
SPARTON RESOURCES INC.
(A Development Stage Company)

INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2010

(Expressed in Canadian Dollars)

Auditors' involvement

The independent auditors of Sparton Resources Inc. have not performed an audit or a review of the interim consolidated financial statements for the three-months ended March 31, 2010.

SPARTON RESOURCES INC.
(A Development Stage Company)

INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(Expressed in Canadian Dollars)

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

	March 31, 2010	December 31, 2009
Assets		
Current		
Cash	\$ 2,371,803	\$ 1,873,390
Investments (Note 5)	23,750	32,750
Sundry receivables	450,536	71,136
Advances and prepaid expenses	239,630	177,495
Due from shareholders of subsidiary (Note 13)	88,883	91,963
	3,174,602	2,246,734
Equipment (Note 6)	61,150	62,930
Oil and gas properties (Note 7)	543,217	543,217
Exploration properties and deferred exploration expenditures (Note 8)	5,116,050	6,242,678
Payments for acquisition of assets (Note 4)	1,964,160	2,023,560
Future income tax asset (Note 11)	446,000	446,000
	\$ 11,305,179	\$ 11,565,119
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 347,975	\$ 400,554
Long-term debt (Note 9)	3,223,700	3,276,500
Future income taxes (Note 11)	151,000	151,000
	3,722,675	3,828,054
Minority Interests (Note 13)	163,030	163,030
Shareholders' Equity		
Capital stock (Note 10(a))	13,786,211	13,786,211
Warrants (Note 10(c))	841,877	841,877
Contributed surplus	4,192,106	4,190,316
Deficit	(11,400,720)	(11,244,369)
	\$ 7,419,474	7,574,035
	\$ 11,305,179	\$ 11,565,119

Going Concern (Note 1)

Commitments (Note 13)

Approved on Behalf of the Board:

Signed: "James C. McCartney", Director

Signed: "A. Lee Barker", Director

SPARTON RESOURCES INC.
(A Development Stage Company)

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the three month period ended March 31,
(Expressed in Canadian Dollars)

	2010	2009
EXPENSES		
Stock based compensation	\$ 1,790	\$ -
General and administrative expenses	163,575	177,496
Investor relations	18,762	8,422
Management and consultant fees (Note 12)	127,120	35,946
Professional fees	57,410	34,561
Occupancy costs	10,855	14,360
Transfer agent, filing and listing fees	12,002	10,249
Interest expense	114,290	64,899
	505,804	345,933
Other (income) and expenses		
Interest income	(114)	(683)
Drilling service income, net of expenses	(420,686)	(88,524)
Foreign exchange loss (gain)	62,370	(131,239)
Investment loss (gain)	8,977	(15,515)
NET LOSS, BEING THE COMPREHENSIVE LOSS, FOR THE PERIOD	156,351	109,972
LOSS PER SHARE		
Basic and diluted	\$ 0.00	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic	87,783,930	63,477,699
Diluted	88,392,263	63,477,699

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 three month period ended March 31,
(Expressed in Canadian Dollars)

	2010	2009
CAPITAL STOCK (Note 10)		
Balance, beginning of the period	\$ 13,786,211	\$ 11,780,330
Balance, end of the period	\$ 13,786,211	\$ 11,780,330
SHARES TO BE ISSUED		
Balance, beginning of the period	\$ -	\$ -
Shares to be issued for royalty payment on property	-	95,329
Balance, end of the period	\$ -	\$ 95,329
WARRANTS (Note 10(c))		
Balance, beginning of the period	\$ 841,877	\$ 235,814
Expired	-	(222,440)
Balance, end of the period	\$ 841,877	\$ 13,374
CONTRIBUTED SURPLUS		
Balance, beginning of the period	\$ 3,915,088	\$ 3,915,088
Adjustment to options	-	(21,256)
Fair value assigned to options granted to non-employees	1,790	-
Value of expired warrants	-	222,440
Balance, end of the period	\$ 4,192,106	\$ 4,116,272
DEFICIT		
Balance, beginning of the period	\$ (11,244,369)	\$ (7,448,462)
Net loss for the period	(156,351)	(109,972)
Balance, end of the period	\$ (11,400,720)	\$ (7,558,434)
TOTAL SHAREHOLDERS' EQUITY, END OF THE PERIOD	\$ 7,419,474	\$ 8,446,871

