
SPARTON RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and nine-month periods ended September 30, 2011 and 2010
(Expressed in Canadian dollars)
Unaudited – Prepared by Management

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102 if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Sparton Resources Inc. (“the Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

SPARTON RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three month and nine-month periods ended September 30, 2011 AND 2010
(Expressed in Canadian dollars)

Unaudited – Prepared by Management

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SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Income Statement

(Expressed in Canadian dollars, except for per share amount)

		3 months ended September 30, 2011	3 months ended September 30, 2010	9 months ended September 30, 2011	9 months ended September 30, 2010
	Notes	\$	\$	\$	\$
Mining revenue		37,880	51,105	193,669	51,105
Drilling revenue		587,083	331	994,142	143,989
Mining costs		(92,427)	(35,138)	(246,450)	(35,138)
Drilling costs		(438,729)	(16,166)	(871,899)	(163,529)
Gross margin		93,807	132	69,462	(3,573)
Expenses					
Stock based payments		-	1,790	19,630	113,370
General and administrative expenses	13(b)	183,732	201,880	692,642	703,087
Investor relations		12,531	14,546	41,474	86,291
Management and consultant fees		53,249	55,204	150,919	240,684
Professional fees		20,960	15,677	57,352	81,860
Occupancy costs		7,567	10,855	30,195	32,565
Transfer agent, filing and listing fees		5,492	2,778	21,948	25,641
Interest expense		63,742	125,319	221,265	373,576
		347,273	428,049	1,235,425	1,657,074
Loss before the under noted		(253,466)	(427,917)	(1,165,963)	(1,660,647)
Loss on business combination	11(i)	(17,635)	-	(17,635)	-
Foreign exchange gain (loss)		(28)	(164,887)	27,002	(19,674)
Investment (loss)		500	(1,000)	(31,000)	(13,250)
Loss before income taxes		(270,629)	(593,804)	(1,187,596)	(1,693,571)
Income taxes		-	-	-	-
Net loss		(270,629)	(593,804)	(1,187,596)	(1,693,571)
<hr/>					
Basic and diluted loss per share (cent per share)		(0.00)	(0.01)	(0.01)	(0.02)
<hr/>					
Weighted average number of shares outstanding					
Basic and diluted		98,640,651	87,783,930	97,111,104	87,783,930
<hr/>					
Loss attributed to					
Non-controlling interests		(21,758)	-	(42,374)	(9,625)
Shareholders of the Company		(248,871)	(593,804)	(1,145,222)	(1,683,946)
		(270,629)	(593,804)	(1,187,596)	(1,693,571)

See accompanying notes to condensed interim consolidated financial statements.

SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Statement of Comprehensive Loss

(Expressed in Canadian dollars)

Notes	3 months ended September 30, 2011	3 months ended September 30, 2010	9 months ended September 30, 2011	9 months ended September 30, 2010
	\$	\$	\$	\$
Net loss for the period	(270,629)	(593,804)	(1,187,596)	(1,693,571)
Other comprehensive (loss)				
(Loss) on translation of foreign operations	237,442	85,838	110,442	(23,162)
	(33,187)	(507,966)	(1,077,154)	(1,716,733)
Comprehensive loss attributed to				
Non-controlling interests	(34,259)	-	(42,259)	(9,625)
Shareholders of the Company	1,072	(507,966)	(1,034,895)	(1,707,108)
	(33,187)	(507,966)	(1,077,154)	(1,716,733)

See accompanying notes to condensed interim consolidated financial statements.

SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian dollars, except shares)

