



SPARTA CAPITAL LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
("MD&A")**

FOR THE THREE AND TWELVE MONTH PERIODS

ENDED SEPTEMBER 30, 2019

Dated January 28, 2020

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SPARTA CAPITAL LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED SEPTEMBER 30, 2019

The following management's discussion and analysis ("MD&A") explains the variations in the consolidated operating results, financial position and cash flows of Sparta Capital Ltd. ("Sparta", "Sparta Group", the "Company", the "Corporation", "We", "Us" or "Our") for the twelve months ended September 30, 2019. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended September 30, 2019 and 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's accounting policies under IFRS are set out in Note 4 of the audited consolidated financial statements for the years ended September 30, 2019 and 2018.

All amounts are in Canadian dollars.

The discussion in this management's discussion and analysis focuses on this year.

Forward Looking Statements and Risks

Certain statements included in this discussion may constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include changes in government regulations, general economic conditions and business conditions, ability to raise debt or equity financing as required to fund operations, ability to convert long term investments into cash through the sale of all or part of investments, foreign currency exposure, supplier constraints, transportation constraints, emissions standards, fuel prices, product quality and safety, alternative and competing products, protection of intellectual property, the findings resultant to due diligence programs, the results of product certification testing, the ability to attract and retain employees, sales agents and service personnel in Canada and in international markets, the actions of current and future competitors, future claims or litigation, the speculative nature of product research and development, and other factors that may affect demand for the Corporation's products and services and the ability of the Corporation to implement its business strategy and/or generate profit.

The words "may", "would", "could", "will", "likely", "estimate", "believe", "expect", "plan", "forecast", "is to be", "intend", "anticipate" and similar expressions are intended to identify forward-looking statements. Although Sparta has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Sparta does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Overview

Who has not heard about the mounting global movement led by youth demanding we reduce greenhouse gas emissions? They have pushed Global Warming into the world consciousness in a way that no other person or group has. At the same time, market research suggests that most people do want more sustainable products to be produced. The United Nation's Intergovernmental Panel suggests we have just 10 years to cut emissions and reduce warming of the planet. All business sectors are trying to figure out how they can do their part for the planet and save money at the same time. At Sparta we see this as massive opportunity and thus have been working on addressing the varied needs of industries as they adapt to what we all know is a new world; a world where energy will have to be thought of in different ways, where each source of energy will be best applied with efficiency in mind, including the applications involving more sustainable sources. Our approach is that there is no one solution. That's why we have been working on various products and services in the environmental space; with the common goal for ALL divisions to use the benefits of improved energy efficiency to improve customers' bottom line while diverting or sequestering greenhouse gas emissions.

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Over the past year, Sparta continued to focus on growth; strengthening the company through reinvestment in future opportunities that will both strengthen the balance sheet while bringing attention to the company in the public arena.