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 three month period ended March 31,
(Expressed in Canadian Dollars)

	2010	2009
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the period	\$ (156,351)	\$ (109,972)
Adjustments for:		
Amortization	2,554	-
Investment loss (gain)	8,977	(15,515)
Stock-based compensation	1,790	-
Unrealized foreign exchange loss (gain)	(461,607)	(131,239)
Changes in non-cash working capital	(494,114)	(122,942)
Cash flows from operating activities	(175,537)	(379,668)
INVESTING ACTIVITIES:		
Purchase of equipment	(774)	(1,462)
Proceeds on sale of properties	1,694,296	-
Payments for assets acquisition	-	(462,249)
Property expenditures	(1,019,572)	(57,685)
	673,950	(521,396)
INCREASE (DECREASE) IN CASH	498,413	(901,064)
CASH, BEGINNING OF THE PERIOD	1,873,390	2,603,511
CASH, END OF THE PERIOD	\$ 2,371,803	\$ 1,702,447
Shares to be issued for property	\$ -	\$ 95,329
Interest paid	127,810	-
Income taxes paid	-	-

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

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(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.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2009. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2010. For further information, see the Company's audited consolidated financial statements including the notes for the year ended December 31, 2009.

These interim 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 13) 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 INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(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.

Basis of Consolidation

The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Energy Data Science Corporation, its 90% interest in Beijing Sparton Mineral Investment and Consulting Ltd. ("Beijing Sparton"), its 94.5% interest in Sparton Energy Inc. ("SEI"). In addition, SEI's wholly owned subsidiary Yunnan Blue Bay Mining Co. Ltd. ("YBB"), and its 70% interest in Yunnan Sparton New Environ-tech Consulting Co. Ltd. ("YSNET") were also consolidated with the Company. These interim 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.

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 interim 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 interim consolidated financial statements. Early adoption is permitted.

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.

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(Expressed in Canadian Dollars)

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 March 31, 2010, the Company had a cash balance of \$2,371,803 (December 31, 2009 - \$1,873,390) to settle current liabilities of \$347,975 (December 31, 2008 - \$400,554). 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.

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 three month period ended March 31, 2010, approximately 22% [December 31, 2009 - 18%] of its assets and approximately 33% [2009 -19%] 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.

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(Expressed in Canadian Dollars)

3. RISK FACTORS (Continued)

Sensitivity Analysis

As at March 31, 2010, 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 March 31, 2010, \$100,585 cash, \$7,490 sundry receivables, \$3,152 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.

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 (\$3,273,600). 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, YBB 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 \$1,964,160 (RMB 13,200,000) 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 13) 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 March 31, 2010, 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 March 31, 2010. 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 three months period ended March 31, 2010 the Company estimated the net income from operations of 306 Mine to be approximately \$33,000.

The \$1,964,160 (RMB 13,200,000) 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 March 31, 2010.

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**MARCH 31, 2010****(Expressed in Canadian Dollars)****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 March 31, 2010, 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, was as follows:

	#	March 31, 2010 \$	December 31, 2009 \$
VAE common shares	100,000	23,000	32,000
VAE warrants	25,000	<u>750</u>	<u>750</u>
		<u>23,750</u>	<u>32,750</u>

6. EQUIPMENT

March 31, 2010			December 31, 2009		
Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
\$ 73,874	\$ 12,724	\$ 61,150	\$ 73,100	\$ 10,170	\$ 62,930

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. 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.

