
SPARTON RESOURCES INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008

(Expressed in Canadian Dollars)

SPARTON RESOURCES INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

(Expressed in Canadian Dollars)

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
SPARTON RESOURCES INC.

We have audited the consolidated balance sheets of Sparton Resources Inc. ("the Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads "McGovern, Hurley, Cunningham, LLP".

**Chartered Accountants
Licensed Public Accountants**

TORONTO, Canada
April 19, 2010

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SPARTON RESOURCES INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

	2009	2008
Assets		
Current		
Cash	\$ 1,873,390	\$ 2,603,511
Investments (Note 5)	32,750	48,015
Sundry receivables	71,136	24,495
Advances and prepaid expenses	177,495	68,068
Due from shareholders of subsidiary (Note 13)	91,963	233,977
	2,246,734	2,978,066
Equipment (Note 6)	62,930	17,893
Oil and gas properties (Note 7)	543,217	520,693
Exploration properties and deferred exploration expenditures (Note 8)	6,242,678	7,469,202
Payments for acquisition of assets (Note 4)	2,023,560	309,600
Future income tax asset (Note 11)	446,000	-
Deferred financing costs (Note 9 (a))	-	283,750
	\$ 11,565,119	\$ 11,579,204
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 400,554	\$ 298,826
Bridge loan (Note 9(a))	-	2,436,000
	400,554	2,734,826
Long-term debt (Note 9)	3,276,500	-
Future income taxes (Note 11)	151,000	72,000
	3,828,054	2,806,826
Minority Interests (Note 13)	163,030	289,608
Shareholders' Equity		
Capital stock (Note 10(a))	13,786,211	11,780,330
Warrants (Note 10(c))	841,877	235,814
Contributed surplus	4,190,316	3,915,088
Deficit	(11,244,369)	(7,448,462)
	\$ 7,574,035	8,482,770
	\$ 11,565,119	\$ 11,579,204

Going Concern (Note 1)

Commitments (Note 14)

Approved on Behalf of the Board:

Signed: "James C. McCartney", Director

Signed: "A. Lee Barker", Director

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

SPARTON RESOURCES INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the years ended December 31,
(Expressed in Canadian Dollars)

	2009	2008
EXPENSES		
Stock based compensation	\$ 39,414	\$ 153,098
General and administrative expenses	525,489	291,004
Investor relations	67,690	68,543
Management and consultant fees (Note 12)	227,387	255,271
Professional fees	127,284	75,257
Occupancy costs	46,760	39,152
Transfer agent, filing and listing fees	36,007	32,365
Interest expense	359,239	60,066
	1,429,270	974,756
Other (income) and expenses		
Interest income	(1,236)	(23,305)
Drilling service income, net of expenses	(151,795)	(1,024)
Write down of properties (Note 8)	2,543,151	-
Write off of deferred financing costs	601,632	-
Foreign exchange gain	(188,350)	(57,113)
Investment loss	9,235	373,982
	4,241,907	1,267,296
Future income taxes (Note 11)	(446,000)	-
NET LOSS, BEING THE COMPREHENSIVE LOSS, FOR THE YEAR	3,795,907	1,267,296
LOSS PER SHARE		
Basic and diluted	\$ 0.06	\$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic and diluted	67,894,201	63,241,994

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

SPARTON RESOURCES INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31,
(Expressed in Canadian Dollars)

	2009	2008
CAPITAL STOCK (Note 10)		
Balance, beginning of the year	\$ 11,780,330	\$ 11,131,618
Shares issued on private placement	2,759,000	1,025,000
Fair value of warrants - private placement	(841,877)	(222,440)
Conversion of preferred shares of SEI	126,548	-
Shares issued for property acquisition payment	162,330	75,000
Shares issue costs - cash	(200,120)	(60,848)
Renouncement of flow through expenditures	-	(168,000)
Balance, end of the year	\$ 13,786,211	\$ 11,780,330
WARRANTS (Note 10(c))		
Balance, beginning of the year	\$ 235,814	\$ 199,696
Issued	841,877	222,440
Expired	(235,814)	(186,322)
Balance, end of the year	\$ 841,877	\$ 235,814
CONTRIBUTED SURPLUS		
Balance, beginning of the year	\$ 3,915,088	\$ 3,645,580
Fair value assigned to options granted/vested to employees	19,724	83,186
Fair value assigned to options granted to non-employees	19,690	-
Value of expired warrants	235,814	186,322
Balance, end of the year	\$ 4,190,316	\$ 3,915,088
DEFICIT		
Balance, beginning of the year	\$ (7,448,462)	\$ (6,181,166)
Net loss for the year	(3,795,907)	(1,267,296)
Balance, end of the year	\$ (11,244,369)	\$ (7,448,462)
TOTAL SHAREHOLDERS' EQUITY, END OF THE YEAR	\$ 7,574,035	\$ 8,482,770

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

SPARTON RESOURCES INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31,
(Expressed in Canadian Dollars)

	2009	2008
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the year	\$ (3,795,907)	\$ (1,267,296)
Adjustments for:		
Amortization	7,141	-
Investment loss	9,235	373,982
Stock-based compensation	39,414	153,098
Future income taxes	(446,000)	-
Write down of properties	2,543,151	-
Write off of deferred financing costs	601,632	-
Unrealized foreign exchange gain	(334,000)	(57,113)
Changes in non-cash working capital	87,674	92,172
Cash flows from operating activities	(1,287,660)	(705,157)
INVESTING ACTIVITIES:		
Purchase of equipment	(52,178)	(13,818)
Proceeds on sale of investments	6,030	19,221
Payments for assets acquisition	(1,713,960)	(309,600)
Property expenditures	(1,097,851)	(1,274,403)
	(2,857,959)	(1,578,600)
FINANCING ACTIVITIES:		
Proceeds from long term debt	1,700,000	2,160,400
Financing costs	(317,882)	-
Repayment of long term loan	(525,500)	-
Proceeds from private placements	2,759,000	964,152
Share issue costs	(200,120)	-
	3,415,498	3,124,552
DECREASE (INCREASE) IN CASH	(730,121)	840,795
CASH, BEGINNING OF THE YEAR	2,603,511	1,762,716
CASH, END OF THE YEAR	\$ 1,873,390	\$ 2,603,511
Shares issued for property	\$ 162,330	\$ 75,000
Interest paid	354,682	-
Income taxes paid	-	-

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

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Sparton Resources Inc. (the "Company" or "Sparton") is a development stage company, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, and currently has interests in exploration and development properties in China, Canada, the United States, and Mexico. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. Some of the Company's assets are located outside of Canada and are subject to the risk of foreign investment, including increase in taxes and royalties, renegotiation of contracts and currency exchange fluctuation and restrictions.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, aboriginal claims, unregistered claims, and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

The Company has a need for equity capital and financing for working capital, flow-through commitments (Note 14) and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations, however there is no assurance that these funds will be available on terms acceptable to the Company or at all.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company and its subsidiaries are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Energy Data Science Corporation, Sparton International Resources Inc. ("SIR"), its 90% interest in Beijing Sparton Mineral Investment and Consulting Ltd. ("Beijing Sparton"), its 94.5% (2008 – 87%) interest in Sparton Energy Inc. ("SEI"). In addition, SEI's wholly owned subsidiary Yunnan Blue Bay Mining Co. Ltd. ("YBB"), its 85% (2008 – Nil) owned "Lincang City Linxiang Area 306 Huajun Coal Industry Co., Ltd." ("Huajun") and its 70% interest in Yunnan Sparton New Environ-tech Consulting Co. Ltd. ("YSNET") were also consolidated with the Company. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated. The YSNET is a joint venture and is consolidated proportionately.