- In November of 2019, (subsequent to the year ending September 30, 2019) Sparta's Illumineris division announced that it entered into a distribution and development agreement with Sensor Suite Inc. Sparta is distributing Sensor Suite's line of cloud-based building management technology solutions while at the same time, working with Sensor Suite to develop a platform to adapt the Sensor Suite dashboard for other Illumineris technologies.
- In the summer of 2019, Sparta continued to expand its reach into the plastic conversion space in order to demonstrate to the world that as a society, instead of allowing the mounting plastics we generate to linger in our landfills or waterways, it can be upcycled into fuel additives that when applied in the heavy-duty transportation vertical will deliver similar benefits to that of consuming traditional fuels, but with far less environmental impact. Our efforts in supplying raw materials for the plastic fuel additive generation and using the end product on our own fleet of highway tractor trailers was featured by several media outlets, including CBC, Global and BNN. We continue to monitor the use of the eco-safe fuel additive in our fleet so that we can provide significant data for analysis.
- In June of 2019, Sparta started outfitting its fleet of highway tractors with DynaCERT's HydraGEN™ technology to enhance combustion and to track greenhouse gas emissions on the fleet of highway-tractors. The technology has been combined with the aforementioned eco-friendly synthetic fuel conversion technology and will continue to gather data over the coming months.
- In April 2019 Sparta announced the official formation of a Technical Advisory Board ("TAB"), starting with the appointment of their first member, Mr. Stephen Lobb, BA. Mr. Lobb was appointed as the company looks to acquire new innovative technologies to transform additional waste streams into valuable, saleable, commodities. Subsequent to the appointment of Mr. Lobb, Mr. James Payne was appointed to the TAB to help with business leadership, and governance knowledge. And subsequent to the year ending September 30, 2019, Mr. Matthew Domanowski B.Sc. was appointed to the TAB to head up the development of a greenhouse gas ("GHG") tracking solution that will be used to monitor and quantify (in real time), the diversion and sequestering of GHG emissions related to Sparta solutions.
- On December 31, 2018 the Corporation divested its 51% voting interest common share position in Picton Heights Ltd. ("Picton") (formerly Re-ECO Tech Property Conversions Ltd.), retaining a 10% non-voting participating equity interest in the company, thus delivering similar upside as when under majority control but minimizing potential risks often associated with rental properties. The disposition was to a purchaser arm's length to the Corporation.
- In the 1st quarter of FY'2019, Sparta announced entering into a formal joint venture agreement to convert unsortable, single-use waste plastic into various forms of synthetic fuels, on an *industrial scale*. A primary goal of this program is for Sparta to further explore the newest generation of plastic to fuel (PTF) technologies and to see how Sparta can complement and support the existing mechanical recycling infrastructure for plastics. Throughout the year, a number of technical issues needed to be overcome with the conversion technology, most of which appear to now be behind us. Therefore, the program is expected to re-commence sometime in Q3 of FY'2020.

While plastic conversion will always be an important focus for Sparta, the company continues its upcycling efforts in other verticals to further expand its diversion and sequestration of GHG emissions. Through adaptable product and service offerings the company has not only addressed a wide range of issues, it has and will continue to secure additional sources of waste materials, including plastic.

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Under the Sparta Group™ brand, Sparta still has three existing divisions. These include:

- **Sparta Energy Capture & Upcycle - a.k.a. Illumineris** is the collective term for a group focused on upcycling "lost" or "wasted" energy. Illumineris provides a complimentary suite of technologies to assist its commercial and industrial clients in receiving value from wasted sources of energy within their existing power systems; with zero cost outlay. This includes; peak power mitigation systems through energy storage technology - eliminating black-out and brown-out conditions while significantly reducing global adjustment charges; power-factor and harmonic mitigation that brings plant voltages and currents back in sync while cleaning the electronic power systems - reducing costs through efficiencies and maintenance; LED lighting retrofits - cutting consumption by 60% - 80%; photoluminescent safety products that provide required safety lighting systems with zero energy costs; and IoT (Internet of Things) monitoring systems that can measure, monitor and optimize various energy systems in commercial and manufacturing facilities; all intended to help reduce power losses and corresponding costs.
- **Sparta Material Upcycling - a.k.a. Re-ECO Tech** is the collective term for a group of conversion technology companies that collect waste materials with a focus on upcycling such waste streams into new environmentally valuable materials that are not only beneficial to our planet but are economically feasible as well. Re-ECO Tech's services provide viable options for helping manufacturers reduce waste, save resources, save money and lower their carbon footprint. This includes; Re-ECO Tech Electronics Ltd. ("Re-ECO Tech Electronics") (o/s ERS-International) - an electronics recycling company focusing on upcycling end-of-life electronic components resulting from our ever-increasing rate of change in electronic technology, Re-ECO Tech Conversion Technologies Ltd. ("Re-ECO Tech Conversion") - originally a biomass conversion company, focused on sequestering CO₂ emissions through waste diversion and converting biomass waste into consumables. It has since expanded into the environment-friendly excavation arena, structured to secure long term contracts to help transform communications networks while monetizing the retrieved clean-soil waste into many new usable products and Re-ECO Tech Property (where Sparta now holds a minority position) - is a division focused on investing in early stage property development where the Corporation can look to utilize earnings together with existing synergies to implement the technologies from other business units into "smart", net-zero ready, environmentally responsible community developments; designed with concern for our planet in mind.
- **Sparta Innovation - a.k.a. SuperNova** Sparta Innovation – a.k.a. SuperNova, is focused on cutting-edge green initiatives, especially related to combustion, the transportation sector and storage technology. SuperNova, opens up new opportunities and initiatives and will look to explore new ventures including, but not limited to, extraction of energy from base minerals, efficient products capable of powering novel generation systems and gas to electricity conversion. SuperNova holds various previously tested technologies, such as the Hydrogen Power Lizard™, the Tri-PATH™ (hydrogen enhanced, exhaust gas re-compression system) and the TreeFrog Transportation Optimization Systems™ with plans for future commercialization when the time is right.

