

SPARTA CAPITAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017



Independent Auditors' Report

To: The Shareholders of **Sparta Capital Ltd.**

We have audited the accompanying consolidated financial statements of Sparta Capital Ltd., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sparta Capital Ltd. as at September 30, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which indicates that at September 30, 2017 the Company had limited working capital of \$1,078,610. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Kenway Mack Slusarchuk Stewart LLP

January 29, 2018
Calgary, Alberta

Chartered Professional Accountants,
Chartered Accountants

Sparta Capital Ltd.
Consolidated Statements of Financial Position

As at September 30,	Note	2017 \$	2016 \$
Assets			
Current assets			
Cash		935,390	583,457
Accounts receivable		1,258,161	649,265
Inventories		11,571	10,342
Prepaid expenses		97,055	22,988
Subscriptions receivable	6	75,000	-
		<u>2,377,177</u>	<u>1,266,052</u>
Equipment	7	89,500	13,754
		<u>2,466,677</u>	<u>1,279,806</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		1,764,078	958,877
Income taxes payable		1,826	12,500
Deferred revenue		220,534	14,379
Notes payable	5	256,106	-
Convertible debentures	6	279,834	-
Loans	5	933,409	13,000
		<u>3,455,787</u>	<u>998,756</u>
Shareholders' equity (deficit)			
Share capital	8	7,606,437	6,953,647
Share subscriptions received	8	-	177,000
Warrants	8	195,332	-
Contributed surplus		715,347	700,181
Deficit		(9,304,136)	(7,423,801)
Total equity attributable to the equity holders of the Corporation		<u>(787,020)</u>	<u>407,027</u>
Equity attributable to non-controlling interest	16	(202,090)	(125,977)
		<u>(989,110)</u>	<u>281,050</u>
		<u>2,466,677</u>	<u>1,279,806</u>
Going concern	2		

Approved on behalf of the Board:

Signed: "Peter Quattrociochi"

Director

Signed: "John O'Bireck"

Director

Sparta Capital Ltd.
Consolidated Statements of Comprehensive Loss

For the year ended September 30,	Note	2017	2016
		\$	\$
Revenue		6,964,447	4,543,667
Expenses			
Transportation		2,924,137	2,343,405
Salaries and benefits		1,287,461	418,547
Consulting fees		557,671	521,758
Product costs		514,520	346,893
Service costs		500,222	-
Repairs and maintenance		347,606	148,983
Equipment rental		308,500	253,070
Business development		286,122	204,012
Travel, promotion and office		205,674	116,935
Professional fees		186,490	71,246
Automotive		75,239	31,430
Bad debts		60,786	-
Insurance		53,823	29,000
Commissions		43,346	-
Licenses and fees		42,760	27,037
Interest and bank charges		32,471	4,461
Occupancy		24,000	20,000
Amortization		10,644	2,427
Marketing fees		3,294	128,031
Total expenses		7,464,766	4,667,235
Loss from operations		(500,319)	(123,568)
Other Expenses			
Loss on acquisition of SuperNova	5	1,465,498	-
Loss before income taxes		(1,965,817)	(123,568)
Income taxes	14	(421)	(12,500)
Net loss and comprehensive loss for the year		(1,966,238)	(136,068)
Net loss and comprehensive loss attributable to:			
Shareholders		(1,880,335)	(71,130)
Non-controlling interests	15	(85,903)	(64,938)
		(1,966,238)	(136,068)
Net loss per share			
Basic and diluted	11	(0.013)	(0.001)

See accompanying notes to the consolidated financial statements.

Sparta Capital Ltd.

