

SPARTA CAPITAL LTD.

Calgary, Alberta

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ending December 2017 and 2016

NOTICE: The accompanying unaudited consolidated interim financial statements and notes thereto for the three-month periods ending December 31, 2017 and 2016 have been prepared by management. These financial statements have not been reviewed by the Corporation's external auditors.

Sparta Capital Ltd.**Unaudited Consolidated Interim Statements of Financial Position**

As at	Note	December 31, 2017	September 30, 2017
		\$	\$
Assets			
Current assets			
Cash		798,926	935,390
Accounts receivable		1,609,279	1,258,161
Inventories		78,961	11,571
Prepaid expenses		169,148	97,055
Loans receivable		156,938	-
Subscriptions receivable	6	-	75,000
		<u>2,813,252</u>	<u>2,377,177</u>
Equipment	8	<u>656,712</u>	<u>89,500</u>
		<u>3,469,964</u>	<u>2,466,677</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		2,868,138	1,764,078
Income taxes payable		-	1,826
Deferred revenue		-	220,534
Notes payable	5	257,418	256,106
Demand loan	7	546,179	-
Convertible debentures	6	279,834	279,834
Loans	5	939,349	933,409
		<u>4,890,918</u>	<u>3,455,787</u>
Shareholders' equity (deficit)			
Share capital	8	8,106,437	7,606,437
Warrants	8	195,332	195,332
Share subscription receivable		(325,000)	
Contributed surplus		715,347	715,347
Deficit		(9,686,533)	(9,304,136)
Total equity attributable to the equity holders of the Corporation		<u>(994,417)</u>	<u>(787,020)</u>
Equity attributable to non-controlling interest	16	<u>(426,537)</u>	<u>(202,090)</u>
		<u>(1,420,954)</u>	<u>(989,110)</u>
		<u>3,469,964</u>	<u>2,466,677</u>
Going concern	2		

Approved on behalf of the Board:

Signed: "Peter Quattrociochi"

Director

Signed: "John O'Bireck"

Director

Sparta Capital Ltd.**Unaudited Consolidated Interim Statements of Comprehensive Loss**

For the three-month periods ending December 31,	Note	2017	2016
		\$	\$
Revenue		2,875,025	1,299,580
Expenses			
Transportation		478,162	837,323
Salaries and benefits		956,442	155,474
Consulting fees		187,904	40,100
Product costs		835,084	94,376
Service costs		379,962	-
Repairs and maintenance		104,863	59,064
Equipment rental		83,188	69,864
Travel, promotion and office		63,279	28,108
Professional fees		60,224	20,336
Automotive		81,838	32,379
Insurance		30,525	10,201
Licenses and fees		15,782	7,066
Interest, bank charges and exchange		26,642	1,202
Occupancy		66,628	28,389
Amortization		23,531	-
Marketing fees		80,507	51,795
Total expenses		3,474,561	1,435,677
Loss from operations		(599,536)	(136,097)
Income taxes		-	12,500
Net loss and comprehensive loss for the period		(599,536)	(123,597)
Net loss and comprehensive loss attributable to:			
Shareholders		(382,396)	(84,664)
Non-controlling interests	16	(217,140)	(38,933)
		(599,536)	(123,597)
Net loss per share:			
Basic	11	(0.004)	(0.001)

See accompanying notes to the unaudited consolidated interim financial statements.

Sparta Capital Ltd.

Unaudited Consolidated Interim 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, October 1, 2017	161,295,890	7,606,437	715,347	195,332	-	-	(9,304,136)	(202,090)	(989,110)
Private placement	10,000,000	500,000	-	-	(325,000)	-	-	-	175,000
Non-controlling interest	-	-	-	-	-	-	-	(7,307)	(7,307)
Loss for the period	-	-	-	-	-	-	(382,396)	(217,140)	(599,536)
Balance, December 31, 2017	171,295,890	8,106,437	715,347	195,332	(325,000)	-	(9,686,532)	(426,537)	(1,420,953)
Balance, October 1, 2016	144,654,140	6,953,647	700,181	-	-	177,000	(7,423,801)	(125,977)	281,050
Private placement	3,540,000	177,000	-	33,400	-	(177,000)	-	-	33,400
Private placement	826,000	41,300	-	-	-	-	-	-	41,300
Warrants exercised	1,026,000	17,900	-	-	-	-	-	-	17,900
Non-controlling interest	-	-	-	-	-	-	-	(8,374)	(8,374)
Loss for the period	-	-	-	-	-	-	(84,664)	(38,933)	(123,597)
Balance, December 31, 2016	150,046,140	7,189,847	700,181	33,400	-	-	(7,508,465)	(173,284)	241,679

See accompanying notes to the unaudited consolidated interim financial statements.