New Accounting Policies

Goodwill and Intangible Assets:

In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard was adopted by the Company effective January 1, 2009. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities:

In January 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has adopted these new standards in its consolidated financial statements for the year ended December 31, 2009. The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

Fair value hierarchy and liquidity risk disclosure:

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The adoption of this new standard resulted in additional disclosures in the notes to the consolidated financial statements.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Policies (continued)

Mining Exploration Costs

On March 27, 2009, the AcSB issued Accounting Abstract EIC-174, Mining Exploration Costs. In this, the Committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174 in these consolidated financial statements, with no material impact.

Significant Accounting Policies

Equipment and amortization:

Equipment is stated at acquisition cost. Amortization is calculated using the following annual rates and methods:

Mining Equipment	-	20% declining balance
Vehicles	-	20% declining balance
Other	-	20% declining balance

Amortization of equipment related to exploration properties is charged to exploration properties and deferred exploration expenditures.

Exploration properties and deferred exploration expenditures:

The cost of exploration properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined not to be economically viable, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the year incurred.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

The Company reviews capitalized costs on its property interests on a periodic basis and recognizes an impairment in value based upon a review of exploration results, whether the Company has significant exploration plans in the immediate future and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks and the Company's ability to attain profitable production. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Impairment of long-lived assets

Impairment of long-lived assets is recognized when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is calculated by deducting the fair value of the asset or group of assets from its carrying value.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil and gas properties:

The Company follows the full cost method of accounting for oil and gas interests. Specifically, all costs associated with the exploration and development of oil and gas reserves are capitalized in cost centers based on the country in which properties are located. Such costs include land acquisitions, drilling of both productive and non-productive wells, well equipment, geological and geophysical activities and overhead directly related to exploration and development activities. Proceeds from the disposition of oil and gas properties are accounted for as a reduction of capitalized costs. Gains or losses are not recognized upon disposition of oil and gas properties unless such disposition would result in a change in the rate of depletion by 20% or more. Administrative costs, not directly related to property maintenance or development, are charged to operations as incurred.

The Company is not the operator of the oil and gas properties and relies on information provided by the operator.

Investments:

(i) Publicly-traded investments:

Securities which are traded on a recognized securities exchange are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date.

Warrants or options of publicly-traded securities which do not have a quoted price are carried at an estimated fair value calculated using the Black-Scholes option pricing model based on the underlying security.

(ii) Equity accounted investments:

Investments in which the Company has significant influence, but does not control, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter, to reflect the Company's prorated share of income or loss of the equity accounted investment and any dividends received from the investment. The Company's share of net income and losses of such investments are included in the statement of operations.

The resulting values may differ from values that would be realized had a ready market existed. The amounts at which the Company's publicly-traded investments could be disposed of may differ from carrying values based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity. The amounts at which the Company's privately-held investments could be disposed of may differ from the carrying value assigned.

(iii) Investment in joint Ventures

The Company conducts a portion of its business through joint ventures under which the joint venture participants are bound by contractual agreements establishing joint control over the ventures. The Company records its proportionate share of assets, liabilities, revenues and operating costs of the joint venture.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation plan:

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

Asset retirement and reclamation obligations:

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is initially recorded as an increase to properties and deferred exploration expenditures and amortized over the useful life of the respective property. Accretion is expensed in the statement of operations as incurred. Management is not aware of any significant asset retirement and reclamation obligations as at December 31, 2009 and 2008.

The Company's activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding and the number of special warrants outstanding that can be converted into common shares for no additional consideration. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. The outstanding stock options and warrants to purchase common shares as described in Note 10 were not included in the computation of the diluted loss per share for 2009 and 2008 as the effect would be anti-dilutive.

Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs and oil and gas properties should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations or stock-based compensation, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – Recognition and Measurement

Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost. Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of operations. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive loss until realized, at which time they will be recorded in the consolidated statement of operations.

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other than temporary impairment remain unchanged. Transaction costs incurred to acquire financial instruments are included in the underlying balance. Regular-way purchases and sales of financial assets are accounted for on the trade date.

Section 3865 is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1651 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered under this standard.

The Company designated its cash and investments as held-for-trading, which are measured at fair value. Sundry receivables and due from shareholders of subsidiary are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, other long term liability, bridge loan, and long-term debts are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2009 and 2008, the Company's financial instruments that are carried at fair value, consisting of cash and investments, have been classified as level 1 within the fair value hierarchy.

For the year ended December 31, 2009, \$9,235 (2008 – \$373,982) of unrealized losses from short term investments was recognized in the consolidated statements of operations.

Translation of Foreign Currencies:

The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the translation date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes:

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Flow-through Financing:

The Company has financed a portion of its Canadian exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to exploration properties.

Resource expenditure deductions for Canadian income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce share capital.

In accordance with EIC-146, Flow-through Shares, the Company records the flow-through renunciation on the date on which it files its renouncement documents, which is generally in the calendar year after the related flow-through financings have occurred.

Comparative figures:

Certain comparative figures have been reclassified to conform with presentation adopted in the current period.

Future Accounting Changes

Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are reliably measured will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be premeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company expects to adopt this standard on January 1, 2011 and has not yet determined the impact of the adoption of this new section on the consolidated financial statements. Early adoption is permitted.

Consolidations and Non-controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company expects to adopt these standards on January 1, 2011 and has not yet determined the impact of the adoption of this new section on the consolidated financial statements. Early adoption is permitted.

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Changes (Continued)

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for annual financial statements relating to fiscal years effectively beginning on or after January 1, 2011. The AcSB issued the “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (“CSA”) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the (continued) use of US GAAP by domestic issuers. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impact of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential exemptions to the initial adoption of IFRS as permitted by IFRS Statement 1.