Consolidated Statements of Changes in Equity

	Number of common shares	Share capital \$	Contributed surplus \$	Warrants \$	Share subscription receivable \$	Share subscription received \$	Deficit \$	Non- controlling interest \$	Total \$
Balance, September 30, 2016	144,654,140	6,953,647	700,181	-	-	177,000	(7,423,801)	(125,977)	281,050
Private placement	4,366,000	130,980	-	87,320	-	(177,000)	-	-	41,300
Warrants exercised	1,026,000	71,820	-	(20,520)	-	-	-	-	51,300
Issued on acquisition of SuperNova	9,849,750	393,990	-	114,532	-	-	-	-	508,522
Conversion of debentures	1,400,000	56,000	-	14,000	-	-	-	-	70,000
Equity portion of convertible debt	-	-	15,166	-	-	-	-	-	15,166
Non-controlling interest	-	-	-	-	-	-	-	9,790	9,790
Loss for year	-	-	-	-	-	-	(1,880,335)	(85,903)	(1,966,238)
Balance, September 30, 2017	161,295,890	7,606,437	715,347	195,332	-	-	(9,304,136)	(202,090)	(989,110)
Balance, September 30, 2015	138,964,140	6,612,247	612,741	144,340	(27,500)	-	(7,352,671)	(61,039)	(71,882)
Share subscription receivable	-	-	-	-	27,500	-	-	-	27,500
Share subscription received	-	-	-	-	-	177,000	-	-	177,000
Warrants exercised	5,690,000	341,400	-	(56,900)	-	-	-	-	284,500
Warrants expired	-	-	87,440	(87,440)	-	-	-	-	-
Profit for year	-	-	-	-	-	-	(71,130)	(64,938)	(136,068)
Balance, September 30, 2016	144,654,140	6,953,647	700,181	-	-	177,000	(7,423,801)	(125,977)	281,050

See accompanying notes to the consolidated financial statements.

Sparta Capital Inc.
Consolidated Statements of Cash Flows

As at September 30	Note	2017	2016
		\$	\$
Cash provided by (used in):			
Operations:			
Net loss and comprehensive loss from operations		(1,966,238)	(136,068)
Items not involving cash:			
Consulting fees		-	187,000
Amortization		10,644	2,427
Loss on the acquisition of SuperNova		1,465,498	-
Change in non-cash working capital			
Accounts receivable		(599,139)	(612,901)
Prepaid expenses		(74,067)	(12,129)
Inventory		(1,229)	(10,342)
Accounts payable and accrued liabilities		997,666	656,391
Income taxes payable		(10,674)	12,500
Deferred revenue		206,155	14,379
Cash flows from operations		28,616	101,257
Investing:			
Purchase of equipment		(66,000)	(16,181)
Cash acquired in the acquisition of SuperNova	5	1,717	
Cash flows used in investing		(64,283)	(16,181)
Financing:			
Proceeds from exercise of warrants	7	51,300	97,500
Share subscriptions received	7	-	177,000
Proceeds of convertible debenture financing		295,000	-
Proceeds of private placement		41,300	-
Payment of share subscriptions receivable		-	27,500
Cash flows from financing		387,600	302,000
Increase in cash		351,933	387,076
Cash, beginning of year		583,457	196,381
Cash, end of year		935,390	583,457

See accompanying notes to the consolidated financial statements.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

1. Reporting Entity and Nature of Operations

Sparta Capital Ltd. (the “Corporation” or “Sparta”) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on February 24, 1988. The Corporation maintains its head office at 303, 6707 Elbow Drive SW Calgary, Alberta, T2V 0E5 and registered office at Suite 1600, Dome Tower, 333 - 7th Avenue S.W. Calgary, Alberta, T2P 2Z1. The Corporation is publicly listed on the TSX Venture Exchange under the symbol “SAY”.

The Corporation seeks to leverage its expertise in product development, manufacturing, distribution, sales and service across a range of complementary products. In addition, Sparta engages in exploring future investment opportunities to increase shareholder value.

The Corporation offerings include four different environmentally centered market verticals through the formation of majority controlled corporations and exclusive licensing agreements. The offerings include optimization of energy consumption in the commercial and manufacturing sectors, construction and energy through biomass conversion, energy conservation in mining, and energy savings in transportation.

During the year, the Corporation focused on the expansion of a number of divisions:

- Illumineris Inc. (“Illumineris”) has two divisions, the photoluminescent safety products (“Safety”) division and the comprehensive energy audit (“EMD”) division. The Safety division has a distribution agreement with Jessup Manufacturing of McHenry IL to distribute their specialized photoluminescent exit signs and egress pathway markings to reduce the consumption of carbon based electricity. The EMD division measures and monitors energy use in commercial buildings and manufacturing facilities and offers turnkey solutions and ongoing support.
- ReECO Tech Conversion Technologies Ltd. (“ReECO Tech”) is a biomass division with a focus on helping develop environmentally sustainable economies by converting biomass waste into consumables such as waste-to-energy products. ReECO Tech’s services provide a viable option for helping manufacturers reduce waste, save resources, save money and lower their carbon footprint. Presently ReECO Tech has three divisions;
- ReECO Tech Electronic Conversions Ltd. (“ReECO Tech Electronics”) is a newly formed electronics recycling company that will focus on conversion and remarketing of old electronic components. Subsequent to year-end, Sparta completed a transaction through this newly formed subsidiary to acquire all the liquidated assets of ERS International for cash consideration of \$506,179. The company which now carries on business under the ERS-International banner intends to use the purchased assets to expand its current e-waste operations.
- ReECO Tech Property Conversions Ltd. (“ReECO Tech Property”) is a newly formed property investment division with a focus on the developing property opportunities to provide a return on the related investments.
- SuperNova Performance Technologies Ltd. (“SuperNova”) – On July 5, 2017, Sparta acquired all outstanding shares of SuperNova (Note 5) and became a 100% owned subsidiary of Sparta. SuperNova will focus on accessing and developing emerging technologies that reduce greenhouse gas emissions in the transportation industry.
- Sparta Technologies 4 Mining Ltd. (“4 Mining”) is a mining division with a focus on the development of an emissions free underground vehicle propulsion system. This mining division is looking to expand its offerings to include a number of above ground vehicle platforms and carbon efficient mining equipment.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

2. Going Concern

These financial statements have been prepared on a going concern basis which assumes that the Corporation will realize its assets and discharge its liabilities in the normal course of business.

For the year ended, September 30, 2017, the Corporation has incurred a net loss from operations of \$500,319 (2016 – \$123,566) and has a working capital deficit of \$1,078,610 (2016 - \$267,296 working capital).

In order to meet the Corporation's future working capital requirements it will be required to attract additional funds through the issue of debt or equity. The Corporation's management will continue to consider various alternatives to finance the Corporation's operations and activities within the context of existing market conditions. Additional capital requirements are dependent on uncertain future events, including but not limited to the results of the evaluation of other business growth opportunities, the level of growth in product sales and distribution.

There can be no assurance that capital will be available as necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to the Corporation. The issuances of additional equity securities by the Corporation may result in significant dilution to the equity interests of its current shareholders. If the Corporation is unable to obtain financing in the amounts and on terms deemed acceptable, the business and future success may be adversely affected.

These conditions raise significant doubt about the Corporation's ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, and the balance sheet classifications used could be material.

Subsequent to year-end, Sparta completed an equity financing by issuing 10,000,000 common shares at \$0.05 per share for proceeds of \$500,000.

3. Basis of Presentation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements are in compliance with IFRS and were authorized for issue by the Corporation's Board of Directors on January 29, 2018.

Consolidation

These consolidated financial statements incorporate the financial statements of the Corporation and its subsidiaries. Sparta Capital Ltd. is the ultimate parent corporation of the consolidated group. Subsidiaries are consolidated from the date on which the Corporation obtains control and continue to be consolidated until control ceases. Control is established when the Corporation has the power to govern the financial and operating policy decisions of the entity so as to obtain benefits from the entity's activities, and generally exists where more than 50% of the voting power of the entity is held by the Corporation. The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation, using consistent accounting policies. All material intercompany transactions and balances are eliminated in full upon consolidation.

Where the ownership of a subsidiary is less than 100%, and a non-controlling interest exists, any gains or losses of that subsidiary are attributed to the non-controlling interest even if it results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

The subsidiaries of the Corporation and their principal activities as at September 30, 2017 were as follows:

Name of subsidiary	Ownership interest at September 30,		Principal activity
	2017	2016	
Newport Environmental Technologies Ltd.	100%	100%	Inactive
Sparta Technologies 4 Mining Ltd.	100%	100%	Product development
Illumineris Inc.	51%	51%	Product distribution
Illumineris Systematics Inc.	56%	-	Product distribution and installation
ReECO Tech Conversion Technologies Ltd.	51%	51%	Product development
SuperNova Performance Technologies Ltd.	100%	100%	Product development
ReECO Tech Property Conversions Ltd.	51%	51%	Property investment
ReECO Tech Electronic Conversions Ltd.	56%	-	Electronics recycling

For those subsidiaries not wholly owned, the remaining shares held by an external trustee for future issuance to employees and consultants.

Basis of measurement

The financial statements have been prepared on the historical cost basis and are presented in Canadian dollars, which is the Corporation's functional currency.

Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(i) Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Key areas with estimate uncertainties are as follows:

- Stock based compensation and share purchase warrants not issued as part of a unit - estimates for forfeiture rates, volatility, expected dividend yield and expected life.
- Revenue recognition and contracts in progress - Revenue on a construction contract is recognized on a percentage of completion basis. In applying the accounting policy on construction contracts, judgment is required in determining the estimated costs to complete the contract. These estimates are reviewed as at each reporting period.

(ii) Judgments

Judgments in applying accounting policies are as follows:

- Going concern – the ability of the Corporation to continue as a going concern.
- Acquisitions – whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs, and processes acquired, is capable of being conducted and managed as a business.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

4. Significant Accounting Policies

a) Cash

The Corporation considers all investments with maturities of three months or less and demand bank loans that are utilized periodically for day to day operations to be cash equivalents.

b) Foreign Currency Translation

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, if any. All other assets and liabilities are translated at the exchange rates applicable at the time of the relevant transaction. Revenues and expenses are translated at the average exchange rate as at each reporting period.

c) Inventory

Inventory is recorded at the lower of cost and net realizable value on a specific item basis and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing the items to their existing location and condition.

d) Equipment

Equipment are stated at cost. Amortization is provided using the straight-line method at the following annual rates:

Computer Equipment	3 years
Vehicle	5 years

One half of the normal amortization is recorded in the year of acquisition. No amortization is recorded in the year of disposal.

e) Revenue Recognition

Service revenue is recognized at the time persuasive evidence of an agreement exists, price is fixed and determinable, the service or product is delivered to the external customer and collectability is reasonably assured.

Revenues from construction contracts are recognized using the percentage-of-completion method once the outcome of the construction contract can be estimated reliably, in proportion to the stage of completion of the contract, and to the extent to which collectability is reasonably assured. The stage of completion is measured by reference to actual costs incurred as a percentage of estimated total costs of each contract. When the outcome cannot be reliably determined, contract costs are expensed as incurred and revenue is only recorded to the extent that the costs are determined to be recoverable. Where it is probable that a loss will arise from a contract the excess of total expected costs over total expected revenue is recognized as an expense immediately.

f) Income Taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized.

g) Stock Based Compensation

The compensation expense related to incentive options issued to employees is recognized using the grant date fair value over the vesting period of the stock options whereas consultant's warrants and options issued to non-employees are recognized at the current fair value as earned under the terms of the agreement. The fair value of stock options is determined using the Black-Scholes option pricing model.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

h) Private Placement Units

When the Corporation issues private placement units, the value attributed to the warrants is measured using the residual method. This method allocates value first to the more easily measurable component based on fair value and the residual to the less easily measurable component, if any. The Corporation considers the fair value of its shares to be the more easily measurable component and is valued with reference to the market price. The residual value is attributed to the warrants, if any is recorded as a separate component of equity.

i) Earnings (Loss) Per Share

Earnings (Loss) per share is computed by dividing the net loss for the year by the weighted average of shares outstanding during the reporting year. Diluted earnings/loss per share is calculated using the treasury stock method to determine the dilutive effect from the exercise of stock options, share purchase warrants and convertible debentures. This assumes that any proceeds received from in-the-money options and share purchase warrants would be used to buy back common shares at the average market price for the period.

j) Financial Instruments

Recognition and measurement

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and loans. Financial instruments are recognized initially at fair value. Subsequent to initial recognition financial instruments are measured in one of the following categories: financial assets and financial liabilities measured at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

i. Financial assets and liabilities at fair value through profit or loss

An instrument is classified at fair value through profit or loss ("FVTPL") if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Corporation manages such assets and liabilities and makes purchase and sale decisions based on their fair value in accordance with the Corporation's risk management strategy. Transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized as profit or loss.

Financial assets at FVTPL include cash.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Transaction costs are included in the initial carrying amount. Such assets are carried at amortized cost using the effective interest rate method, less impairment.

Accounts receivable are classified as loans and receivables.

iii. The Corporation currently has no financial assets classified as held to maturity or available-for-sale.

iv. Other financial liabilities

All financial liabilities are carried at amortized cost using the effective interest method, except for financial liabilities at FVTPL. Transaction costs are included in the initial carrying amount.

Financial liabilities classified as other financial liabilities include accounts payable and accrued liabilities, loans payable, notes payable and convertible debentures.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss recognized in other comprehensive income is recognized in profit or loss.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or upon expiration. On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in profit or loss.

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

k) Application of new and revised International Financial Reporting Standards

At the date of authorization of these financial statements, the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") has issued the following new and revised standards, amendments and interpretations which are not yet effective during the year ended September 30, 2017.

