt financing (note 13)	14,000,000	4,372,950	-	-	-	4,372,950
Share-issuance costs (note 13)	-	(417,712)	143,174	-	-	(274,538)
Share-based payments (note 13)	-	-	542,168	-	-	542,168
Net comprehensive loss for the year	-	-	-	-	(6,727,929)	(6,727,929)
Balance – December 31, 2020	89,676,811	25,200,821	1,064,502	-	(23,658,842)	2,606,481
Private placements (note 13)	26,930,000	8,884,022	-	-	-	8,884,022
Share issuance costs (note 13)	143,750	(800,502)	266,190	-	-	(534,312)
Exercise of warrants (note 13)	94,523	45,643	(13,614)	-	-	32,029
Share-based payments (note 13)	-	-	1,276,651	-	-	1,276,651
Net comprehensive loss for the year	-	-	-	28,507	(5,706,255)	(5,677,748)
Balance – December 31, 2021	116,845,084	\$ 33,329,984	\$ 2,593,729	\$ 28,507	\$ (29,365,097)	\$ 6,587,123

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

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(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 RTO Transaction”) (note 4).

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.

As part of the RTO Transaction the Company completed a 1-for-4 share split. The number of issued and outstanding shares has been retrospectively restated for all periods presented unless otherwise stated.

These consolidated 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 consolidated financial statements. These consolidated 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. At December 31, 2021, the Company had not achieved profitable operations, had accumulated a deficit of \$29,365,097 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. 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. The Company has moved its personnel to remote working environments and has experienced minimal disruption to ongoing operations.

2. Basis of Preparation

Statement of Compliance

These financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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

Basis of Presentation

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

Basis of Consolidation

These consolidated 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 consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The consolidated financial statements include the financial statements of the Company from the date of the RTO on December 29, 2020 and its 100% owned subsidiary, ProStar Geocorp Inc., Delaware, United States.

Significant accounting judgments, estimates, and assumptions

The preparation of these consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(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.

Business combinations and reverse take-over

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3 –Business Combinations, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest. The reverse take over is discussed in Note 4.

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. Judgement 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 13).

The Company also used estimates to determine the value of equity issued as part of the reverse take-over transaction. The fair value was based on the value of equity issued in concurrent financings. (Note 4)

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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

Critical accounting estimates (cont'd...)

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

Revenue recognition

Services revenue includes SaaS subscriptions, related set-up and custom programming service contracts, and from subscriptions to the PointMan. Services revenue is measured at the fair value of the consideration received or receivable for services, net of discounts and sales taxes. Consideration received from customers in advance is recorded as deferred revenue.

Services revenue is recognized when the amount of revenue can be reliably measured, the stage of completion of the work involved in supplying the services can be reliably measured, it is probable that economic benefits associated with the transaction will flow to the Company, and the costs incurred and to be incurred can be reliably measured.

Intangible assets - Patents

Costs directly attributable to patents are deferred and recognized as intangible assets. Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Patents are amortized on a straight-line basis over their estimated useful life of 15 years. The amortization method, estimated useful lives, and residual values are reviewed annually, or more frequently if required, and are adjusted as appropriate.

Intangible assets – Software

Costs directly attributable to software being made commercially available are deferred and recognized as intangible assets provided they meet all the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it can be made available for sale;
- The Company has the intent and ability to complete the intangible asset and use or sell it;
- The intangible asset will generate probable future economic benefits which requires that there be a market for the sale of the right to use the intangible asset;
- There are adequate technical, financial and other resources to complete the development of the intangible asset; and
- The expenditure attributable to the development of the intangible asset can be measured reliably.

Costs associated with major enhancements providing new capability to the product are also capitalized provided they can be reliably measured. Development costs incurred during the research phase of an internal project are expensed in the period in which they are incurred. Costs associated with maintaining these intangible assets such as minor updates and repairs are expensed as incurred.

Intangible assets are accounted for using the cost model whereby once the completed product is available for use, it is amortized on a straight-line basis over its estimated finite useful life.

Residual values, useful lives, and impairment indicators are reviewed at each reporting date. Intangible assets are subject to annual impairment testing if they are not being amortized or if they have an indefinite useful life.