3. RISK FACTORS

The Company's major oil and gas properties and mineral properties are the Chebucto SDL, North Triumph SDL, Atikokan, Nevada SBD, ARCN and Sierra Rosario. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon these properties. If no additional major mineral properties are acquired by the Company, any adverse development affecting these properties would have a material adverse effect on the Company's financial condition and results of operations.

Other risk factors and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous year.

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, investments and sundry receivables. Cash and investments are held with reputable Canadian chartered banks and Chinese banks which are closely monitored by management. Financial instruments included in sundry receivables consist mainly of sales tax receivable from government authorities. Management believes that the credit risk concentration with respect to financial instruments included in cash, investments and sundry receivables is remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had a cash balance of \$1,873,390 (December 31, 2008 - \$2,603,511) to settle current liabilities of \$400,554 (December 31, 2008 - \$2,734,826). The Company's current financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

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3. RISK FACTORS (Continued)

Foreign Currency Risk

The Company is exposed to foreign exchange rate risk, as a portion of the Company's business is carried out in US dollars ("USD") and Chinese Renminbi ("RMB") and the Company and its subsidiaries maintain USD and RMB denominated bank accounts. Unfavorable changes in the applicable exchange rate between USD, RMB and the CDN dollar may result in a material effect on the foreign exchange gain or loss. The Company and its subsidiaries do not use derivative instruments to reduce the exposure to foreign currency risk.

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the purchase of properties and investment in foreign currencies and the purchase of services, materials and property and equipment from suppliers invoiced in foreign currencies. For the year ended December 31, 2009, approximately 18% [December 31, 2008 - 39%] of its assets and approximately 25% [2008 -9%] of expenses were incurred in foreign currencies.

Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments related to cash, investments, sundry receivables, due from shareholders of subsidiary, accounts payable and accrued liabilities and loans are the same.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the year:

(i) Interest rate risk is remote as the interest rates on the Company's investments have fixed interest rates.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. As at December 31, 2009, \$232,486 cash, \$29,146 sundry receivables, \$17,155 accounts payable and accrued liabilities, and \$nil of long term debts are in foreign currencies.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of precious, base and specialty metals and uranium. Commodity prices have fluctuated widely in recent years. There is no assurance that commercial quantities of commodities may be produced in the future, or that a profitable market will exist for them. A decline in the market price of commodities may also require the Company to reduce its mineral resources, which could have a material and adverse effect on the Company's value. A decline in the market price of the commodities may affect the completion of future equity transactions and may also affect the Company's liquidity and its ability to meet its ongoing obligations.

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4. PAYMENTS FOR ACQUISITION OF ASSETS

On March 31, 2008, SEI's 100% owned subsidiary YBB signed an agreement to acquire 85% of Huajun from two individuals in an arm's length transaction for total consideration of RMB22,000,000 (\$3,372,600). On the date of the agreement, the two individuals owned the adjacent 306, Chuang Zhong and Defu Coal Mine (collectively the "306 Mine") that are germanium/coal producers in Lincang City, Yunnan Province, China. These operations had been unitized into Huajun as one operation. The agreement to acquire Huajun requires the two individuals to transfer 100% of the physical assets of 306 Mine to Huajun which has been done. The agreement provided for payment in several tranches subject to certain deliverables by the vendors. The Huajun operations are the subject of an application for a new comprehensive mining licence which covers all of the 306 Mine operating area. The purchase agreement and subsequent amendments provide that once 60% of the agreed purchase price has been paid to the vendors, Yunnan Blue Bay would own a 51% controlling interest in Huajun and would assume control of the Huajun operations. The agreement also provides that the remaining 40% of the agreed purchase price will become due once the new comprehensive mining licence for Huajun is granted. As at December 31, 2009, YBB had paid cash payments of \$2,023,560 (RMB13,200,000) or 60% of the agreed purchase price to Huajun and Huajun had paid the amount to the two individual vendors. YBB and the two vendors had agreed that YBB had acquired 51% of the interest in Huajun and 306 Mine (Note 14) and YBB took control of Huajun and 306 operations on September 4, 2009. The purchase agreement and amendments also provided that YBB would be entitled to 100% of the cash flow from Huajun operations until the new comprehensive mining licence is granted. As of December 31, 2009, the application was still under the process for government approval and the new comprehensive mining licence covering the 306 Mine had not been granted. Under PRC rules Huajun is permitted to operate the 306 Mine under the old mining licence until the new licence is granted. Therefore, the Company did not consolidate the Huajun assets and operation of the 306 Mine as of December 31, 2009. Upon approval from the government and granting of the new comprehensive mining licence to Huajun, the Company will consolidate the net assets and mining properties of 306 Mine. The Company is responsible for all the operations of the 306 Mine from September 4, 2009. For the period from September 4, 2009 to December 31, 2009 the Company estimated the net income from operations of 306 Mine to be approximately \$56,000.

The \$2,023,560 (RMB13,200,000) paid to the vendors of Huajun and the 306 Mine is recorded on the consolidated balance sheet as a payment for the acquisition of assets as at December 31, 2009.

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5. INVESTMENTS

The Company received the 1,000,000 Santoy Resources Ltd. ("Santoy") common shares and 1,000,000 warrants pursuant to an agreement with Santoy regarding the Blizzard Project sold to Santoy in 2006. 116,500 common shares of Santoy were disposed in 2008 and 33,500 common shares were disposed in 2009 (all pre-consolidated).

On July 21, 2009, Santoy completed a business combination with Virginia Uranium Ltd. and VA Uranium Holdings Inc. Under the Arrangement, the Company's old common shares of Santoy were converted to its new shares on a one-to-five basis with the same rights and restrictions. As a registered Santoy shareholder, the Company was immediately entitled to and issued one-quarter Santoy Incentive Warrant for each Santoy common share held. Each one Santoy Incentive Warrant will be excisable to acquire one Santoy common share at a price of \$0.12 for a period of 12 months following the closing date of July 21, 2009. Post closing, Santoy changed its name to Virginia Energy Resources Inc. ("VAE").

As at December 31, 2009, the Company held 100,000 common shares of VAE and 25,000 warrants. The estimated fair value of the securities, based on their quoted market price at year end, was as follows:

	#	\$
VAE common shares	100,000	32,000
VAE warrants	25,000	<u>750</u>
		<u><u>32,750</u></u>

As at December 31, 2008, the Company held 533,500 (pre-consolidated) common shares of Santoy and 100,000 (pre-consolidated) warrants. The estimated fair value of the securities, based on their quoted market price at December 31, 2008, was as follows:

	#	\$
Santoy common shares	533,500	48,015
Santoy warrants	1,000,000	<u>-</u>
		<u><u>48,015</u></u>

6. EQUIPMENT

December 31, 2009			December 31, 2008		
Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
\$ 73,100	\$ 10,170	\$ 62,930	\$ 20,922	\$ 3,029	\$ 17,893

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7. OIL AND GAS PROPERTIES

The Company's oil and gas properties in Canada consist of the following:

(a) Chebucto SDL

The Company has an estimated 6.5% working interest on a unitized basis in the Chebucto gas field. Chebucto is covered by two Significant Discovery Licenses ("SDL 2286" and SDL 2276A). The Company owns a 12.5% working interest in SDL 2286 only. The Chebucto (not yet developed) is located approximately 40 km southeast of Sable Island, approximately 300 km southeast of Halifax, Nova Scotia, Canada. The Company, should it elect to fully participate in any future development of the Chebucto field, is estimated by ExxonMobil Canada Ltd., the interest representative and majority partner in Chebucto, to be assessable for approximately 6.5% of all future development costs relating to this project. (See Note 17(iii)).