IFRS 9 - Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, an entity can recognize the portion of the change in fair value related to the change in the entity's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently evaluating the impact of adopting IFRS 9 on the consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers - In May 2014, the IASB published IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), replacing IAS 11, "Construction Contracts" and IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

IFRS 16 - Leases - In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), its new lease standard that requires lessees to recognize assets and liabilities for most leases on the statement of financial position. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Corporation is currently monitoring the development of this standard and assessing the impact that adoption of this standard may have on the consolidated financial statements.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

5. Acquisition

On July 5, 2017, Sparta completed a transaction which resulted in the acquisition of SuperNova Performance Technologies Ltd. ("SuperNova"). In exchange for all the issued and outstanding common shares and share purchase warrants of SuperNova, Sparta issued 9,849,750 common shares and 6,196,000 share purchase warrants on a 1:1 basis. In completing the transaction, Sparta acquired access to licenses to certain pre-commercial products. Due to the uncertainty of commercial viability of these products, the cost of the acquisition has been expensed.

As SuperNova is deemed not to be a business in accordance with IFRS 3, the transaction has been treated as an asset acquisition.

The Purchase price consideration:

	Amount (\$)
Common shares @ \$0.04	393,990
<u>Share purchase warrants (Note 8)</u>	<u>114,532</u>
	<u>508,522</u>

The Purchase price consideration was allocated as follows:

Cash	1,717
Accounts receivable	190,180
Capital assets - equipment	20,390
Loans payable	(914,470)
<u>Promissory note</u>	<u>(254,793)</u>
Net assets (liabilities) acquired	(956,976)
<u>Loss recognized on acquisition</u>	<u>1,465,497</u>
	<u>508,522</u>

In connection with the acquisition of SuperNova, Sparta assumed liabilities in the form of a promissory note and loans payable balances. The promissory note in the amount of \$254,793 includes accrued interest. The note has no fixed terms of repayment and accrues interest at the rate of 3.0% compounded annually. In addition, Sparta assumed loans payable of \$914,470. These loans have no fixed terms of repayment and accrue interest at 3.0% per annum.

Upon the completion of the transaction, SuperNova became a wholly owned subsidiary of Sparta.

At the time of acquisition, SuperNova had cumulative non-capital losses totaling \$2,330,942. Sparta has not recognized a deferred income tax asset related to the non-capital losses.

Included in Sparta's loss of \$1,966,238 for the year ended September 30, 2017, is a loss of \$8,920 incurred by SuperNova during the period from July 5, 2017 to September 30, 2017.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

6. Convertible Debentures

On September 26, 2017, Sparta closed a \$365,000 debt financing through the issuance of convertible unsecured subordinated debentures (convertible debentures). At September 30, 2017, \$75,000 of proceeds is receivable. The convertible debentures mature one year from the date of issue and bear interest at a rate of 8% per annum, payable semi-annually in arrears on June 30th and December 31st in each year commencing December 31, 2017. The debentures can be converted at a value of \$0.05 into one unit where each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share for \$0.05 per share expiring one year from the date of issuance.

The convertible debentures are compound financial instruments containing a liability component and an equity component. The fair value of the liability component at the time of issue of \$349,834 was calculated as the discounted cash flows for the convertible debenture assuming a 12% interest rate which was based on the estimated market interest rate for debt financing without a conversion feature. The fair value of the equity component (conversion feature) of \$15,166 was determined at the time of issue as the difference between the fair value of the compound convertible debenture and the fair value of the liability component.

On September 26, 2017, holders of \$70,000 of convertible debentures exercised their rights under the agreement and converted their debentures into 1,400,000 common shares and 1,400,000 share purchase warrants.

7. Equipment

	2017		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Equipment	26,070	3,543	22,527
Vehicles	76,500	9,527	66,973
	<u>102,570</u>	<u>13,070</u>	<u>89,500</u>

	2016		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	5,681	852	4,829
Vehicle	10,500	1,575	8,925
	<u>16,181</u>	<u>2,427</u>	<u>13,754</u>

8. Share Capital

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series. The rights, privileges, restrictions and conditions attached to the preferred shares are to be determined by the Directors of the Corporation at time of issuance. There are no preferred shares issued or outstanding as at September 30, 2017.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

Issued

On October 28, 2016 the Corporation completed the third tranche of an 18,800,000 unit offering by issuing 4,366,000 units at \$0.05 per unit for gross proceeds of \$218,300. Each unit is comprised of one common share and one share purchase warrant of the Corporation. Each warrant entitles the holder to acquire an additional common share at a price of \$0.05 per common share for up to twelve months from the date of issuance. If the volume weighted average trading price of the common shares is greater than \$0.14 for 20 consecutive business days prior the warrant expiry date, the warrant expiry date may be accelerated, in the Corporation's sole discretion, to 30 business days from the date acceleration event.