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

3. Significant Accounting Policies (cont'd...)

Impairment

At the end of each reporting period, the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, due to a change in circumstances, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Translation of Foreign Currencies

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the United States dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

3. Significant Accounting Policies (cont'd...)

Equipment

On initial recognition, equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company. Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

Depreciation is recognized in operations using the declining balance method at the following rates over the assets useful life, except for software, which is amortized over the life of the license:

Computer equipment	40%
Software	3 years
Office Furniture and fixtures	30-40%
Survey Equipment	30-40%

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Financial instruments

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (FVTOCI), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company’s accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs

Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset’s contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

PROSTAR HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(figures in tables are expressed in United States dollars, except per share amounts)

3. Significant Accounting Policies (cont'd...)

Financial instruments (cont'd...)

Fair value through profit or loss – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statement of operations and comprehensive losses immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

Share capital

Equity financing transactions may involve the issuance of units. Units comprise common shares and share purchase warrants. The Company accounts for unit offering proceeds between common shares and share purchase warrants using the residual value method, with the common shares being valued first and the balance, if any, is allocated to the attached warrants.

Share-based payments

The fair value of all share-based awards granted is recorded, at the measurement date fair value, as an asset or a charge to profit or loss and as a credit to contributed surplus under the graded attribution method.

The fair value of share-based awards granted to employees and others providing similar services which vest immediately is recorded at the date of grant. The fair value of share-based awards which vest in the future is recognized over the vesting period, as adjusted for the expected level of vesting of the options. The fair value of share-based awards is estimated using the Black-Scholes pricing model, with estimated volatility based on the historical volatility of the Company's share price.

Share-based awards granted to parties other than employees and those providing similar services are measured at the fair value of the goods and services received on the date of receipt. If the fair value of the goods and services received cannot be reliably measured, their value is estimated using the Black-Scholes option pricing model, with estimated volatility based on the historical volatility of the Company's share price.

Any consideration received on the exercise of share-based awards together with the related portion of contributed surplus attributed to the exercised share-based awards is credited to share capital. When share-based awards expire unexercised the amounts recorded in contributed surplus with respect to those share-based awards are not reclassified within equity.

Earnings per share

Earnings per share is calculated by dividing the net income for the period available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. The Company uses the treasury stock method of calculating fully diluted loss per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. Basic and diluted earnings per share are the same for the periods presented as stock options or other dilutive instruments outstanding during the periods presented were anti-dilutive.

Government grants

Government grants related to research and development activities are recognized in profit or loss as a deduction from the related expenditure when there is reasonable assurance that the grant will be received. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

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3. Significant Accounting Policies (cont'd...)

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the excess.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

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4. Reverse Take-Over

(a) Reverse acquisition accounting

PHI with Doxa Merger Corp. (a wholly owned subsidiary of PHI created for the purposes of completing the transaction) (PHI SubCo) entered into a definitive merger agreement (the "Merger Agreement") with ProStar GeoCorp on May 22, 2019 as amended on February 11, 2020, May 29, 2020, August 17, 2020 and September 30, 2020. On December 29, 2020, under the terms of the Merger Agreement, the RTO Transaction completed by way of a merger under the laws of Delaware and the shareholders of ProStar GeoCorp exchanged each common share they held in that Company for common shares of PHI on the basis of 4 common shares of PHI for each common share of ProStar GeoCorp, resulting in the issuance of 62,618,300 common shares.

Upon closing of the transaction, and immediately prior to the conversion of the subscription receipts (note 13), PHI had an aggregate of 75,676,813 common shares issued and outstanding. At the time of exchange the shareholders of PHI held 13,058,431 PHI shares, representing approximately 17.3% and the former shareholders of ProStar GeoCorp held 62,618,380 PHI shares, representing approximately 82.7% of the common shares issued and outstanding.

Under the terms of the Merger Agreement, immediately prior to the closing of the transaction:

- a) PHI settled all outstanding loans through the issuance of 11,059,601 post consolidation common shares and through the forgiveness of interest.
- b) PHI disposed of its wholly owned subsidiary, Doxa Energy US, Inc.
- c) The outstanding common shares of PHI were consolidated on the basis of one new PHI share for every 17 existing PHI shares, resulting in 13,058,431 common shares outstanding.
- d) ProStar GeoCorp converted notes payable of \$1,693,918 to Class B preferred shares.
- e) All preferred shares of ProStar GeoCorp were converted to common shares of ProStar GeoCorp.
- f) PHI SubCo merged with and into ProStar GeoCorp, with ProStar GeoCorp surviving as a wholly owned subsidiary of PHI.
- g) Each outstanding share of ProStar GeoCorp was exchanged into four post-consolidation PHI shares.