(b) North Triumph SDL

In 1997, the Company sold its 12.5% interest in the North Triumph SDL for \$125,000. Should the North Triumph SDL enter commercial production, the Company may elect to:

- (i) become a participant in the project; or
- (ii) increase the initial sale price of \$125,000 to the value of the reserves attributable to the Company's share.

8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Balance Dec. 31, 2007 \$	Additions Net of Recoveries 2008 \$	Balance Dec. 31, 2008 \$	Additions Net of Recoveries/write offs 2009 \$	Balance Dec. 31, 2009 \$
China					
Luxi Gold (i)	3,367,438	315,532	3,682,970	(1,536,770)	2,146,200
ARCN (ii)	551,429	260,427	811,856	345,392	1,157,248
208 Project (iii)	41,868	8,108	49,976	(49,976)	-
	<u>3,960,735</u>	<u>584,067</u>	<u>4,544,802</u>	<u>(1,241,354)</u>	<u>3,303,448</u>
Canada					
Whiskey (iv)	279,988	345,172	625,160	(625,160)	-
Atikokan (viii)	-	-	-	617,559	617,559
	<u>279,988</u>	<u>345,172</u>	<u>625,160</u>	<u>(7,601)</u>	<u>617,559</u>
United States					
Nevada SBD (v)	950,308	143,259	1,093,567	125,430	1,218,997
Coal Canyon (vi)	148,959	41,098	190,057	(190,057)	-
	<u>1,099,267</u>	<u>184,357</u>	<u>1,283,624</u>	<u>(64,627)</u>	<u>1,218,997</u>
Mexico					
Sierra Rosario (vii)	687,327	219,304	906,631	9,146	915,777
Other	50,800	58,185	108,985	77,912	186,897
Total	<u>6,078,117</u>	<u>1,391,085</u>	<u>7,469,202</u>	<u>(1,226,524)</u>	<u>6,242,678</u>

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8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(i) Luxi Gold Project, China

In 2003 the Company acquired the right to participate, with an 80% interest, in a project to explore certain mineral licenses in the Yunnan Province, China by making various payments in cash and shares, and by completing an exploration program on the area covered by the licenses. In 2006 the Company completed the requirements to earn its interest.

On November 21, 2006, the Company announced that it had entered into an agreement with Starry Limited ("Starry"), a company registered in the British Virgin Islands, whereby Starry had undertaken to purchase from the Company 41% in the Luxi Gold Project for a price of RMB 19,680,000 (approximately \$2,900,000), leaving the Company with a 39% interest.

The Company received a deposit of RMB 3,772,000 (approximately \$560,000) on November 20, 2006. At December 31, 2006, Starry had not made further payments in accordance with the agreement. As a result, the sale was not recorded in the consolidated financial statements of 2006 and the amounts received were recorded as a recovery of expenditures on the Luxi Gold Project. The non-controlling interest on the 2006 consolidated balance sheet related to this project.

On July 16, 2007 the Company received a payment of RMB 11,972,000 (\$1,649,000) from Starry and the sale of 41% of the Company's interest was recorded as a recovery of expenditures on the Luxi Gold Project. The balance of RMB 3,936,000 (\$532,000), according to the agreement with Starry, was to be paid to the Company upon completion of an agreement to acquire certain additional rights. This payment has not been received as of December 31, 2009.

Upon completion of the transaction with Starry, the ownership interests are Starry 51% and the Company 39%. The remaining 10% interest is a carried interest such that future expenses related to the Luxi Gold Project are to be allocated 57% to Starry and 43% to the Company.

Subsequent to December 31, 2009, the Company sold its 39% interest in Luxi to a third party at RMB14,000,000 (\$2,146,200) and the carrying value of the project was written down to reflect the recoverable value. RMB14,000,000 (\$2,146,200) was received after December 31, 2009.

(ii) Uranium ARCN Project, China

On April 2, 2006, the Company entered into an agreement with two parties in China to identify sources of coal ash containing uranium in China, to determine the uranium content of such coal ash and to study the feasibility of economically extracting the uranium from such coal ash and other non-primary sources of uranium. The Company is required to expend a minimum of \$100,000 on the Uranium ARCN Project in order to earn a 60% interest (earned). The Company has applied to register the technology as patented processes in China and has received two patents to date. On January 16, 2007, the Company signed an agreement with the Xiaolongtan Guodian Power Company of Yunnan PRC ("XLT") to evaluate the waste coal ash at XLT's power station in Yunnan Province, China, for possible uranium extraction. XLT will have the option to participate in the development of any commercial production process of uranium from its ash material or to become the supplier of the ash to such commercial production process.

On June 4, 2007, the Company through its subsidiary, Sparton Energy Inc. ("SEI") and its China based partner, Beijing John Hanseng Investment Consulting Company ("BJH"), signed a Memorandum of Understanding ("MOU") with ARCN, the Airborne Remote Sensing Institute branch of the China National Nuclear Corporation ("CNNC"), to increase their interest in the Uranium ARCN Project from 60% to 80%. On January 18, 2008, SEI, BJH and ARCN signed a joint venture agreement, replacing the MOU, to form Yunnan Sparton New Environtech ("YSNET"), the operating company for secondary uranium recovery operations. YSNET is owned 60% by SEI, 30% by ARCN and 10% by BJH. The Company incorporated a 100% owned BVI subsidiary SEI on January 9, 2008 to hold the Company's interests in the ARCN project. BJH has agreed to convert its interest into shares of SEI upon a successful financing of SEI.

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8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(ii) Uranium ARCN Project, China (Continued)

The Company will contribute 70% of the cash for its 60% interest in YSNET, and ARCN will contribute 30% of the cash for a 30% interest. The current financial statements reflect a consolidated 60% interest in YSNET.

In March 2008, Beijing Sparton was officially granted the first patent by the Chinese government and Beijing Sparton has assigned use of the patented technology to SEI and YSNET.