In connection with the units issued on October 28, 2016, on November 7, 2016 1,026,000 warrants were exercised to purchase one common share for \$0.05 each for gross proceeds of \$51,300. Subsequent to September 30, 2017, the remaining balance of 3,340,000 share purchase warrants expired unexercised.

In connection with the purchase of SuperNova (Note 5), the Corporation issued 9,849,750 common shares and 6,196,000 share purchase warrants as consideration for the purchase of all outstanding shares of the company.

On September 26, 2017, holders of convertible debentures with a total value of \$70,000 exercised their conversion rights and were issued 1,400,000 common shares and 1,400,000 share purchase warrants of the Corporation.

On March 6, 2016, 5,690,000 warrants were exercised for \$0.05 each for gross proceeds of \$284,500. Cash payments of \$97,500 were received for the exercise of the warrants, with the remaining exercised in exchange for consulting service fees.

Options

A summary of the Corporation's outstanding stock options as at September 30, 2017 and 2016, and the changes for the years then ended, is as follows:

	Number of options	Weighted average exercise price
		\$
Balance, September 30, 2015	5,375,000	0.08
Expired	(300,000)	(0.10)
Balance, September 30, 2016	5,075,000	0.08
Expired	(550,000)	(0.10)
Cancelled	(1,125,000)	(0.10)
Balance, September 30, 2017	3,400,000	0.06

During the year, 550,000 options expired and 1,125,000 options were cancelled in accordance with Sparta's stock option plan.

On November 10, 2017, the Corporation granted stock options to certain officers, directors and consultants for the purchase of 3,588,000 common shares of the Corporation at an exercise price of \$0.05 per common share. These options will expire on November 20, 2022. The options vested immediately.

In addition, on November 10, 2017, Sparta granted stock options in accordance with certain consulting agreements for the purchase of 2,000,000 shares in Re-Eco Tech Electronic Conversions Ltd., a majority owned subsidiary of the Corporation. The stock options are exercisable at a price of \$0.05 per common share and expire on November 20, 2022. The options vest when certain sales milestones are met in accordance with the agreement.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

2017			
Exercise Price	Options Outstanding	Options Vested	Weighted Average Remaining Contractual Life (Years)
\$0.05	2,800,000	2,800,000	2.48
\$0.10	600,000	600,000	0.71
	3,400,000	3,400,000	2.16

Warrants

A summary of the Corporation's share purchase warrants and the changes for the years then ended, is as follows:

	Number of Warrants	Amount \$
Balance, September 30, 2015	14,434,000	144,340
Exercised	(5,690,000)	(56,900)
Expired	(8,744,000)	(87,440)
Balance, September 30, 2016	-	-
Issued	4,366,000	87,320
Exercised	(1,026,000)	(20,520)
Issued in acquisition of SuperNova (i)	6,196,000	114,532
Issued on conversion of convertible debentures	1,400,000	14,000
Balance, September 30, 2017	10,936,000	195,332

- (i) In connection with the acquisition of SuperNova, Sparta issued 6,196,000 warrants (Note 5). Each warrant was issued at with similar terms as the SuperNova warrants that were replaced. Each warrant entitles the holder to purchase one common share at a price between \$0.05 and \$1.25.

Warrants issued (Note 5)	Exercise price (\$)
1,000,000	0.05
4,996,000	0.25
200,000	1.25
6,196,000	

The fair value of the 6,196,000 warrants of \$114,532 was calculated on July 5, 2017, the date of grant, using the Black-Scholes option pricing model. The assumptions applied by Sparta in this calculation were: a) expected dividend yield 0%, b) volatility 217%, c) risk-free interest rate 1.14%, d) expected life of 1 year.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

2017			
Warrants Outstanding	Exercise price (\$)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)
5,740,000	0.05	0.03	0.42
4,996,000	0.25	0.11	0.76
200,000	1.25	0.02	0.76
10,936,000		0.16	0.58

9. Related Party Transactions and Balances

As at September 30, 2017, included in accounts receivable is \$46,633 (2016 - \$45,535) related to advances made to SETA Group, a company controlled by a Director of the Corporation.