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, 2019 the Corporation has incurred a net loss from operations of \$867,506 (2018 \$2,181,329) and has a working capital deficit of \$2,497,778 (2018 - \$7,991,492) and negative cash flow from operations of \$576,229 (2018 - \$1,020,507).

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

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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.

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. 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 which could be material.

Further information related to the Corporation is filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at www.sedar.com.

Overall Performance

It has been a positive year for the Corporation as we continued to put the pins in place to reinforce additional product offerings and financial options, expanded into the plastic conversion arena and continued to work to develop new partnerships. All aspects helped to create a stronger, larger business as well as a growing customer base. In addition it helped initiate more media interest in Sparta, with the company being featured by several media outlets, including CBC, Global and BNN; properly setting the stage for the upcoming year.

Over the course of the past year, Sparta continued to serve a wide market, which included: providing energy efficient lighting solutions to multiple business operators; eliminating tonnes of electronic waste from the waste stream; conducting comprehensive energy audits for companies of varying sizes; expanding the equipment fleet while growing its environment-friendly communication installation services; and shifting the company's focus to help rid our World of many forms of waste plastics, starting with a joint venture agreement to convert unsortable waste plastics into useable synthetic fuels on an industrial scale.

Sparta will continue to seek further upcycling opportunities along with additional complimentary waste-streams to support the upcycling efforts; all of which will continue to attract additional media attention. In support of the media attention we have recently been garnering, the company will be enhancing its communications platforms, including its e-blast facilities, social media distribution platforms and traditional media platforms; all in an effort to better inform present and future stakeholders about the good Sparta is doing. The Corporation will also look to leverage its sales and marketing channels to distribute complementary products while looking to secure appropriate intellectual property to enhance the business interests of its divisions. Finally, the Corporation intends on an ongoing basis, to assess product performance and market acceptance of other innovative technologies suitable to the Corporation's established distribution network and executive team. Announcements about any new Sparta products and ventures will be made following the Corporation's comprehensive due diligence processes.

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Selected Financial Information

The following table is a summary of selected financial information derived from the Corporation's audited financial statements for the years ended September 30 prepared in accordance with IFRS:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	\$	\$	\$
Total Assets	2,865,311	8,457,280	2,466,677
Total Non-Current Financial Liabilities	330,955	53,404	-
Revenues	11,010,599	11,331,170	6,964,447
Net loss, attributable to:			
Shareholders	(470,358)	(957,236)	(1,760,934)
Non controlling interests	<u>(375,894)</u>	<u>(1,224,093)</u>	<u>(205,304)</u>
Total	(846,252)	(2,181,329)	(1,966,238)
Basic and diluted net loss per share	(0.005)	(0.013)	(0.013)
	Common Shares	Common Shares	Common Shares
Weighted average number outstanding	181,898,423	169,568,580	152,013,082

For the year ended September 30, 2019, the Corporation reported no discontinued operations and declared no cash dividends.