	Notes	Common shares		Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Subtotal	Non-controlling interest	Total shareholders' equity
		Shares	Amount							
			\$	\$	\$	\$	\$	\$	\$	\$
			(Note 22)		(Note 22)	(Note 22)	(Note 22)			(Note 22)
January 1, 2010		87,783,930	13,826,211	841,877	968,041	-	(8,480,606)	7,155,523	163,030	7,318,553
Net loss for the period		-	-	-	-	-	(1,683,946)	(1,683,946)	(9,625)	(1,693,571)
Other		-	-	-	-	-	(19,497)	(19,497)	-	(19,497)
Shares issued for property		300,000	33,000	-	-	-	-	33,000	-	33,000
Vesting of options granted		-	-	-	113,370	-	-	113,370	-	113,370
Expiry of options		-	-	-	(55,725)	-	55,725	-	-	-
Translation of foreign operations		-	-	-	-	(23,162)	-	(23,162)	(5,945)	(29,107)
Balance at September 30, 2010		88,083,930	13,859,211	841,877	1,025,686	(23,162)	(10,128,324)	5,575,288	147,460	5,722,748
Net loss for the period		-	-	-	-	-	(1,415,341)	(1,415,341)	(61,294)	(1,476,635)
Options exercised for cash		250,000	25,000	-	-	-	-	25,000	-	25,000
Fair value of options exercised		-	17,900	-	(17,900)	-	-	-	-	-
Warrants exercised for cash		3,950,000	592,500	-	-	-	-	592,500	-	592,500
Value of warrants exercised		-	248,540	(248,540)	-	-	-	-	-	-
Private placement		2,000,000	500,000	-	-	-	-	500,000	-	500,000
Fair value of warrants in private placement		-	(44,292)	44,292	-	-	-	-	-	-
Expiry of options		-	-	-	(21,497)	-	21,497	-	-	-
Warrants extended		-	-	267,212	-	-	-	267,212	-	267,212
Warrants expired		-	-	(3,943)	3,943	-	-	-	-	-
Options granted to employees		-	-	-	32,435	-	-	32,435	-	32,435
Non-controlling interest in new subsidiary		-	-	-	-	-	-	-	38,893	38,893
Translation of foreign operations		-	-	-	-	(34,826)	-	(34,826)	4,431	(30,395)
Balance at December 31, 2010		94,283,930	15,198,859	900,898	1,022,667	(57,988)	(11,522,168)	5,542,268	129,490	5,671,758
Net loss for the period		-	-	-	-	-	(1,145,222)	(1,145,222)	(42,374)	(1,187,596)
Warrants exercised for cash	13(a)	4,166,667	625,000	-	-	-	-	625,000	-	625,000
Value of warrants exercised		-	275,078	(275,078)	-	-	-	-	-	-
Options exercised for cash		80,000	8,000	-	-	-	-	8,000	-	8,000
Fair value of options exercised		-	4,701	-	(4,701)	-	-	-	-	-
Expiry of options		-	-	-	(266,888)	-	266,888	-	-	-
Options granted to employees		-	-	-	19,630	-	-	19,630	-	19,630
Shares issued for property acquisition		225,000	20,250	-	-	-	-	20,250	-	20,250
Warrants issued		-	-	14,610	-	-	-	14,610	-	14,610
Non-controlling interest in Vanspar		-	-	-	-	-	257,745	257,745	101,399	359,144
Translation of foreign operations		-	-	-	-	110,327	-	110,327	115	110,442
Balance at September 30, 2011		98,755,597	16,131,888	640,430	770,708	52,339	(12,142,757)	5,452,608	188,630	5,641,238

See accompanying notes to condensed interim consolidated financial statements.

SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Statement of Financial Position

(Expressed in Canadian dollars)

		September 30,	December 31,
		2011	2010
	Notes		(Note 22)
Assets			
Current assets			
Cash		680,021	1,110,397
Trade and other receivables	7	809,474	216,789
Investments	6	25,000	48,500
Prepaid expenses and other current assets	11(v)	590,116	89,920
Inventories	8	149,537	191,541
Due from shareholders of subsidiaries		125,715	103,074
		2,379,863	1,760,221
Property, plant and equipment	9	2,698,310	2,519,347
Oil and gas properties	10	553,915	553,915
Exploration and evaluation assets	11	5,209,038	5,478,383
		10,841,126	10,311,866

SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Statement of Financial Position

(Expressed in Canadian dollars)

		September 30, 2011	December 31, 2010
	Notes		(Note 22)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		264,048	295,408
Due to related party	14	1,048,200	-
Deferred revenue	19	101,970	-
Current portion of long term debt	12	1,238,940	3,191,900
		2,653,158	3,487,308
Royalty liability	11(iii)	313,689	350,614
Deferred gain	15	1,379,202	-
Deferred income tax liability		853,839	802,186
		5,199,888	4,640,108
Shareholders' equity			
Common shares	13	16,131,888	15,198,859
Warrants	13 (c)	640,430	900,898
Contributed surplus		770,708	1,022,667
Accumulated other comprehensive income (loss)		52,339	(57,988)
Deficit		(12,142,757)	(11,522,168)
Equity attributable to shareholders		5,452,608	5,542,268
Non-controlling interests	15	188,630	129,490
		5,641,238	5,671,758
		10,841,126	10,311,866

Going concern (Note 1)

Events after the reporting period (Note 21)

Signed: "Richard Williams", Director

Signed: "A. Lee Barker", Director

See accompanying notes to condensed interim consolidated financial statements.