Sparta Capital Inc.**Unaudited Consolidated Interim Statements of Cash Flows**

For the three-month periods ending December 31,	Note	2017	2016
		\$	\$
Cash provided by (used in):			
Operations:			
Net loss and comprehensive loss from operations		(599,536)	(136,097)
Items not involving cash:			
Amortization		23,531	-
Change in non-cash working capital			
Accounts receivable		(351,118)	(129,376)
Prepaid expenses		(72,093)	(124,810)
Inventory		(67,390)	9,726
Loan receivable		(156,938)	-
Subscription receivable		75,000	-
Accounts payable and accrued liabilities		1,104,059	66,116
Income taxes payable		(1,826)	(12,500)
Deferred revenue		(220,534)	31,133
Other		(7,307)	-
Cash flows from operations		(274,152)	(295,808)
Investing:			
Purchase of equipment		(104,565)	-
Cash flows used in investing		(104,565)	-
Financing:			
Proceeds from share issuance		175,000	92,600
Loan proceeds		67,253	-
Cash flows from financing		242,253	92,600
Decrease in cash		(136,464)	(203,208)
Cash, beginning of period		935,390	583,457
Cash, end of period		798,926	380,249

See accompanying notes to the unaudited consolidated interim financial statements.

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 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 many 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. After year-end, Sparta completed a transaction through this newly formed subsidiary to acquire all the liquidated assets of ERS International for a purchase price of \$506,179 as well as assumption of premises security deposit of \$40,000.
- 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 many above ground vehicle platforms and carbon efficient mining equipment.

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 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 three-month period ending, December 31, 2017, the Corporation has incurred a net loss from operations of \$599,536 (2016 – \$123,597) and has a working capital deficit of \$2,077,666 (September 30, 2017 - \$1,078,610).

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.

In December, Sparta completed an equity financing by issuing 10,000,000 common shares at \$0.05 per share for gross 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 March 1, 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 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 Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

The subsidiaries of the Corporation and their principal activities as at December 31, 2017 were as follows:

Name of subsidiary	Ownership interest at December 31,		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 Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

4. Significant Accounting Policies

The unaudited consolidated interim financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by IFRS applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2017.

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
Share purchase warrants (Note 8)	114,532
	508,522

The Purchase price consideration was allocated as follows:

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

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.

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 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. Demand Loan

In November 2017, ReECO Tech Electronic Conversions Ltd. acquired all of the liquidated assets of ERS International, a Toronto based electronics recycling firm. Pursuant to the acquisition, the Corporation has agreed to purchase the assets of ERS for a purchase price of \$506,179 as well as assumption of premises security deposit of \$40,000. In consideration for the purchase of the assets of ERS International, Sparta issued a demand note payable of \$546,179 bearing interest at 11%.

8. Equipment

	December 31, 2017		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	7,681	2,265	5,416
Equipment	433,866	95,260	338,606
Vehicles	336,065	23,375	312,690
	<u>777,612</u>	<u>120,900</u>	<u>656,712</u>

	September 31, 2017		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Equipment	26,070	3,543	22,527
Vehicle	76,500	9,527	66,973
	<u>102,570</u>	<u>13,070</u>	<u>89,500</u>

9. 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

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

the Directors of the Corporation at time of issuance. There are no preferred shares issued or outstanding as at December 31, 2017.

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.

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.

In December, Sparta completed an equity financing by issuing 10,000,000 common shares at \$0.05 per share for proceeds of \$500,000.

Options

A summary of the Corporation's outstanding stock options as at December 31, 2017 and September 30 2016, and the changes for the years then ended, is as follows:

	Number of options	Weighted average exercise price
		\$
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
Issued	5,588,000	(0.05)
Balance, December 31, 2017	8,988,000	0.05

During the fiscal 2017 year, 550,000 options expired, and 1,125,000 options were cancelled in accordance with Sparta's stock option plan.

On November 20, 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 20, 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

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

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.