(iii) 208 Project, China

On December 6, 2006, the Company signed a Letter of Intent for a Co-operation Agreement with Brigade 208 of China National Nuclear Corporation ("208") to carry out a due diligence evaluation of 208's gold production and exploration project in the Wu La Te Zhong Qi area of Inner Mongolia, PRC. 208 holds certain exploration licenses and a mining license for the Tu Gu Ri Ge Gold mine. The Company may obtain up to a 30% equity interest in the Tu Gu Ri Ge Gold mine, and up to a 60% interest in the joint venture. As of December 31, 2009 this project had not progressed further and the Letter of Intent and Co-operation Agreements had expired. No further work is anticipated. The project was written off in 2009.

(iv) Whiskey Project, Canada

The Company's wholly owned "Whiskey" copper-uranium property is an early stage project located in central New Brunswick. No work was done in 2009 due to the New Brunswick government placing a ban on uranium exploration and development in the province. The property was written off due to the government ban.

(v) Nevada SBD Project, United States

On March 17, 2006, and amended June 7, 2007, the Company entered into an Assignment Agreement to acquire a 10-year lease, renewable for an additional 10 years on the SBD property in Lander County, Nevada. Pursuant to the agreement the Company paid US\$100,000 on the closing date, assumed the obligations of the underlying lease agreement (US\$12,000 annual payment to be remitted quarterly), issued 500,000 common shares of the Company on the closing date, issued 500,000 common shares nine months after the closing date and agreed to expend a minimum of \$500,000 during the first 15 months of the agreement (completed). The property is subject to a 5% total production royalty and annual advance royalty payments, in cash or shares, of US\$75,000. One half of this royalty may be purchased for US\$1,500,000.

To date, the Company has elected to make the SBD annual advance royalty payments in shares:

- 271,449 common shares for 2007 (valued at US\$75,000 or \$79,399);
- 366,312 common shares for 2008 (valued at US\$75,000 or \$75,000); and
- 1,799,009 common shares for 2009 (valued at US\$75,000 or \$95,330).

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8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(vi) Coal Canyon Project, United States

On March 17, 2006, the Company entered into a Mining Lease and Option to Purchase Agreement to acquire a 10-year lease, renewable for a further 10 years on the Coal Canyon claim group in Pershing County, Nevada. The terms of the agreement include an initial cash payment of US\$15,000 (paid) on execution of the agreement; US\$25,000 on the first anniversary of the agreement (paid); US\$35,000 on the second anniversary of the agreement (paid); and US\$50,000 on each anniversary of the agreement thereafter. The agreement was amended to reduce the US\$50,000 annual payment to US\$25,000. The property is subject to a 3% net smelter return royalty. One third of this royalty may be purchased for US\$1,000,000. The Company holds an option to purchase the property for US\$300,000. No work was done on the project during 2009. Subsequent to December 31, 2009, the Company elected not to renew its option in order to focus its on its core properties in Canada and China. Therefore the property value was written off in 2009.

(vii) Sierra Rosario Project, Mexico

International Northair Mines Ltd. ("Northair") and the Company have signed a binding Option Agreement whereby the Company may earn a 51% interest in Northair's Sierra Rosario project. In order to earn a 51% interest, the Company must pay Northair \$80,000 cash (paid), issue to Northair 275,000 common shares of the Company, (valued at \$70,000 based on the quoted market value of the shares at the date of issue), and incur over \$800,000 in exploration expenditures. By December 31, 2009, the Company had earned a 51% interest in the joint venture with Northair and all other commitments under the earn-in agreement had been met.

(viii) Atikokan, Canada

On July 20, 2009, the Company entered into working option agreements for two large claim groups, the West Hammond Contact ("WHC") and Clement Lake ("CL") properties, known as the Atikokan Project. These properties are located in northern Ontario. Under the terms of the option agreements, the Company will earn a 100% interest in the claims by making total cash payments of \$505,000 (\$65,000 on signing) and issuing 1.5 million common shares (335,000 on signing) to the vendors over a 4-year period. Once fully vested, each of the properties will be subject to payment of a 2% net smelter return production royalty ("NSR"). One half of this NSR may be purchased at any time after completion of a feasibility study on either property for the sums of \$1,750,000 on the WHC claims and \$1,500,000 on the CL claims. After the end of the fourth year, if the Company has fully vested its interest in either or both of the properties, the WHC and CL claims will be subject to advance annual royalty payments of \$60,000 and \$40,000 respectively.

During the year ended December 31, 2009, the Company made the initial cash payment of \$65,000 and issued 335,000 common shares under the property agreement. The 335,000 common shares issued were value at \$67,000 according to the share price as at the date of issue.

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9. Long-Term Debt

- (a) On June 13, 2008, SEI entered into an engagement letter with Quam Securities Company Limited of Hong Kong ("Quam") where Quam has agreed to raise up to US\$10,000,000 in convertible debentures of SEI in a private placement. The convertible debentures are expected to bear interest of 10% annually, mature on December 31, 2011, be convertible into a 35% interest in Sparton Energy Inc., and be secured by a guarantee backed by the Huajun shares the Company will acquire (Note 14), the Company's interest in the agreements and operating vehicles related to the secondary uranium recovery programs in Yunnan China, and working interest in the Chebucto gas field offshore of Nova Scotia. Quam will receive a 5% commission on the gross proceeds of the financing and warrants to purchase shares of the Company equal to 2.5% of the gross proceeds of the financing. This financing had not closed as at December 31, 2009.

On September 29, 2008, to facilitate the secured convertible debenture financing described above, the Company closed the financing for a bridge loan of US\$2,000,000 from Quam to finance the initial acquisition of Huajun, as described in Note 4. The loan bears interest at an annual rate of 10%; (interest of \$239,180 (US\$225,758) was paid during the year 2009). The loan is intended to be repaid out of proceeds of funds from the Convertible Debenture sales as long as a minimum of US\$5,000,000 in Convertible Debentures are sold by Quam or SEI raises a similar minimum amount through an alternate financing. Quam had indicated it intended to subscribe for US\$2,000,000 of the Financing for its subsidiary's account, subject to an additional US\$3,000,000 being raised under the financing, but has not done so.

On July 23, 2009, as part of the loan agreement (Note 9(b)), Quam has agreed to extend the repayment date of the US\$2 million bridge loan made to SEI to April 23, 2011, provided that US\$500,000 was repaid by December 31, 2009. The Company repaid principal of \$525,500 (US\$500,000). As at December 31, 2009, the principal outstanding of the bridge loan was US\$1,500,000 (\$1,576,500) and the interest payable was US\$12,500.

Financing costs of \$601,632 related to the above transactions were written off during 2009.