Although the transaction resulted in a legal business combination, from an accounting perspective, the transaction is considered to be a reverse take-over. In accordance with reverse acquisition accounting:

- i. The assets and liabilities of ProStar GeoCorp are included at their historic value.
- ii. The net assets of PHI are included at fair value, assumed to be equal to their carrying value at December 29, 2020.
- iii. Share capital, reserves, accumulated other comprehensive loss and deficit of PHI up to the RTO on December 29, 2020 were eliminated.

The breakdown of the listing expense in the consolidated statement of loss and comprehensive loss, is as follows:

Purchase Price	
13,058,431 shares at \$0.31	\$ 4,078,848
Less: Net assets of PHI	
Cash	(4,382,603)
Accounts and other receivables	(2,868)
Accounts payable and accrued liabilities	51,865
Subscription receipt liability	4,372,950
Listing costs expensed	\$ 4,118,192

The fair value of the 13,058,431 shares retained by the PHI shareholders was determined to be \$4,078,848, which was based on the subscription receipt financing completed by PHI of 14,000,000 units at a price of CDN\$0.40 (USD \$0.31).

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5. Receivables and Prepayments

	December 31, 2021	December 31, 2020
Trade receivables	\$ 3,270	\$ 13,000
Other receivables and prepayments	95,984	5,620
	\$ 99,254	\$ 18,620

6. 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, 2019	\$ 35,655	\$ 105,484	\$ 9,334	\$ 29,762	\$ 180,235
Additions	8,864	12,352	1,226	86,981	109,423
Disposals	(1,874)	(5,586)	-	(29,762)	(37,222)
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
Accumulated Depreciation					
Balance – December 31, 2019	\$ 8,012	\$ 66,611	\$ 7,671	\$ 25,512	\$ 107,806
Depreciation	9,479	18,887	659	22,370	51,395
Disposals	(1,874)	(4,822)	-	(29,762)	(36,458)
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
Balance – December 31, 2020	\$ 27,028	\$ 31,574	\$ 2,230	\$ 68,861	\$ 129,693
Balance – December 31, 2021	\$ 19,089	\$ 32,505	\$ 3,929	\$ 148,093	\$ 203,616

7. Intangible assets

	Patent
Cost	
Balance – December 31, 2019	\$ 495,000
Additions	10,000
Balance – December 31, 2020 and 2021	\$ 505,000
Accumulated Amortization	
Balance – December 31, 2019	\$ 495,000
Amortization	333
Balance – December 31, 2020	495,333
Amortization	667
Balance – December 31, 2021	\$ 496,000
Balance – December 31, 2020	\$ 9,667
Balance – December 31, 2021	\$ 9,000

Patents

A total of \$495,000 had been expended to acquire certain patents. The patents are being amortized over a period of 15 years.

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8. Accounts Payable and Accrued Liabilities

	December 31, 2021	December 31, 2020
Trade accounts payable	\$ 181,432	\$ 499,132
Payroll liabilities	112,537	62,160
	<u>\$ 293,969</u>	<u>\$ 561,292</u>

9. Lease liabilities

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

Lease liabilities	
Balance, December 31, 2019	\$ 5,074
Recognition of lease liability	86,981
Accrued finance expense	6,112
Lease payments	<u>(26,098)</u>
Balance, December 31, 2020	72,069
Recognition of lease liability	193,541
Accrued finance expense	18,459
Lease payments	<u>(124,742)</u>
Balance, December 31, 2021	<u>\$ 159,327</u>
Current	\$ 123,614
Long-term	<u>\$ 35,713</u>

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

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10. 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.

11. Notes Payable

Balance – December 31, 2019	\$	2,321,105
Interest and fees accrued		66,898
Repayments – cash		(694,085)
Conversion to Class B preferred shares		(1,693,918)
		<hr/>
Balance – December 31, 2020 and 2021	\$	-

The Company was advanced short-term loans from both related and unrelated parties. The loans bore interest at 3% and were secured over the assets of the Company. The loans were issued on November 23, 2004, reissued on January 25, 2011, extended on January 9, 2014, restated on January 1, 2015, extended on January 1, 2017, were revised and extended on January 31, 2018 and were extended on September 30, 2020 to December 31, 2020, at which time the interest rate was amended to 3.5%.

During the year ended December 31, 2020, the Company made payments of \$694,085 and on December 29, 2020, the Company converted the balance of the notes payable (\$1,693,918) to Class B Preferred Shares (Note 12).