Summary of Quarterly Results

The quarterly financial information for the eight most recently ended quarters are as follows:

	<u>Q4</u> <u>September 30,</u> <u>2019</u>	<u>Q3</u> <u>June 30,</u> <u>2019</u>	<u>Q2</u> <u>March 31,</u> <u>2019</u>	<u>Q1</u> <u>December 31,</u> <u>2018</u>	<u>Q4</u> <u>September 30,</u> <u>2018</u>	<u>Q3</u> <u>June 30,</u> <u>2018</u>	<u>Q2</u> <u>March 31,</u> <u>2018</u>	<u>Q1</u> <u>December 31,</u> <u>2017</u>
Net Income (Loss)	(493,894)	(18,801)	(279,425)	(54,133)	(879,407)	(434,864)	(267,522)	(599,536)
Earnings (Loss) per Share	(0.003)	(0.000)	(0.002)	(0.000)	(0.013)	(0.003)	(0.002)	(0.004)
Total Assets	2,865,311	2,865,671	2,939,859	3,320,612	8,457,280	9,267,832	3,865,481	3,794,964
Total Liabilities	5,021,585	4,933,674	4,989,062	5,141,539	10,289,074	10,828,943	5,215,047	4,890,918

All periods within the summary of quarterly results have been prepared in accordance with IFRS.

Variances in net loss by quarter is not cyclical or seasonal and reflect overall corporate activity and factors which do not recur each quarter, such as travel, due diligence, professional and regulatory fees.

Results of Operations

Overall for the year ended September 30, 2019 and 2018 respectively the Corporation had a loss from operations of \$867,506 and \$2,181,329 and net loss and comprehensive loss of \$846,252 and \$2,181,329. The decrease in the net loss in 2019 was primarily due to improved operations in Re-ECO Tech Conversion.

Expenses

The total expenses decreased to \$11,878,105 during 2019, a decrease of \$1,634,394 representing an 12% decrease from the \$13,512,499 in 2018.

Salaries and benefits decreased to \$4,034,902 in 2019 from \$4,134,679 in 2018 as a result of a slight reduction in total revenues.

Product costs decreased to \$2,093,855 in 2019 from \$2,401,627 in 2018 as a result of a slight reduction in total revenues.

Trucking costs decreased to \$1,603,143 in 2019 from \$2,330,120 in 2018 as a result of improved efficiencies and a reduction in one of Re-ECO Tech Conversion's revenue streams.

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Repairs and maintenance increased to \$717,123 in 2019 from \$526,507 in 2018 as a result of some non-recurring equipment maintenance items.

Business development expenses decreased to \$131,406 in 2019 from \$268,258 in 2018 as the company continued to tighten its focus on existing revenue streams.

Consulting fees increased to \$977,520 in 2019 from \$852,552 in 2018 due in part to the growth of Re-ECO Tech Electronics' revenues.

Equipment rentals decreased to \$639,979 in 2019 from \$752,170 in 2018 as a result of improved efficiencies in Re-ECO Tech Conversion.

Automotive decreased to \$109,008 in 2019 from \$249,886 in 2018 as the result of improved efficiencies in Re-ECO Tech Conversion.

Interest and bank charges decreased to \$179,993 in 2019 from \$237,098 in 2018, primarily due to the disposition of control of Picton.

Stock based compensation decreased to \$104,300 in 2019 from \$285,448 in 2018, due to a reduction in issuance of stock options.

Fourth Quarter Results

For the three months ended September 30, 2019 and 2018 respectively, the Corporation had a loss from operations of \$332,711 and \$879,407. For the three months ended September 30, 2019 and 2018 respectively, the Corporation had a net loss and comprehensive loss of \$493,893 and \$879,407. The decrease in the net loss in 2019 was primarily due to due to improved operations in Re-ECO Tech Conversion. For the three months ended September 30, 2019 and 2018 respectively, total operating expenses decreased to \$3,131,698 from \$3,504,104, a decrease of \$372,406 also due to improved operations in Re-ECO Tech Conversion.

Cash Flows

The following is a summary of cash flows for the twelve months ended September 30:

	2019	2018
Cash provided by (used in) operating activities	\$ (576,229)	\$ (1,020,507)
Cash provided by financing activities	\$ 576,844	\$ 6,287,668
Cash used in investing activities	\$ (79,836)	\$ (5,687,296)
Increase (decrease) in cash	\$ (79,221)	\$ (420,135)

In 2019 the decrease in cash of \$79,221 was due to investing activities.