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**MARCH 31, 2010****(Expressed in Canadian Dollars)****7. OIL AND GAS PROPERTIES (Continued)**

(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, 2008 \$	Additions Net of Recoveries/write offs 2009 \$	Balance Dec. 31, 2009 \$	Additions Net of Recoveries/sales 2010 \$	Balance Mar. 31, 2010 \$
China					
Luxi Gold (i)	3,682,970	(1,536,770)	2,146,200	(2,146,200)	-
ARCN (ii)	811,856	345,392	1,157,248	40,941	1,198,189
208 Project (iii)	49,976	(49,976)	-	-	-
	<u>4,544,802</u>	<u>(1,241,354)</u>	<u>3,303,448</u>	<u>(2,105,259)</u>	<u>1,198,189</u>
Canada					
Whiskey (iv)	625,160	(625,160)	-	-	-
Atikokan (viii)	-	617,559	617,559	882,339	1,499,898
	<u>625,160</u>	<u>(7,601)</u>	<u>617,559</u>	<u>882,339</u>	<u>1,499,898</u>
United States					
Nevada SBD (v)	1,093,567	125,430	1,218,997	80,009	1,299,007
Coal Canyon (vi)	190,057	(190,057)	-	-	-
	<u>1,283,624</u>	<u>(64,627)</u>	<u>1,218,997</u>	<u>80,009</u>	<u>1,299,007</u>
Mexico					
Sierra Rosario (vii)	906,631	9,146	915,777	-	915,777
Other					
	108,985	77,912	186,897	16,283	203,180
Total	<u>7,469,202</u>	<u>(1,226,524)</u>	<u>6,242,678</u>	<u>(1,126,628)</u>	<u>5,116,050</u>

(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.

SPARTON RESOURCES INC.

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(Expressed in Canadian Dollars)

8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(i) Luxi Gold Project, China (Continued)

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.

On March 17, 2010, the Company signed a sale agreement to sell its 39% interest in Luxi to a third party at RMB 14,000,000 (\$2,083,200). The carrying value of the project as of December 31, 2009 was written down to reflect the recoverable value using the foreign exchange rate as of December 31, 2009.

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").

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 \$1.786 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.

(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. In March, 2010, the Company paid US\$75,000 cash as advanced royalty for 2010.

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).

(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. During the first quarter of 2010, the Company elected not to renew its option in order to focus its on its core properties in Canada and China. Therefore

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the property value was written off in 2009.

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8. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(vii) Sierra Rosario Project, Mexico

International Northair Mines Ltd. ("Northair") and the Company entered into an Option Agreement whereby the Company could earn a 51% interest in Northair's Sierra Rosario project. In order to earn a 51% interest, the Company had to 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.

In 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 valued at \$67,000 based upon 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 agreed to raise up to US\$10,000,000 in convertible debentures of SEI in a private placement. The convertible debentures were 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 was to 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 March 31, 2010.

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%. 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 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) by December 31, 2009. As at March 31, 2010, the principal outstanding of the bridge loan was US\$1,500,000 (\$1,523,700) and the interest was paid monthly (December 31, 2009 - US\$12,500).

- (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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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**MARCH 31, 2010****(Expressed in Canadian Dollars)****10. CAPITAL STOCK****(a) Common Shares**

Authorized:

Unlimited common shares

Issued:

87,783,930 common shares

The transactions from 2009 to 2010 are as follows:

	Number of Shares	Consideration
Balance, December 31, 2008	63,477,699	\$ 11,780,330
Shares issued on private placement (i)	18,616,667	2,759,000
Fair value of warrants - private placement (i)	-	(717,521)
Conversion of preferred shares of SEI (ii)	3,555,555	126,548
Shares issue costs - cash	-	(200,120)
Share issue costs – warrants (i)	-	(124,356)
Shares issued for property (iii)	2,134,009	162,330
Balance, December 31, 2009 and March 31, 2010	87,783,930	\$ 13,786,211

- (i) 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.

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.

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10. CAPITAL STOCK (Continued)

(a) Common Shares (Continued)

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 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.

- (ii) 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.
- (iii) 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 share price on the date of issue.