Key management compensation

Key management includes the Corporation's Directors, the CEO, CFO and President.

As at September 30,	2017	2016
Consulting fees	72,135	147,500
	72,135	147,500

10. Capital Management

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern by providing adequate working capital and maintaining cash on hand. The Corporation defines capital as the Corporation's shareholders' equity and loans and borrowings. At September 30, 2017 shareholders' deficit was \$989,110 (2016 - \$281,050 shareholders' equity) and loans and borrowings were \$1,469,349 (2016 - \$13,000). The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or obtain debt financing. The Corporation is not currently subject to any externally imposed capital requirements.

Management anticipates that, based on the amount required to fund expenses associated with the execution of the Corporation's current business plan, taking into account the limited working capital and the Corporation's projected level of future income, the Corporation is expected to require an injection of capital through debt or equity financing to meet its normal operating requirements for the next 12 months. Additional capital requirements are dependent on the extent of future revenues and expenses related to product development, manufacturing, sales and promotion and in consideration of results of the evaluation of other business growth opportunities and associated capital requirements. Additional liquid capital may be sourced from the issuance of share capital, debt financing or from potential government funding in support of development of export markets.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

11. Fair Value and Financial Risk Management

Fair Value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of loans payable, notes payable and convertible debentures are not materially different that carrying value.

Level 1 Fair Value Measurements are based on unadjusted quoted market prices. Cash is measured based on this approach.

Level 2 Fair Value Measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. The Corporation currently has no items recorded under this approach.

Level 3 Fair Value Measurements are based on unobservable information. The Corporation currently has no items recorded under this approach.

The Corporation's policy is to recognize transfers between fair value hierarchy levels as of the date of the event or change in circumstances which caused the transfer. There were no transfers in or out of any levels fair value hierarchy during the year ended December 31, 2017.

Financial risk management

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized as follows:

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's trade receivables.

The Corporation has \$369,490 (2016 - \$283,769) of accounts receivable from one customer (2016 – one), which represents 30% (2016 - 45%) of total accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation's objective in managing liquidity risk is to maintain sufficient liquidity to meet liabilities when due by holding sufficient cash and cash equivalents to settle current liabilities and meet its anticipated working capital requirements. The Corporation had a cash balance at September 30, 2017 of \$935,390 (2016 – \$583,457) and a working capital deficit of \$1,078,610 (2016 – \$267,296 positive working capital).

In order to meet the Corporation's anticipated working capital requirements it will be required to attract additional funds through the issue of debt, equity or other business means to further the development of the Corporation's products and to provide sufficient working capital. The Corporation monitors its working capital position and makes changes or reductions in expenditures to help sustain sufficient liquidity to meet liabilities on a timely basis.

Market Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Corporation is exposed to currency risk on its U.S. dollar denominated bank accounts. The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

12. Net Loss Per Share

Basic and diluted loss per share have been calculated based on the net loss divided by the weighted average number of common shares outstanding for the year ended September 30, 2017 and 2016. The weighted average number of common shares basic and diluted is as follows:

As at September 30,	2017	2016
Weighted average common shares	152,013,082	142,244,425
Effect of stock options and warrants	-	-
Balance, year end	152,013,082	142,244,425

For the year ended September 30, 2017 the weighted average outstanding calculation excludes the following instruments that are contingently issuable as they are anti-dilutive:

- 3,400,000 options (2016 – 5,075,000).
- 10,936,000 warrants (2016 – nil).
- 5,900,000 shares and 5,900,000 warrants related to the convertible debentures(2016 – nil).

13. Economic Dependence

Sparta Capital Ltd. earned \$4,979,336 (2016 - \$4,004,722), which represents 70% (2016 – 88%) of its revenue, from two (2016 – two) customers.