Liquidity

The Corporation had a cash balance at September 30, 2019 of \$436,034 (2018 – \$515,255).

At September 30, 2019 the Corporation had a working capital deficit of \$2,497,778 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.

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The Corporation regularly explores business opportunities as it seeks to expand its product offerings. Prior to acceptance, each opportunity goes through a due diligence process to ensure it meets the requirements of the Corporation. Potential growth opportunities may be advanced through joint business relationships with third parties including license arrangements, partnerships and joint ventures or may be internally financed through debt or equity issuances as appropriate in the circumstances.

As at September 30, 2019, the Corporation had notes payable of \$796,964, convertible debentures of \$304,634, obligations under capital lease of \$53,302 and other loans of \$967,926.

Contractual Obligations

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 equipment and office space and recycling facilities including occupancy costs which require future annual payments of:

	Office and facilities	Equipment	Total
	\$	\$	\$
2020	339,300	78,105	417,405
2021	355,521	78,105	433,626
2022	356,873	50,808	407,681
2023	356,873	25,405	382,278
2024	29,739	-	29,739
	<u>1,438,306</u>	<u>232,423</u>	<u>1,670,729</u>

Capital Expenditures

At this time, the Corporation has no material commitments for future capital expenditures.

Off-balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements.

Transactions with Related Parties

As at September 30, 2019, included in accounts receivable is \$60,626 (2018 - \$56,555) 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.

<u>As at September 30,</u>	2019	2018
Consulting fees	74,255	74,283
Stock-based compensation	-	49,450
	74,255	123,733

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Financial Instruments

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.

The carrying values of the financial assets and liabilities included in the statements of financial position are as follows:

	On Demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Accounts payable and accrued liabilities	2,883,028	-	-	-	2,883,028
Notes payable	796,964	-	-	-	796,964
Loans payable	967,926	-	-	-	967,926
Obligation under capital lease	-	6,825	20,156	26,321	53,302
Convertible debentures payable	-	-	-	410,000	410,000
	4,647,918	6,825	20,156	436,321	5,110,220

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. Cash and cash equivalents are classified as level 1, which means fair value measurement are those derived from quoted prices in active markets. The carrying value of the loans and borrowings approximates their fair value due to the relatively short period to maturity of the instruments.

Shareholders' Equity

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value, 50,000,000 non-voting 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) and an unlimited number of special non-voting shares. There are no preferred shares and no non-voting special shares issued or outstanding as at September 30, 2019.

The number of issued and outstanding common shares as at September 30, 2019 and 2018 was 182,265,090 and 181,165,090 as of the date of this MD&A.

As at September 30, 2019 the Corporation had 10,273,000 options outstanding with a range of exercise prices of \$0.05 to \$0.07 and a weighted average remaining contractual life of 2.61 years. As of the date of this MD&A the Corporation had 10,273,000 options outstanding with a range of exercise prices of \$0.05 to \$0.07 and a weighted average remaining contractual life of 2.61 years.

As at September 30, 2019 and as at the date of this MD&A, the Corporation had 1,177,000 warrants outstanding, exercisable to acquire an additional common share per warrant at a price of \$0.11 per common share for up to 24 months following the date of issuance.

Contributed surplus totaled \$1,450,052 at September 30, 2019. The balance is comprised mainly of the cumulative stock-based compensation expense.

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Application of new and revised International Financial Reporting Standards

The standards issued and adopted by the Company in the current year's financial statements are listed below.

IFRS 9 - Financial Instruments

On October 1, 2018, the Company adopted the new rules under IFRS 9 - Financial Instruments which includes a principle-based approach for the classification and measurement of financial assets and a forward-looking 'expected credit loss' model. The standard was adopted retrospectively. The comparative financial statements have not been restated as the adoption had no impact on amounts previously recognized in the statements of comprehensive income and financial position.