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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**MARCH 31, 2010**

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10. CAPITAL STOCK (Continued)**(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 up to the period ended March 31, 2010 is as follows:

	Number of Options	Weighted Average Exercise Price (\$)
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
Expired	(550,000)	0.20
Outstanding, March 31, 2010	5,680,000	0.23

- (i) 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.
- (ii) 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 of March 31, 2010, 25,000 of the options had vested with fair value of 1,790.

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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**MARCH 31, 2010****(Expressed in Canadian Dollars)****10. CAPITAL STOCK (Continued)****(b) Stock Options (continued)**

As at March 31, 2010, the Company had the following stock options outstanding:

Number of Options	Black-Scholes Valuation (\$)	Exercise Price (\$)	Expiry Date
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	26,850	0.10	September 3, 2014
5,680,000	914,279	0.23	

As at March 31, 2010 and December 31, 2009, 6,140,000 and 6,115,000 options were exercisable with an average remaining life of 2.45 and 2.46 years respectively.

The weighted average exercise price of the exercisable options as at March 31, 2010 and December 31, 2009 were all \$0.23. The weighted average grant date fair value of the options granted in 2009 was \$0.05. No new options were granted during the period ended March 31, 2010.

(c) Warrants

A summary of the warrants activity for the period ended March 31, 2010 is as follows:

	Number of Warrants	Weighted Average Exercise Price(\$)
Balance, December 31, 2008	4,200,000	0.38
Issued (Note 10(a)(i))	17,739,167	0.17
Expired	(4,200,000)	0.38
Balance, December 31, 2009 and March 31, 2010	17,739,167	0.17

The weighted average grant date fair value of the warrants issued in 2009 was \$0.05. No new warrants were granted during the period ended March 31, 2010.

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10. CAPITAL STOCK (Continued)

As at March 31, 2010, 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		

11. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2010, professional management fees of \$25,500 (2009 – \$18,000) were paid to a director who is the President of the Company. Management and consulting fees for another director were \$15,000 (2009 – \$13,500). A bonus payment totalling \$15,000 (2009, nil) was paid to a director in relation to the sale of the 39% interest in YSM (see note 8) and a total of \$29,760 (\$14,880 each) (2009, nil) was accrued during the period ended March 31, 2010 relating to the unpaid consulting fees to these same Company directors from YSM, and paid off in Q2, 2010. The related parties were also reimbursed for out-of-pocket expenses relating to the business of the Company

Management fees of \$ 4,854 (2009 – \$4,854) were paid to an officer of the Company.

In January 2010 the Company Board of Directors adopted a policy of paying a modest fee to each director independent of management for attendance at board meetings. During the three months ended March 31, 2010 a total of \$1,400 was paid in relation to these fees.

See Note 12.

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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12. 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 (\$88,883) 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 March 31, 2010, the minority interests represent the value of the 1,750,000 SEI shares described above valued at \$163,030.

13. 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 March 31, 2010, the Company has paid RMB 13,200,000 (\$1,964,160). 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.

During the three months period ended March 31, 2010, 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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14. SEGMENTED INFORMATION

	March 31, 2010	December 31 2009
ASSETS		
Canada	\$ 5,587,614	\$ 5,755,377
United States	1,299,000	1,218,997
China	3,502,788	3,674,968
Mexico	915,777	915,777
	\$ 11,305,179	\$ 11,565,119

67% of the expenses on the statement of operations are incurred in Canada. Cash of \$2,271,218 (December 31, 2009 - \$1,693,087) is held in Canadian chartered banks, with the balance of \$100,585 (December 31, 2009 - \$180,303) being held in China.

15. 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 period.

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

16. SUBSEQUENT EVENTS

On April 17, 2010 the Company received the second (and final) payment of 2 million RMB, for the sale of its 39% interest in YSM (see note 8), and finalized the sale of company's 39% total interest in the Luxi, China gold property.

On May 21, 2010, the Company issued a total of 1,485,000 new incentive stock options to directors, officers, employees and consultants of the Company. These options will entitle the holders to purchase common shares of the Company at a price of \$0.10 per share and will expire on May 20, 2015. The grant is subject to TSX Venture Exchange approval.