SPARTON RESOURCES INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Notes	9 months ended September 30, 2011 \$	9 months ended September 30, 2010 \$
Operating activities		
Net (loss)	(1,187,596)	(1,272,295)
Items not involving cash		
Stock compensation expenses	19,630	113,370
Amortization of property, plant and equipment	195,786	244,458
Accrued interest expense	90,728	30,930
Foreign exchange	(27,002)	17,921
Write off of property	-	-
Loss on investment	48,635	13,250
	(859,819)	(852,366)
Changes in non-cash working capital	(650,267)	(181,260)
	(1,510,086)	(1,033,626)
Investing activities		
Proceeds from disposal of properties	-	2,074,983
Due to minority shareholders of subsidiary	(22,641)	-
Cash paid for property expenditures	(380,898)	(2,230,517)
Cash from disposal of exploration and evaluation assets	320,243	
Cash paid for property royalty liability	(74,102)	
Purchase of property, plant and equipment	(208,446)	(25,030)
	(365,844)	(180,564)
Financing activities		
Proceeds from exercise of warrants and options	633,000	-
Due to related party	1,048,200	-
Payments of long-term debts	(2,077,000)	-
Proceeds from shares issued in subsidiary	270,000	
Proceeds from disposal of interests in subsidiary	1,477,000	-
	1,351,200	-
Effect of exchange rate changes	94,354	-
(Decrease) increase in cash	(430,376)	(1,214,190)
Cash, beginning of period	1,110,397	1,873,390
Cash, end of period	680,021	659,200

Supplemental cash flow information (Note 20)

See accompanying notes to condensed interim consolidated financial statements.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Sparton Resources Inc. (the "Company" or "Sparton") is an Ontario, Canada corporation with common shares listed on the TSX Venture Exchange ("TSX-V"). Its registered office address is 55 University Avenue Suite 605, Toronto, Ontario, M5J 2H7. It is a development stage company, 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, to provide drilling services in Canada, and to support the ongoing germanium mining operations in Yunnan China. There has been no determination whether the Company's interests in the 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, and 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. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuation and restrictions, and political uncertainty.

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 unaudited condensed 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 additional working capital for the exploration and development of its properties. As at September 30, 2011, the Company had a working capital deficiency of \$273,295, (December 31, 2010 - \$1,727,087;). Because of the 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 obtaining 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.

The Company's operations in China are subject to government legislation, policies and controls relating to mining, environmental protection, taxes and labor standards. In order for the Company to carry out its mining activities in China, the Company is required to hold a business license. The Company's subsidiary, Lincang City Linxiang Area 306 Huajun Coal Industry Co., Ltd.'s business license expires April 21, 2038.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

These unaudited condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS, as issued by the IASB. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies used for preparation of these unaudited condensed interim consolidated financial statements were the same accounting policies and methods of application as the unaudited condensed interim consolidated financial statements of the Company for the quarter ended March 31, 2011 and were consistently applied to all the periods presented unless otherwise noted below. They do not include all of the information and disclosures required for annual financial statements. For further information, see the Company's unaudited condensed interim consolidated financial statements for the quarter ended March 31, 2011.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these interim consolidated financial statements, management has amended certain accounting, valuation and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for the period in 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim consolidated financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in Note 22 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, deficit and comprehensive loss.

These financial statements were prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. The operating results for the period ended September 30, 2011 may not be indicative of the results for the year ending December 31, 2011. The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 29, 2011, the date the board of directors approved these statements.

Basis of Consolidation:

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries and joint venture as noted below.

Entity	Incorporation	Ownership	Ownership
		September 30, 2011	December 31, 2010
Energy Data Science Corporation	Canada	- %	100%
EDCOR Drilling Services Inc.	Canada	100%	100%
Sparton International Holdings Inc.	BVI	100%	100%
Sparton Energy Inc.	BVI	94.50%	94.50%
VanSpar Mining Inc.	BVI	73.00%	- %
Beijing Sparton Mineral Investment & Consulting Ltd.	PRC	90.00%	90.00%
Yunnan Blue Bay Mining Co., Ltd.	PRC	94.50%	94.50%
Yunnan Sparton New Environ-tech Consulting Co., Ltd.	PRC	85.05%	66.15%
306 Huajun Coal Industry Co., Ltd.	PRC	48.20%	48.20%
306 Mine	PRC	48.20%	48.20%
Jiujiang Sparton Vanadium Tech & Trading Co., Ltd.	PRC	65.70%	- %