14. Income Taxes

Income tax expense varies from the amounts that would be computed by applying the basic federal and provincial income tax rates, aggregating 27.0% (2016 – 27.0%), to the loss before income taxes, as shown in the following table:

As at September 30,	2017	2016
	\$	\$
Net loss and comprehensive loss for the year before income taxes per financial statements	(1,965,817)	(136,068)
Application of basic tax rates on loss	(530,771)	(36,738)
Timing differences on acquisition of SuperNova (Note 5)	(891,398)	-
Increase (decrease) in taxes resulting from:		
Loss on acquisition of SuperNova	395,684	-
Unrecognized deferred tax asset	1,026,485	36,738
	-	-

The deferred income tax asset is comprised of the following:

As at September 30,	2017	2016
	\$	\$
Non-capital losses carried forward	1,952,811	1,191,981
Capital losses carried forward	458,765	458,765
Equipment and intangible assets	270,994	-
Share issue costs	1,151	2,586
Tax basis in excess of costs for:		
Long term investment	12,647	12,456
Other	(4,095)	-
	2,692,273	1,665,788
Total unrecognized deferred tax asset	(2,692,273)	(1,665,788)
	-	-

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

At September 30, 2017, the Corporation has \$1,810,796 (2016 - \$1,810,796) of allowable capital losses available to reduce future taxable capital gains. These capital losses do not expire. The Corporation has non-capital losses carried forward for income tax purposes in the amount of \$7,232,632 (2016 - \$4,414,745). These non-capital losses expire as follows:

	<u>Amount (\$)</u>
2026	272,723
2027	407,073
2028	289,673
2029	308,312
2030	440,447
2031	591,058
2032	888,109
2033	1,015,883
2034	921,978
2035	1,248,802
2036	278,691
2037	569,883
	<u>7,232,632</u>

Due to the uncertainty of future taxable income, the potential income tax benefit of these losses has not been recorded in these financial statements.

15. Commitments

On June 1, 2015 Illumineris entered into distribution agreement with Jessup Manufacturing of McHenry IL. to become a distributor of Jessup Manufacturing products. The sales territory is Canada and the initial term of the agreement is two years which automatically renews for successive one year periods. Under the terms of the agreement, Illumineris is limited to distributing Jessup products and will refrain from offering any competing products. In connection with the distribution agreement, Illumineris signed a General Security Agreement which gives Jessup Manufacturing a charge over any and all assets of Illumineris.

The Corporation leases trailers which require future annual payments of \$168,000 in 2018.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

16. Segmented reporting and non-controlling interest

A reconciliation of the Corporation and its material subsidiaries, Illumineris and ReECO Tech, as at September 30, 2017 and 2016 is as follows. All inactive and immaterial subsidiaries have been included in Sparta.

2017				
	Illumineris	ReECO Tech	Sparta	Total
	\$	\$	\$	\$
Current assets	659,741	1,483,482	233,954	2,377,177
Non-current assets	-	66,973	22,527	89,500
Current liabilities	(410,220)	(1,341,453)	(1,704,114)	(3,455,787)
Inter-company balances	(510,741)	(453,712)	964,452	-
Net assets (liabilities)	(261,220)	(244,710)	(483,181)	(989,110)
Revenue	1,149,119	5,815,328	-	6,964,447
Expenses	1,015,363	6,028,395	1,886,927	8,930,685
Inter-company transactions	(96,000)	-	96,000	-
Net income (loss) and comprehensive income (loss)	37,756	(213,067)	(1,790,927)	(1,966,238)
Net income (loss) and comprehensive income (loss) attributable to shareholders	19,256	(108,664)	(1,790,927)	(1,880,335)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	18,500	(104,403)	-	(85,903)

All inter-company balances have been fully eliminated upon consolidation.

Sparta Capital Ltd.

Notes to the Consolidated Financial Statements As at September 30, 2017 and 2016

2016

	Illumineris	ReECO Tech	Sparta	Total
	\$	\$	\$	\$
Current assets	226,228	1,006,079	33,745	1,266,052
Non-current assets	-	8,925	4,829	13,754
Current liabilities	(157,059)	(543,190)	(298,507)	(998,756)
Inter-company balances	(356,504)	(425,954)	782,458	-
Net assets (liabilities)	(287,335)	45,860	522,525	281,050
Revenue	478,408	4,065,259	-	4,543,667
Expenses	642,174	3,574,019	463,542	4,679,735
Inter-company transactions	-	(460,000)	460,000	-
Net income (loss) and comprehensive income (loss)	(163,766)	31,240	(3,542)	(136,068)
Net income (loss) and comprehensive income (loss) attributable to shareholders	(83,521)	15,933	(3,542)	(71,130)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	(80,245)	15,307	-	(64,938)

All inter-company balances have been fully eliminated upon consolidation.