- (b) On July 23, 2009, SEI completed a \$1,700,000 financing provided by an arm's length third party (the "Lender") by way of a loan (the "Loan"). The Loan was for a principal amount of \$1,700,000 evidenced by a debenture and carries interest of 17.6% annually payable on a quarterly basis for 21 months and is repayable on or before maturity on April 23, 2011. The Loan can be prepaid at any time up to 30 days before maturity without penalty. Within 30 days of maturity, the parties can each elect for the repayment of the principal in full plus interest. In the event no such election is made, the Lender can elect to require the transfer of SEI's 34% interest in Huajun acquired with the proceeds of the Loan in full satisfaction of the amounts owing under the Loan. In addition, if at any time the board of directors of SEI formally authorizes a going public transaction of SEI and so long as none of the elections described above have been made, the Lender has the right to convert the debt owed under the Loan into the capital of SEI at an amount equal to 150% of the then outstanding principal amount on the Loan, subject to all applicable regulatory approvals. SEI intends to repay the Loan when it is due.

SEI, the Company and another subsidiary of the Company are providing security for the Loan in the form of a guarantee backed by the Huajun shares, SEI's interest in its tangible and intangible assets and certain other assets of the Company.

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10. CAPITAL STOCK

(a) Common Shares

Authorized:
Unlimited common shares
Issued:
87,783,930 common shares

The transactions from 2008 to 2009 are as follows:

	Number of Shares	Consideration
Balance, December 31, 2007	59,011,387	\$ 11,131,618
Shares issued on private placement (i)	4,100,000	1,025,000
Fair value of warrants - private placement (i)	-	(222,440)
Share issue costs - cash	-	(60,848)
Shares issued for property (ii)	366,312	75,000
Tax effect of flow through renouncement		(168,000)
Balance, December 31, 2008	63,477,699	\$ 11,780,330
Shares issued on private placement (iii)	18,616,667	2,759,000
Fair value of warrants - private placement (iii)	-	(717,521)
Conversion of preferred shares of SEI (iv)	3,555,555	126,548
Shares issue costs - cash	-	(200,120)
Share issue costs – warrants (iii)		(124,356)
Shares issued for property (v)	2,134,009	162,330
Balance, December 31, 2009	87,783,930	\$ 13,786,211

- (i) On January 14, 2008, the Company completed a non-brokered private placement financing, issuing 4,100,000 units at a subscription price of \$0.25 per unit, for gross proceeds of \$1,025,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share of the Company until January 14, 2009 at a price of \$0.38 per share, subject to the right of the Company to accelerate the expiry date of the warrants under certain circumstances.

The fair value of 4,100,000 common share purchase warrants was estimated on the date of grant to be \$222,440 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 102%, a risk-free interest rate of 3.28%, and an expected life of one year. The warrants expired without being exercised during the year ended December 31, 2009

- (ii) The Company issued 366,312 common shares in 2008 to pay the US\$75,000 royalty payment due on its Nevada SBD Gold Project (Note 8(v)). The 366,312 common shares were valued at \$75,000 based on the quoted market price on the date of issue.
- (iii) On October 5, 2009, the Company completed the first tranche of a non-brokered private placement. The Company issued (a) an aggregate of 3,850,000 flow-through units (the "Flow-Through Units") at a price of \$0.12 per unit for aggregate gross proceeds of \$462,000 and (b) 2,500,000 non-flow through units at a price of \$0.12 per unit for gross proceeds of \$300,000. Total gross proceeds of these placements were \$762,000.

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10. CAPITAL STOCK (Continued)

(a) Common Shares (Continued)

Both the Flow-Through Units and the non-flow through units are comprised of one common share of the Company and one full share purchase warrant. Each warrant is exercisable for one additional common share at a price of \$0.15 per share until October 5, 2010. The fair value of the 6,350,000 warrants was estimated on the date of grant to be \$190,500 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 147%, a risk-free interest rate of 1.18%, and an expected life of one year.

The Company paid commissions of \$18,660 and issued 224,167 broker warrants to a registered dealer for services rendered in relation to this financing. Each of the broker warrants entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 at any time up until October 5, 2011. The fair value of the 224,167 broker's warrants was estimated on the date of grant to be \$8,967 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 115%, a risk-free interest rate of 1.18%, and an expected life of two years.

On October 16, 2009, the Company closed the second and final tranche of the non-brokered private placement. The Company issued 1,766,667 Flow-Through Units at a price of \$0.12 per unit for aggregate gross proceeds of \$212,000.

The Flow-Through Units are comprised of one common share of the Company and one share purchase warrant. Each warrant is exercisable for one additional common share at a price of \$0.15 per share until October 18, 2010. The fair value of the 1,766,667 warrants was estimated on the date of grant to be \$53,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 147%, a risk-free interest rate of 1.18%, and an expected life of one year.

The Company paid commissions of \$10,260 and issued 98,333 broker warrants to registered dealers for services rendered in relation to this financing. Each of the broker warrants entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 at any time up until October 17, 2011.

The fair value of the 98,333 broker's warrants was estimated on the date of grant to be \$3,943 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 115%, a risk-free interest rate of 1.18%, and an expected life of two years.

On December 18, 2009, the Company closed another non-brokered private placement. The Company has issued (a) 4,500,000 flow-through units (the "FT Units") at a price of \$0.17 per FT Unit for aggregate gross proceeds of \$765,000, and (b) 6,000,000 non - flow through units (the "Units") at a price of \$0.17 per Unit for gross proceeds of \$1,020,000.

The FT Units are comprised of one common share of the Company and one-half of a share purchase warrant. The Units are comprised of one common share of the Company and one whole share purchase warrant. Each whole warrant is exercisable for one additional common share of the Company at a price of \$0.20 per share until December 19, 2011. The fair value of the 8,250,000 warrants was estimated on the date of grant to be \$474,021 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 124%, a risk-free interest rate of 1.3%, and an expected life of two years.

The Company paid cash commissions of \$142,800 and issued 1,050,000 compensation warrants (the "Compensation Warrants") to the broker as a finder's fee in relation to this financing. Each of the Compensation Warrants will be exercisable for one Unit of the Company at a price of \$0.17 per unit until December 19, 2011.

The fair value of the 1,050,500 Compensation Warrants was estimated on the date of grant to be \$111,446 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 124%, a risk-free interest rate of 1.24%, and an expected life of two years.

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10. CAPITAL STOCK (Continued)

(a) Common Shares (Continued)

(iv) On October 6, 2009, Quam exercised its right of conversion pursuant to the bridge facility agreement entered into between the Company and Quam (Note 9). The agreement and amended agreement entitled Quam to convert 2,648,700 preference shares of SEI into an aggregate of 3,555,555 common shares in the capital of the Company (Note 13). As a result of the conversion, the Company's interest in SEI increased from 87% to 94.5%. The 3,555,555 common shares were valued at the exchange value of \$126,548.