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As at September 30, 2011, the Company wholly owned EDCOR Drilling Services Inc. ("EDCOR") and Sparton International Holdings Inc. It also directly owned 94.5% of Sparton Energy Inc. ("SEI") and 90% interest in Beijing Sparton Mineral Investment and Consulting Ltd. ("Beijing Sparton"). Sparton International Holdings Inc. owned 73% interest in VanSpar Mining Inc. ("VanSpar"). SEI's owned 90% interest in Yunnan Sparton New Environ-tech Consulting Co. Ltd. ("YSNET"), and wholly owned Yunnan Blue Bay Mining Co. Ltd. ("YBB"). YBB owned 51% of Lincang City Linxiang Area 306 Huajun Coal Industry Co., Ltd. ("Huajun") and 51% of 306 Mine. In 2011 VanSpar incorporated a subsidiary Jiujiang Sparton Vanadium Tech & Trading Co., Ltd. ("JJ Sparton") that is 90% owned by VanSpar.

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date the control is transferred to the Company, and are de-consolidated from the date control ceases.

Intercompany transactions and balances between subsidiaries are eliminated in consolidation. Operations of Huajun and 306 Mine are consolidated 100% in the periods due to a shareholder's agreement (Note 5).

Joint venture entities are entities over which the Company has joint control with one or more unaffiliated entities. Joint ventures are accounted for using the proportionate consolidation method as follows:

- the statement of financial position includes the Company's share of the assets that it controls jointly and the liabilities for which it is jointly responsible;
- the income statement includes the Company's share of the income and expenses of the jointly controlled entity; and
- gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Before July 2011 YSNET was a joint venture entity and was consolidated proportionately 70% by SEI. In July 2011 SEI acquired the 30% of YSNET from other shareholders of YSNET after which YSNET is a 90% owned subsidiary and is consolidated 100% by SEI.

Where the activities are conducted through jointly controlled assets without formation of an entity, the Company recognises its share of the assets, and liabilities it has incurred, its share of liabilities incurred jointly with its other joint venture partners, and the related revenue and operating costs in the financial statements and a share of their production.

Standards issued but not yet effective:

IFRS 7 *Financial instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments on its financial statements.

IFRS 12, *Disclosure of Interests in Other Entities Scope*, establishes disclosure standards for an entity with interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective from annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the adoption of IFRS 12.

IFRS 13 *Fair Value Measurement* converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the adoption of IFRS 13 on its financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The critical accounting estimates and judgments used in preparation of these unaudited condensed interim consolidated financial statements are the same as used for the unaudited condensed interim consolidated financial statements of the Company for the quarter ended March 31, 2011, except as noted below.

In 2011 based on the new information available for its germanium mine, the Company reassessed and amended the estimate of the life of the germanium mine to be 15 years, and the amortization of the mine asset is adjusted accordingly. This change of estimate applies prospectively.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****4. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT****Financial instruments**

Financial assets and liabilities as of September 30, 2011 and December 31, 2010 were as follows (in thousands).

September 30, 2011	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Derivatives used for hedging	Available for sale	Other financial liabilities	Total
	\$	\$	\$	\$	\$	\$
Cash	680,021	-	-	-	-	680,021
Trade and other receivables	809,474	-	-	-	-	809,474
Investments	-	25,000	-	-	-	25,000
Due from shareholders of subsidiaries	125,715	-	-	-	-	125,715
Accounts payable and accruals	-	-	-	-	(264,048)	(264,048)
Long term debts	-	-	-	-	(1,238,940)	(1,238,940)
Due to related party	-	-	-	-	(1,048,200)	(1,048,200)
Royalty liability	-	-	-	-	(313,689)	(313,689)
	1,615,210	25,000	-	-	(2,864,877)	(1,224,667)

December 31, 2010	Cash, loans and receivables	Assets (liabilities) at fair value through earnings	Derivatives used for hedging	Available for sale	Other financial liabilities	Total
	\$	\$	\$	\$	\$	\$
Cash	1,110,397	-	-	-	-	1,110,397
Trade and other receivables	216,789	-	-	-	-	216,789
Investments	-	48,500	-	-	-	48,500
Due from shareholders of subsidiaries	103,074	-	-	-	-	103,074
Accounts payable and accruals	-	-	-	-	(295,408)	(295,408)
Long term debts	-	-	-	-	(3,191,900)	(3,191,900)
Royalty liability	-	-	-	-	(350,614)	(350,614)
	1,430,260	48,500	-	-	(3,837,922)	(2,359,162)

There was no reclassification of financial assets during the period from January 1, 2010 to September 30, 2011.