The following table outlines the classification of financial instruments under the previous standard and the new classification under IFRS 9.

Financial asset / liability	Previous classification (IAS 39)	New classification under IFRS 9
Cash	Fair value through profit and loss	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Obligations under capital lease	Other financial liabilities	Amortized cost
Mortgage loan	Other financial liabilities	Amortized cost
Convertible debentures payable	Other financial liabilities	Amortized cost

IFRS 15 Revenue from contracts with customers

On October 1, 2018 the Corporation adopted the new rules under IFRS 15 Revenue from contracts with customers. Under the new standard revenue is recognized from the perspective of when a transfer of control to the customer is complete. Adoption of the standard had no impact on amounts previously recognized in the statements of net and comprehensive income and financial position.

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, 2019.

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 Corporation will adopt the standard for the fiscal year commencing October 1, 2019. The standard will be adopted retrospectively by recognizing the cumulative impact of initial adoption in opening retained earnings. Under the standard, the Company will recognize a right-of-use asset under property and equipment (P&E) and a corresponding liability for the lease associated with the Corporation's warehouse space. Previously, the

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Corporation recognized the lease charge associated with this facility as an operating lease expense on a straight-line basis over the term of the lease. The nature of the expenses related to this lease will change since the Corporation will recognize a depreciation charge for the right-of-use asset and an interest expense on the related lease liability. Consistent with the guidance, the Company will not apply this standard to short-term leases and leases for which the underlying asset is of low value.

Capital Management

The Corporation's objectives when managing capital is to safeguard its ability to continue as a going concern, provide adequate working capital and maintain cash on hand. The Corporation defines capital as the Corporation's shareholders' equity and loans and borrowings. At September 30, 2019 shareholders' deficit was \$2,156,274 (2018 - \$1,831,794) and loans and borrowings were at \$2,122,826 (2018 - \$7,468,229). 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 present 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.

Financial Risk Management

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

Fair Value

The fair value of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their carrying value due to the relatively short period to maturity of the instruments. The fair value of loans payable, notes payable and mortgage payable approximate their carrying value as the interest rates are consistent with the current market rates.

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.

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The aging of accounts receivable and allowance for doubtful accounts are as follows:

	<u>September 30, 2019</u>
Not past due	193,446
Past due 0-90 days	496,492
More than 90 days past due	<u>736,383</u>
Total accounts receivables	1,427,221
Allowance for doubtful accounts	<u>(55,900)</u>
Total accounts receivable, net of allowance	<u>1,371,321</u>

The Corporation has \$816,603 (2018 - \$444,476) of accounts receivable from two customers (2018 – one), which represents 60% (2018 - 27%) 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, 2019 of \$436,034 (2018 – \$515,255) and a working capital deficit of \$2,497,778 (2018 – \$7,991,492).

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.

The following table summarizes the maturity profile of all the Corporation's financial liabilities based on a contractual basis at September 30, 2019.

	On Demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Accounts payable and accrued liabilities	2,883,028	-	-	-	2,883,028
Notes payable	796,964	-	-	-	796,964
Loans payable	967,926	-	-	-	967,926
Obligation under capital lease	-	6,825	20,156	26,321	53,302
Convertible debentures payable	-	-	-	410,000	410,000
	<u>4,647,918</u>	<u>6,825</u>	<u>20,156</u>	<u>436,321</u>	<u>5,110,220</u>

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED SEPTEMBER 30, 2019

Outlook

The United Nations calls "Climate Change" one of the biggest challenges of our time. The Sparta Group will continue to develop and provide solutions in collaboration with its business partners to address these challenges and will further look to quantify and openly publish the impact it can have; thus demonstrating what is possible by everyone implementing only small changes to routine. While preventing and minimizing environmental degradation and helping companies become more sustainable, Sparta also understands that the environmental technology sector is growing because demand is growing. There is great opportunity for our company, supporters, and investors to benefit from our offerings while also feeling gratified that they have contributed to reducing greenhouse gas emissions. Over the coming year, you will see Sparta Group advance and enhance its suite of products and services as new partnerships develop.