(v) During the year ended December 31, 2009, the Company issued 1,799,009 common shares to pay the US\$75,000 royalty payment due on its Nevada SBD Gold Project (Note 8(v)). The 1,799,009 common shares were valued at \$95,330 based on the quoted market share price on the date of issue.

On November 22, 2009 the Company issued 335,000 common shares (250,000 and 85,000 shares, respectively, to the vendors of West Hammond and Clement claims) under the Atikokan property agreement as described in Note 8(viii). The 335,000 common shares were valued at \$67,000 using the quoted fair price on the date of issue.

(b) Stock Options

The Company, under its shareholder approved stock-option plan, has granted options for the purchase of common shares to employees, directors, officers and other service providers. The aggregate number of common shares reserved for issuance under this plan is limited to 10% of the aggregate number of common shares outstanding.

A summary of the stock option activity for the year ended December 31, 2009 and 2008 is as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, December 31, 2007	5,885,000	0.36
Granted (i)	50,000	0.21
Granted (ii)	100,000	0.21
Forfeited	(300,000)	0.21
Granted (iii)	560,000	0.10
Expired	(850,000)	0.79
Outstanding, December 31, 2008	5,445,000	0.26
Granted (iv)	885,000	0.10
Granted (v)	350,000	0.10
Expired	(450,000)	0.27
Outstanding, December 31, 2009	6,230,000	0.23

(i) On February 15, 2008, the Company granted a total of 50,000 stock options to an employee vesting immediately. The options are exercisable at a price of \$0.21 per share and expire on February 15, 2013. The fair value of the 50,000 options was estimated on the date of grant to be \$8,400 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 110%, a risk-free interest rate of 3.41% and an expected average life of 5 years.

(ii) On February 20, 2008, the Company granted a total of 100,000 stock options to consultants vesting immediately. The options are exercisable at a price of \$0.21 per share and expire on February 20, 2013. The fair value of the 100,000 options was estimated on the date of grant to be \$16,800 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 110%, a risk-free interest rate of 3.48% and an expected average life of 5 years.

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10. CAPITAL STOCK (Continued)

(b) Stock Options (continued)

- (iii) On August 11, 2008, the Company granted a total of 560,000 stock options to directors and officers vesting immediately. The options are exercisable at a price of \$0.10 per share and expire on August 11, 2011. The fair value of the 560,000 options was estimated as \$30,500 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 99%, a risk-free interest rate of 3.1% and an expected average life of 3 years.
- (iv) On July 3, 2009, the Company granted a total of 885,000 stock options to directors, officers and consultants of the Company vesting immediately. The options are exercisable at a price of \$0.10 per share and expire on July 3, 2014. The fair value of the 885,000 options was estimated as \$40,980 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 107%, a risk-free interest rate of 2.5% and an expected average life of 5 years. \$40,980 was recorded as stock-based compensation in 2009 for the options vested.
- (v) On September 3, 2009, the Company granted a total of 350,000 new incentive options to its consultants. These options entitle the holders to purchase common shares of the Company at a price of \$0.10 per share and expire on September 3, 2014. 250,000 options vested immediately, and 100,000 options vest quarterly over 12 months. As of December 31, 2009, 275,000 of the options had vested. The fair value of the 350,000 options was estimated as \$25,060 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 107%, a risk-free interest rate of 2.57% and an expected average life of 5 years. In 2009 the 275,000 vested options were recorded as stock-based compensation of \$19,690.

As at December 31, 2009, the Company had the following stock options outstanding:

Number of Options	Black-Scholes Valuation (\$)	Exercise Price (\$)	Expiry Date
550,000	60,922	0.20	March 10, 2010
150,000	17,700	0.17	September 26, 2010
100,000	19,400	0.26	January 12, 2011
825,000	196,658	0.31	April 21, 2011
510,000	31,200	0.21	July 7, 2011
150,000	20,426	0.14	October 25, 2011
50,000	9,050	0.24	March 29, 2012
850,000	164,900	0.25	April 30, 2012
575,000	188,025	0.395	June 25, 2012
200,000	67,860	0.44	July 25, 2012
175,000	40,239	0.30	August 14, 2012
150,000	35,264	0.36	November 12, 2012
50,000	8,400	0.21	February 15, 2013
100,000	16,800	0.21	February 20, 2013
560,000	30,500	0.10	August 13, 2011
885,000	40,980	0.10	July 3, 2014
350,000	25,060	0.10	September 3, 2014
6,230,000	973,411	0.23	

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10. CAPITAL STOCK (Continued)

As at December 31, 2009 and 2008, 6,115,000 and 5,445,000 options were exercisable with an average remaining life of 2.46 and 2.76 years respectively.

The weighted average exercise price of the exercisable options as at December 31, 2009 and 2008 were \$0.23 and \$0.25 respectively. The weighed average grant date fair value of the options granted during the year is \$0.05 (2008 - \$0.08).

(c) Warrants

A summary of the warrants activity for the year ended December 31, 2009 is as follows:

	Number of Warrants	Weighted Average Exercise Price(\$)
Outstanding, December 31, 2008	2,000,000	0.29
Issued (Note 10(a)(i))	4,100,000	0.38
Expired	(1,900,000)	0.35
Balance, December 31, 2008	4,200,000	0.38
Issued (Note 10(a)(iii))	17,739,167	0.17
Expired	(4,200,000)	0.38
Balance, December 31, 2009	17,739,167	0.17

The weighted average grant date fair value of the warrants issued during the year is \$0.05 (2008 - \$0.05)

As at December 31, 2009, the Company had the following warrants outstanding:

Black-Scholes Valuation	Number of Warrants	Exercise Price(\$)	Expiry Date
\$ 190,500	6,350,000	0.15	October 5, 2010
53,000	1,766,667	0.15	October 18, 2010
8,967	224,167	0.15	October 5, 2011
3,943	98,333	0.15	October 17, 2010
474,021	8,250,000	0.20	December 19, 2011
111,446	1,050,000	0.17	December 19, 2011
\$ 841,877	17,739,167		

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11. INCOME TAXES

(a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of approximately 33% (2008 - 34%) are as follows:

	2009	2008
Loss before income taxes	(4,241,907)	(1,267,296)
Expected income tax benefit based on statutory rates	(1,400,000)	(425,000)
Adjustments to benefit resulting from:		
Share issue costs	(63,000)	(16,000)
Stock-based compensation	13,000	51,000
Writedown of properties	839,000	-
Changes in tax rates	86,000	115,000
Other	(54,000)	149,000
Change in valuation allowance	133,000	126,000
Future tax recovery	(446,000)	--

(b) Future income tax balances

	2009	2008
Future tax assets (liabilities)		
Properties and equipment	680,000	399,000
Share issue costs and other	176,000	66,000
Non-capital losses	932,000	883,000
Valuation allowance	(1,493,000)	(1,360,000)
	295,000	(72,000)
Net future income tax asset consists of the following:		
Future income tax asset – current (Canada)	446,000	-
Future income tax liability – long-term (China)	(151,000)	(72,000)
	295,000	(72,000)

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11. INCOME TAXES (Continued)

(c) Tax loss carry-forwards

The Company has approximately \$7,249,000 of resource expenditures which, under certain circumstances, may be utilized to reduce Canadian taxable income of future years. \$446,000 of the potential income tax benefit of these losses has been recognized in the accounts as \$1,439,000 flow through expenditures will be renounced in 2010.