Derivatives and embedded derivatives

The Company had two embedded derivative liability instruments that had a value of \$nil as at December 31, 2010 and September 30, 2011 (see Note 12).

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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4. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (continued)

Fair value

The fair value of cash, trade and other receivables, accounts payable and accrued liabilities, deferred revenue, and due to related party approximate their carrying value because of the short term maturity of these instruments. The fair value of the investments are based on the market-quoted fair value of the instruments. The long term debts are interest-bearing loans and borrowings valued at amortized costs using the effective interest rates of the loans (see Note 12). The fair value of the embedded derivatives liabilities are based on management's best estimates on the possibility of events related to the embedded derivatives liabilities (see Note 12) and the Company's intent in repaying the loans. The value of the royalty liability is based on a discounted cash flow model using an effective interest rate of 10% on the future fixed cash out-flows (see Note 11(ii)).

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 periods.

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, trade and other receivables, and due from shareholders of subsidiaries. Cash and investments are held with reputable Canadian chartered banks and Chinese banks which are closely monitored by management. Trade receivable consists of an amount receivable from one customer, which has been received subsequent to the period end. Other receivables consist mainly of sales tax receivable from government authorities, and a reclamation bond. Management believes that the credit risk concentration with respect to financial instruments included in cash, investments, trade and other receivables and due from shareholders of subsidiaries 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 September 30, 2011, the Company had a cash balance of \$680,021 (December 31, 2010 - \$1,110,397) to settle current liabilities of \$2,653,158 (December 31, 2010 - \$3,487,308). The Company's account payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Included in the current portion of long-term debt, was an amount of \$1,238,940 due in July 16, 2012 (Note 12).

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.

Interest Rate Risk

The Company carries long-term debt on which interest is payable at fixed effective rates of 13.3% per annum. Management believes that interest rate risk is remote as the Company currently does not carry interest bearing debt at floating rates (Note 12).

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****3. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (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 Canadian dollar may result in a material change in foreign exchange gain or loss. The Company and its subsidiaries do not use derivative instruments to reduce the exposure to foreign currency risk.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the People's Republic of China ("PRC") government. The exchange rates may also be affected by economic developments and political changes domestically and internationally and supply and demand of RMB. The appreciation or devaluation of RMB against the Canadian dollar may have positive or negative impact on the results of operations of the Company.

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the purchase of properties and the purchase of services, materials and equipment from suppliers invoiced in foreign currencies. For the year ended December 31, 2010, approximately 45% of its assets were carried at foreign currencies and approximately 28% of expenses were incurred in foreign currencies.

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the Canadian dollar:

Balances as at September 30, 2011	US\$ ('000)	RMB ('000)
Cash	45	3,650
Trade and other receivable	-	710
Prepaid expenses and other current assets	-	152
Inventory	-	150
Due from shareholders of subsidiaries	88	234
Property, plant and equipment	-	15,574
Exploration and evaluation	-	2,852
Accounts payable and accrued liabilities	-	(403)
Due to related party	(560)	(3,000)
Deferred income tax liability	-	(4,315)
Net balance sheet exposure	(467)	15,220

Balances as at December 31, 2010	US\$ ('000)	RMB ('000)
Cash	391	149
Other receivable	-	21
Paid expenses and other current assets	-	17
Inventory	-	193
Due from shareholders of subsidiaries	87	16
Property, plant and equipment	-	16,623
Exploration and evaluation	-	1,276
Accounts payable and accrued liabilities	-	(59)
Long-term debt	(1,500)	-
Deferred income tax liability	-	(1,000)
Net balance sheet exposure	(1,022)	17,236

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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(Unless otherwise stated, all amounts are in Canadian dollars)

4. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (Continued)

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 oil and gas, gold, germanium, uranium and vanadium prices to determine the appropriate course of action to take.

Securities Price Risk

The Company carries investments in certain public securities for which price fluctuations can affect the Company's earnings. The Company has classified these investments as financial assets at fair value through profit or loss where price volatility is reflected in operations.