2017			
Exercise Price	Options Outstanding	Options Vested	Weighted Average Remaining Contractual Life (Years)
\$0.05	8,388,000	6,388,000	3.93
\$0.10	600,000	600,000	0.71
	8,988,000	6,988,000	3.73

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, 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 and December 31, 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 Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

<u>December 31, 2017</u>			
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

10. Related Party Transactions and Balances

As at December 31, 2017, included in loans receivable is \$27,500 (September 30, 2017 - \$46,633) 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.

For the three months ended December 31,	2017	2016
Consulting fees	74,283	40,000

11. 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 December 31, 2017 shareholders' deficit was \$1,420,954 (September 30, 2017 - \$989,110 shareholders' equity) and loans and borrowings were \$2,022,780 (September 30, 2017 - \$1,469,349). The Corporation manages its capital structure and adjusts it considering 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, considering 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 Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

12. 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 than 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 \$1,138,096 (September 30, 2017 -\$369,490) of accounts receivable from four customers (2016 – one), which represents 71 % (September 30, 2017 - \$30%) 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 December 31, 2017 of \$798,926 (September 30, 2017 – \$935,390) and a working capital deficit of \$2,077,666 (September 30, 2017 – \$1,078,610).

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 Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

13. 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 December 31, 2017 and 2016. The weighted average number of common shares basic and diluted is as follows:

	<u>2017</u>	<u>2016</u>
Weighted average common shares	157,565,306	150,046,140
Balance, December 31	<u>157,565,306</u>	<u>150,046,140</u>

For the year ended December 31, 2017 the weighted average outstanding calculation excludes the following instruments that are contingently issuable as they are anti-dilutive:

- 8,988,000 options (2016 – 4,525,000)
- 10,936,000 warrants (2016 – 3,340,000).
- 5,900,000 shares and 5,900,000 warrants related to the convertible debentures (2016 – nil).

14. Economic Dependence

Sparta Capital Ltd. earned \$1,338,895 (2016 - \$1,185,481), which represents 47% (2016 – 91%) of its revenue, from four (2016 – one) customers.

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 all assets of Illumineris.

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

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

16. Segmented reporting and non-controlling interest

A reconciliation of the Corporation and its material subsidiaries, Illumineris and ReECO Tech, for the three months ending and as at December 31, 2017 and 2016 is as follows. All inactive and immaterial subsidiaries have been included in Sparta.

For the three months ending and as at December 31, 2017

	ReECO Electronics	Illumineris	ReECO Conversions	Sparta	Total
	\$	\$	\$	\$	\$
Current assets	345,333	688,109	1,566,270	213,540	2,813,252
Non-current assets	471,703	-	164,148	20,861	656,712
Current liabilities	(852,088)	(447,650)	(1,881,652)	(1,709,528)	(4,890,918)
Inter-company balances	(664)	(471,683)	(560,754)	1,033,101	-
Net assets (liabilities)	(35,716)	(231,224)	(711,988)	(442,026)	(1,420,954)
Revenue	543,538	912,027	1,419,461	-	2,875,026
Expenses	579,691	908,720	1,829,165	156,986	3,474,562
Net income (loss) and comprehensive income (loss)	(36,153)	3,307	(409,704)	(156,986)	(599,536)
Net income (loss) and comprehensive income (loss) attributable to shareholders	(18,113)	1,687	(208,984)	(156,986)	(382,396)
Net income (loss) and comprehensive income (loss) attributable to non- controlling interest	(18,040)	1,620	(200,720)	-	(217,140)

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

Sparta Capital Ltd.

Notes to the Unaudited Consolidated Interim Financial Statements As at and for the three-month periods ending December 31, 2017 and 2016

For the three months ending and as at December 31, 2016

	Illumineris	ReECO Conversions	Sparta	Total
	\$	\$	\$	\$
Current assets	194,316	995,232	117,756	1,307,304
Non-current assets	-	8,925	4,829	13,754
Current liabilities	(186,011)	(607,978)	(285,390)	(1,079,379)
Inter-company balances	(342,504)	(425,954)	768,458	-
Net assets (liabilities)	(334,199)	(29,775)	605,653	241,679
Revenue	114,098	1,185,482	-	1,299,580
Expenses	152,752	1,243,412	27,013	1,423,177
Net income (loss) and comprehensive income (loss)	(38,654)	(57,930)	(27,013)	(123,597)
Net income (loss) and comprehensive income (loss) attributable to shareholders	(23,714)	(33,937)	(27,013)	(84,664)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	(14,940)	(23,993)	-	(38,933)

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