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12. Preferred Shares

The following table summarizes the classes of the Company's subsidiary, ProStar GeoCorp, share capital which are presented as financial liabilities:

Preferred Shares Shares classified as financial liabilities	Class A		Class B		Class C		Class D		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
December 31, 2019	24,666,664	7,708,333	4,514,688	1,128,672	14,000,000	3,500,000	-	-	43,181,352	12,337,005
Issued	-	-	-	-	-	-	6,000,000	1,500,000	6,000,000	1,500,000
Issued in settlement of notes payable	-	-	6,775,672	1,693,918	-	-	-	-	6,775,672	1,693,918
Converted to common shares	(24,666,664)	(7,708,333)	(11,290,360)	(2,822,590)	(14,000,000)	(3,500,000)	(6,000,000)	(1,500,000)	(55,957,024)	(15,530,923)
December 31, 2020 and 2021	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -

During the year ended December 31, 2021, the Company did not issue any preferred shares.

During the year ended December 31, 2020, the Company's subsidiary, ProStar GeoCorp:

- a) Issued 6,000,000 Class D units at \$0.25 per share for proceeds of \$1,500,000, of which \$50,000 was received during the year ended December 31, 2019. Each unit includes one Class D preferred share and one-half of one transferrable share purchase warrant. Upon completion of the proposed reverse takeover ("RTO") each whole warrant entitles the holder to acquire one post-consolidation ProStar Holdings share at a price of CDN\$0.56 for a period of 24 months from the closing date RTO (December 29, 2020).
- b) Converted notes payable of \$1,693,918 into 6,775,672 Class B preferred shares, at a value of \$0.25 per share.
- c) Converted all Preferred Shares into common shares of ProStar GeoCorp and exchanged them for shares of the Company, resulting in the conversion of 55,957,024 preferred shares into 55,957,024 common shares.

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13. Share Capital

(a) Authorized Share Capital

As at December 31, 2021, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

(b) Common Shares

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 values 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.

During the year ended December 31, 2020 the Company:

- a) Completed a non-brokered subscription receipts financing issuing 14,000,000 subscription receipts at a price of CDN\$0.40 (USD - \$0.31) per share for gross proceeds of \$4,190,362 (CND \$5,600,000). Each subscription receipt converted into one unit upon completion of the RTO on December 29, 2020. Each unit comprises one share and one-half of one warrant, with each whole warrant entitling the holder to purchase one common share at a price of CDN\$0.60 for a period for 24 months.

The Company paid share issuances costs of \$274,539 and issued a total of 878,937 share purchase warrants (the "Broker Warrants"), with each Broker Warrant exercisable at CDN\$0.40 per Common Share for a period of 24 months ending December 29, 2022. The Broker Warrants were valued at \$143,174 (CDN\$143,174) using Black-Scholes. The Company used the following assumptions when valuing the underwriters warrants: expected volatility of 100%, risk free interest rate of 0.21%, life of 2 years, dividend yield of 0% and forfeiture rate of 0%.

- b) Converted preference shares recorded as financial liabilities of \$15,530,922 to 55,957,024 common shares. Upon completion of the conversion a total of \$15,530,922, recognized as ProStar's preferred share liabilities, was transferred to share capital.

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13 Share Capital (Cont'd...)

(a) Escrow

As at December 31, 2021, 10,311,406 common shares are held in escrow and an additional 13,393,081 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.

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, 2019	-	\$ -	-	\$ -
Granted	<u>7,000,000</u>	<u>0.40</u>	<u>17,878,937</u>	<u>0.57</u>
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	<u>(485,000)</u>	<u>0.44</u>	<u>-</u>	<u>-</u>
Outstanding, December 31, 2021	8,800,000	\$ 0.45	32,427,639	\$ 0.57
Exercisable, December 31, 2021	5,457,080	\$ 0.43	32,427,639	\$ 0.57

The following stock options were outstanding as at December 31, 2021:

Exercise Price	Outstanding	Exercisable	Expiry	Remaining Life (Years)
CDN\$0.40	6,590,000	4,393,333	December 29, 2025	4.03
CDN\$0.73	125,000	41,666	January 25, 2026	4.07
CDN\$0.73	125,000	41,666	January 29, 2026	4.08
CDN\$0.73	125,000	41,666	February 26, 2026	4.16
CDN\$0.65	150,000	37,500	March 26, 2026	4.24
CDN\$0.70	110,000	36,666	April 13, 2026	4.28
CDN\$0.70	200,000	200,000	May 26, 2026	4.40
CDN\$0.65	325,000	81,250	July 8, 2026	4.52
CDN\$0.48	500,000	500,000	August 9, 2026	4.61
CDN\$0.45	<u>550,000</u>	<u>83,333</u>	December 10, 2026	4.95
	8,800,000	5,457,080		

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

	2021	2020
Weighted average fair value (CDN\$)	\$0.424	\$0.295
Risk-free interest rate	0.63%	0.21%
Expected life of options	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

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13 Share Capital (Cont'd...)