Sensitivity Analysis

As at September 30, 2011, the carrying and fair value amounts of the Company's financial instruments related to cash, investments, trade and other receivables, accounts payable and accrued liabilities and long term debt are approximately 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 long-term debt are fixed.
- (ii) As at September 30, 2011, a 10% fluctuation in the exchange rate from US\$ and RMB to CDN\$ will generate a foreign exchange gain or loss of approximately \$65,000, or comprehensive gain or loss of approximately \$250,000.
- (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.

Other business risks

The Company's major oil and gas properties and mineral properties are the Chebucto SDL, 306 Mine, 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.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****5. ACQUISITION OF CONTROL OF HUAJUN AND 306 MINE**

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 million (\$3.3 million) (Note 16). The agreement to acquire Huajun required the two individuals to transfer 100% of the physical assets of 306 Mine to Huajun. The 306 Mine operations are the subject of an application for a new comprehensive mining license which covers all of the 306 Mine operating area.

In 2009, YBB made cash payments of RMB 13.2 million (\$1,960,000) or 60% of the agreed purchase price to Huajun and Huajun had paid the amount to the two individual vendors. In 2010, YBB and the two vendors agreed that YBB had acquired 51% of the interest in Huajun and 306 Mine and YBB took control of Huajun and 306 Mine operations. The purchase agreement, as amended, also provides that YBB is entitled to 100% of the profit and loss and the cash flows from Huajun operations until the new comprehensive mining license is granted.

Although the government approval for the new mining license is still in process, under PRC rules, Huajun is permitted to operate the 306 Mine under the old mining license until the new license is granted. As at September 30, 2011, the Company's mining license and coal production permit had expired. The Company continues to pursue a consolidated mining license of the 306 Mine.

6. INVESTMENTS

As at September 30, 2011, the Company held 100,000 common shares of Virginia Energy Resources Inc. ("VAE") and 250,000 common shares of American Consolidated Minerals Corp. ("AJC"). The estimated fair value of the securities, based on their quoted market price, was as follows:

	September 30, 2011 ('000s)		December 31, 2010 ('000s)	
	#	\$	#	\$
AJC common shares	250,000	7,500	-	-
VAE common shares	100,000	17,500	100,000	49,000

7. TRADE AND OTHER RECEIVABLES

	September 30, 2011	December 31, 2010
	\$	\$
Trade accounts receivable	291,742	170,471
Other receivables	467,183	21,132
Reclamation bond	11,227	11,227
Tax receivable - HST	39,322	13,959
	809,474	216,789

There is no allowance for bad debts provided for the trade and other receivables and there was not a reversal of allowance or bad debts recovery during the periods. The trade and other receivables are classified as cash, loans and receivables, and are therefore measured at amortized costs. All trade accounts receivables are aging less than 6 months.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

8. INVENTORY

	September 30, 2011	December 31, 2010
	\$	\$
Material and supplies	27,937	41,541
Germanium coal ash	121,600	150,000
	<u>149,537</u>	<u>191,541</u>

The amount of inventory recognized as an expense during the nine months ended September 30, 2011 was \$246,450. (2010 - \$35,138).

All inventory is carried at the lower of cost and net realizable value. Material and supplies and Germanium coal ash are recorded at net realizable value as at September 30, 2011. There was inventory of \$269,000 written down during the year ended December 31, 2010 and there was no reversal of such write downs in the nine month period of 2011.

9. PROPERTY, PLANT AND EQUIPMENT

	September 30,, 2011			December 31,2010		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	\$	\$	\$	\$	\$	\$
Mining plant and equipment	3,143,901	529,412	2,614,489	2,759,840	294,000	2,465,840
Office equipment	81,096	23,626	57,470	39,794	16,948	22,846
Automobile	37,351	11,000	26,351	37,351	6,690	30,661
	<u>3,262,348</u>	<u>564,038</u>	<u>2,698,310</u>	<u>2,836,985</u>	<u>317,638</u>	<u>2,519,347</u>

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****9. PROPERTY, PLANT AND EQUIPMENT(continued)**

Costs	Mining plant Equipment	Office equipment	Automobile	Total
	\$	\$	\$	\$
Balance January 1, 2010	-	35,749	37,351	73,100
Acquisition in business combinations	2,934,840	-	-	2,934,840
Additions	-	4,045	-	4,045
Impairment	(47,000)	-	-	(47,000)
Effect of foreign exchange translation	(128,000)	-	-	(128,000)
December 31, 2010	2,759,840	39,794	37,351	2,836,985
Additions	243,307	41,302	-	284,609
Effect of foreign exchange translation	140,754	-	-	140,754
September 30, 2011	3,143,901	81,096	37,351	3,262,348