As at December 31, 2009, the Company has approximately \$2,350,000 of non-capital losses in Canada and \$1,381,000 of non-capital losses in China, which can be used to reduce taxable income of future years:

Year of expiry	Canada	China
2010	151,000	-
2011	-	69,000
2012	-	223,000
2013	-	242,000
2014	274,000	847,000
2015	356,000	-
2026	400,000	-
2027	458,000	-
2028	317,000	-
2029	394,000	-
	<u>2,350,000</u>	<u>1,367,000</u>

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, professional fees relating to the Company's capitalized exploration projects in the amount of \$72,000 (2008 – \$72,000) were paid to a director who is the President of the Company. Also, \$54,000 (2008 – \$54,000) in management and consulting fees was paid to another director. The related parties were also reimbursed for out-of-pocket expenses relating to the business of the Company.

Management fees of \$ 19,420 (2008 – \$19,420) were paid to an officer of the Company.

See Note 13.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

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13. MINORITY INTEREST

On September 17, 2008, SEI granted 1,750,000 options to 5 directors and 8 consultants of the Company. Each option entitles the holder to purchase one common share of SEI at US\$0.05 within 5 years after the grant of the options. The fair value of the options was estimated as US\$65,717 (\$69,912) on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 99%, a risk-free interest rate of 3.1% and an expected average life of 5 years.

On December 31, 2008, the stock options described above were fully exercised for total consideration of \$13 and demand loan of US\$87,500 (\$91,963) included in the balance sheet as "Due from shareholders" of the subsidiary.

On December 31, 2008, SEI issued to Quam Ventures (BVI) Limited 2,648,700 Class A preference shares of SEI for a consideration of US\$132,435 (\$140,368), which was recorded as part of the due from shareholders of subsidiary in 2008. The preference shares represented a 7.7 % fully diluted interest in SEI, which would be reduced on a scaled basis, if the aggregate gross proceeds of the debenture financing described in Note 9 did not meet or exceed \$US10 million. If no Convertible Debentures were sold the interest in SEI would be reduced to 5%. Quam could elect to convert these Preference Shares into common shares of SEI, or, Quam could elect to convert the full number of Preference Shares into 3,555,000 Bonus Common Shares of the Company. In 2009, the Company agreed to void the payment of \$140,368 due from Quam, and recorded the amount as part of the deferred financing costs. On October 6, 2009, Quam exercised its right to convert 2,648,700 preference shares of SEI into an aggregate of 3,555,555 common shares in the capital of the Company. As a result of the conversion, the Company's interest in SEI increased from 87% to 94.5%, and non-controlling interest decreased by \$126,550.

As of December 31, 2009, the minority interests represent the value of the 1,750,000 SEI shares described above valued at \$163,030.

14. COMMITMENTS

Pursuant to the on-going acquisition of Huajun and 306 Mine as described in Note 4, the Company signed an agreement to purchase 85% of the shares of Huajun for a cash consideration of RMB 22,000,000. The payment terms are as follows:

RMB 4,400,000 due 10 business days after the legal establishment of Huajun; (paid)

RMB 8,800,000 due 10 business days after the government approval of the Company's acquisition of 85% of Huajun; (paid)

RMB 4,400,000 due 10 business days after the transfer of all mining licenses to Huajun;

RMB 4,400,000 due 90 business days after the third payment or within 10 business days on completion of all the conditions above and the employees have entered into employment agreements with Huajun.

As at December 31, 2009, the Company has paid RMB 13,200,000 (\$2,023,560). The transaction was still on going and is expected to be completed in 2010.

See also Note 8 for the Company's commitments on various mineral properties acquisitions and expenditures.

Subsequent to the year end, the Company renounced \$1,439,000 flow-through expenditures and is committed to spend the funds prior to December 31, 2010.

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15. SEGMENTED INFORMATION

	December 31, 2009	December 31 2008
ASSETS		
Canada	\$ 6,357,009	\$ 4,987,187
United States	1,218,997	1,283,624
China	3,674,968	4,401,762
Mexico	915,777	906,631
	\$ 12,166,751	\$ 11,579,204

75% of the expenses on the statement of operations are incurred in Canada. Cash of \$1,693,087 (December 31, 2008 - \$1,155,267) is held in Canadian chartered banks, with the balance of \$180,303 (December 31, 2008 - \$1,448,244) being held in China.

16. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, contributed surplus and warrants. The Company manages its capital based on the acquisition and investment opportunities in the course of its business to support the on-going operations of the business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's primary sources of capital were funds generated from issuance of common shares.

There were no changes in the Company's approach to capital management during the year.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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17. SUBSEQUENT EVENTS

- (i) Subsequent to December 31, 2009, the Company has elected not to renew its option on the Coal Canyon Property (Note 8 (vi)) in order to focus its attention on its core properties in Canada and China.
- (ii) On March 17, 2010, the Company signed a sale agreement to divest its 39% interest in YSM, the company which owns the Luxi Gold Project (Note 8(i)) in Yunnan Province, southwest China. The total sale price is 14 million RMB or \$2,146,200 , payable in cash in two tranches.

The transaction was effected by the Company selling a 100% interest in its 100% owned British Virgin Islands ("BVI") registered subsidiary Sparton International Resources Inc. ("SIR").

SIR's sole asset is its 39% interest in YSM. According to the terms of the share purchase agreement the payment was to be made in two tranches. The first payment of 12 million RMB (approximately USD\$1.752 million dollars) was received on the initial signing of the share purchase agreement., The second and final payment of RMB 2 million was received in April 2010 by the Company.

Additional terms to the share purchase agreement give the Company a right of first refusal to become a 35% participant in any future expansion and development of the Luxi Gold Mine that is forecast to increase gold production by three or more times the current production level of approximately 300KG of gold per year. Further, Sparton will have a right of first refusal to participate, with an interest equal to 35% of the purchaser's YSM interest (13.65%), in any new mine development in the YSM area (by YSM) that at the feasibility stage is forecast to be three or more times the current Luxi Gold Mine production level.

- (iii) In the first quarter of 2010, the Company was informed by ExxonMobil Canada Ltd. that Chebucto would not be included in the current development. The Company is considering ways of acquiring new and more reliable data for Chebucto, possibly with other groups who are exploring in the area.