Stock options and warrants

The following warrants were outstanding as at December 31, 2021:

Exercise Price	Number	Expiry	Remaining Life (Years)
Warrants:			
CDN\$0.56	10,000,000	December 29, 2022	0.99
CDN\$0.60	6,987,500	December 29, 2022	0.99
CDN\$1.00	715,000	March 23, 2023	1.22
CDN\$0.56	12,750,000	November 24, 2023	1.90
	<u>30,452,500</u>		
Broker Warrants:			
CDN\$0.40	796,914*	December 29, 2022	0.99
CDN\$0.70	100,100	March 23, 2023	1.22
CDN\$0.40	1,006,250	November 24, 2023	1.90
CDN\$0.76	71,875	November 24, 2023	1.90
	<u>1,975,139</u>		

* Subsequent to year end 16,000 were exercised for proceeds of \$6,400

14. 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 year ended December 31, 2021.

15. Supplemental Cash Flow Information

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

- a) Issued broker warrants valued at \$237,316 as share issuance costs.
- b) Issued units valued at \$45,624 as share issuance costs.
- c) Entered into lease agreements and recognized right of use assets and lease liabilities of \$193,541.

During the year ended December 31, 2020, the Company:

- a) Issued 6,775,672 Class B preferred shares in settlement of notes payable of \$1,693,918.
- b) Issued 55,957,024 common shares on conversion of \$15,530,923 preference shares which were recorded as financial liabilities.
- c) Issued broker warrants valued at \$143,174 as share issuance costs.
- d) Entered into lease agreements and recognized right of use assets and lease liabilities of \$86,981.
- e) Recognized accounts and other receivables of \$2,868 and accounts payable and accrued liabilities of \$51,866 acquired through the RTO Transaction.

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16. Related Party Transactions

During the year ended December 31, 2021, the Company paid or accrued, to key management personnel, directors and their related companies:

	2021	2020
Chief Executive Officer	\$ 304,167	\$ 247,500
Chief Operating Officer	287,500	250,000
Chief Financial Officer	117,500	60,000
Share-based payments	-	379,518
Total	\$ 709,167	\$ 937,018

Included in accounts payable is \$nil (December 31, 2020 - \$150,000) owing to officers of the Company.

17. Income Taxes

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the years ended December 31, 2021 and 2020.

	2021	2020
Loss before income tax for the year	\$ (5,706,255)	\$ (6,727,929)
Expected income tax (recovery)	\$ (1,541,000)	\$ (1,817,000)
Change in statutory, foreign tax rates and other	90,000	(404,000)
Permanent difference	351,000	1,220,000
Share issuance costs	(144,000)	-
Change in unrecognized deductible temporary differences	1,244,000	1,001,000
Income tax expenses (recovery)	\$ -	\$ -

The significant components of the Company's deferred tax assets (liabilities) are as follows:

	2021	2020
Deferred tax assets (liabilities):		
US Federal and State tax credits	\$ 296,000	\$ 296,000
Share issuance costs	130,000	-
Capital and intangibles	15,000	15,000
Non-capital losses available for future periods	3,786,000	2,656,000
Net deferred tax assets (liabilities)	\$ 4,212,000	\$ 2,967,000

Management has not recognized deferred tax assets in excess of the deferred tax liabilities as there is insufficient certainty as to the timing of when these excess deferred tax assets will be realized in the foreseeable future.

The significant components of the Company's unrecognized temporary differences are as follows:

	2021	2020	Expiry date range
Temporary Differences:			
Research and development tax credits	299,000	299,000	No expiry date
Share issuance costs	481,000	-	2041
Capital and intangible assets	(6,000)	62,000	No expiry date
Non-capital losses available for future periods			
USA	15,257,000	10,756,000	2026 to 2039

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18. Income Taxes (Cont'd...)

Tax attributes are subject to review, and potential adjustment, by tax authorities. The US non-capital losses and tax credits may be limited in their availability if an IRC Section 382 change in control has occurred for ProStar GeoCorp. Prostar has not determined if a change of control has occurred for US tax purposes since 2004.

18. 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 December 31, 2021, 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 convertible note. 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. At December 31, 2021 and December 31, 2020, the Company was not subject to significant market risk

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.

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18. Financial Risk Management (cont'd...)

Financial and capital risk management (cont'd...)

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. At December 31, 2021, the Company was subject to 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.

19. Segmented Information

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