Accumulated amortization	Mining plant Equipment	Office equipment	Automobile	Total
	\$	\$	\$	\$
Balance January 1, 2010	-	9012	1158	10,170
Acquisition in business combinations	147,000	-	-	147,000
Additions	147,000	7,936	5,532	160,468
Effect of foreign exchange translation	-	-	-	-
December 31, 2010	294,000	16,948	6,690	317,638
Additions	212,227	6,678	4,310	223,215
Effect of foreign exchange translation	23,185	-	-	23,185
September 30, 2011	529,412	23,626	11,000	564,038

During the nine months ended September 30, 2011, the Company expensed \$195,786 (2010 - \$244,458) in amortization to the statement of operations, and wrote off \$nil (2010 - \$ nil) of the value of equipment. There was no reversal of impairment in the nine months ended September 30, 2011.

In 2011 the Company reviewed and estimated that the useful life for automobile is 5 years from the date of acquisition, the useful life for office equipment to be 5 years from the acquisition date. The useful life of mining plant and equipment remains to be 5 years from the date of acquisition, except for some components of the mining plant, i.e. some buildings and warehouses valued at \$70 (RMB470) at the date of acquisition were revised. Management changed the estimated useful life of the buildings and warehouse from 5 years to 10 years. Based on new information available management also changed the estimate of the life of the germanium mine to be 15 years. The change of estimate is recorded prospectively.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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10. 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 SDL property (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, as estimated by ExxonMobil Canada Ltd., the interest representative and majority partner in Chebucto, will be assessable for approximately 6.5% of all future development costs relating to this project.

(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.

11. EXPLORATION AND EVALUATION ASSETS

	January 1, 2010 \$	Additions \$	Depletion \$	Foreign exchange \$	Dec. 31, 2010 \$	Additions \$	Recovery \$	Foreign exchange \$	September 30, 2011 \$
China									
Evaluation phase:									
ARCN (i)	1,181,869	94,096	-	(82,322)	1,193,643	164,219	-	14,549	1,372,411
Guojiaping (v)	-	474,165	-	-	474,165	196,269	-	-	670,434
	1,181,869	568,261	-	(82,322)	1,667,808	360,488	-	14,549	2,042,845
Canada									
Evaluation phase:									
Atikokan (iv)	617,559	767,858	-	-	1,385,417	36,986	-	-	1,422,403
United States									
Evaluation phase:									
Nevada SBD (ii)	1,503,154	6,227	-	-	1,509,381	-	(120,462)	-	1,388,919
Mexico									
Evaluation phase:									
Sierra Rosario (iii)	915,777	-	-	-	915,777	6,594	(567,500)	-	354,871
Total	4,218,359	1,342,346	-	(82,322)	5,478,383	404,068	(687,962)	14,549	5,209,038

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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11. EXPLORATION AND EVALUATION ASSETS (Continued)

(i) ARCN Project, China

The Company's ARCN project is to identify sources of coal ash and other forms of waste containing uranium in China, to determine the uranium content of such coal ash or waste and to study the feasibility of economically extracting the uranium from such coal ash and other non-primary sources of uranium. The Company has applied to register the technology as patented processes in China and has received two patents to date. The project is operated by the Company's subsidiary Sparton New Environtech ("SNET") SNET was a joint controlled entity owned 60% by SEI, 30% by ARCN a division of the China National Nuclear Corporation ("CNNC"). CNNC has an agreement with SNET to commit to purchase all the uranium produced by the Company in the future.

SNET was consolidated proportionately by the Company before July 2011. In July 2011, the Company acquired the 30% interest of SNET owned by ARCN for RMB120,000 (\$19,536) after which SNET is a 90% owned subsidiary of SEI and is consolidated 100%. The Company has determined that the purchase of the 30% of SNET is a step acquisition of business combination and recorded a total loss of \$17,635 into the consolidated income statement.

(ii) Nevada SBD Project, United States

The Company's SBD property is a 10-year lease, renewable for an additional 10 years in Lander County, Nevada. 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 the first three months of 2011 the Company paid the annual advance royalty in cash of US\$75,000 or \$74,000.

The fixed stream of 10-year advance royalty payments was recognized as a liability at the date of acquisition, valued at \$534,000 (USD461,000) using a discounted cash flow model based on an effective interest rate of 10% that was added to the costs of the property at acquisition. The royalty liability is recorded at amortized cost, which was valued as \$313,689 as at September 30, 2011 (December 31, 2010 - \$350,614).

Effectively on September 17, 2011 the Company signed a Purchase Option Agreement (the "Agreement") with Purple Gold Corporation ("PGC") where under PGC can acquire all of the Company's rights and obligations related to the SBD gold project. PGC is a newly incorporated private British Columbia company which intends to seek a public listing in the near future.

Under the terms of the Agreement, PGC is to make cash payments to Sparton totalling US \$500,000 over the next 6 months from June 17, 2011, and issue free trading shares of PGC with a value of US \$250,000 within 18 months of June 17, 2011. Additionally, PGC is to issue to the Company the greater of 500,000 free trading shares of PGC or shares having a value of US \$250,000 on or before December 15, 2012.

Alternatively, at PGC's option, PGC may make cash payments totalling US \$500,000 in two equal tranches on or before the dates above and not issue any shares to Sparton. The Company will also receive a 1% Net Smelter Return Royalty on any production from the SBD property.

Under the terms of the Agreement, PGC is also to spend a minimum of US \$750,000 dollars for exploration on the SBD property within 12 months of any PGC financing that raises a minimum of US \$1 Million. Further, it has agreed to have Sparton staff complete the geochemical coverage of the entire property and cover several very strong geophysical targets located in earlier Sparton work programs.

During the period ended September 30, 2011 the Company had received the first payment of US\$125,000 from PGC, that is recorded as a recovery of the expenditures on the project. Until PGC fulfills its obligations and closes the transaction, the SBD property will remain as an exploration and evaluation asset of the Company. The Company has assessed the value of the asset, after considering the future value of the Net Smelter Return Royalty, and concluded that there is no impairment of the asset as of September 30, 2011.

SPARTON RESOURCES INC.

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11. EXPLORATION AND EVALUATION ASSETS (Continued)

(iii) Sierra Rosario Project, Mexico

By December 31, 2009, the Company had earned a 51% interest in Sierra Rosario project and International Northair Mines Ltd. ("Northair") owned the 49%.

On May 17, 2011 the Company executed an agreement with American Consolidated Minerals Corp. ("AJC"), (TSX.V "AJC") for the acquisition of Sparton's 50% interest in the Sierra Rosario Property (the "Acquisition"). In consideration for Northair waiving its pre-emptive right of first refusal to match the AJC Acquisition terms, Sparton agreed to transfer a 1% interest in Sierra Rosario to Northair concurrently with the closing of the first payment and share issuance from AJC to Sparton, as outlined below.

On August 15, 2011 the Company closed the agreement with AJC for the Sierra Rosario Project. The Company and AJC have agreed to amend the schedule of payments as follows:

- 1) On or before August 4, 2011, a cash payment of \$100,000 and the delivery of 250,000 shares of AJC to Sparton (cash paid and shares received);
- 2) On or before September 1, 2011 a further cash payment of \$100,000 (received).
- 3) Commencing October 1, 2011 and on or before the first day of every month thereafter, a monthly payment of \$50,000 until an aggregate cash payment of \$500,000 is completed. The last monthly payment of \$50,000 shall be made on or before March 1, 2012.

In consideration of amending the cash payment terms as requested by AJC, Sparton will receive a further payment of \$30,000 when AJC completes the acquisition of the 50% interest in Sierra Rosario. AJC has also agreed that upon completion of an equity financing of a minimum of \$1.5 million before March 1, 2012, the amended payment schedule will be accelerated, such that all unpaid amounts will be due and payable immediately, and the balance of 250,000 shares of AJC will be issued concurrently, subject to regulatory approvals.

Sparton will also receive Net Smelter Return Production Royalties ("NSR") payable from AJC's share production on the SRP of:

- i) 3% of AJC's share of Base Metal Production
- ii) 2% of AJC's share of Gold Production
- iii) 1.5% of AJC's share of Silver Production

AJC will assume the responsibilities of being a 50% partner in the joint venture with Northair and be subject to the existing joint venture terms. Northair will become the operator of the joint venture.

As of September 30, 2011 the Company had received \$200,000 from AJC and 250,000 common shares of AJC. The Company has recorded the \$330,000 receivable from AJC as a recovery against the expenditures. The carrying value of the asset as of September 30, 2011 reflects the Company's estimate of value of the royalties and the 250,000 common shares to be received from AJC.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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11. EXPLORATION AND EVALUATION ASSETS (Continued)

(iv) Atikokan Project, 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 collectively as the Atikokan Project. These properties are located in north-western 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 and issuing 1.5 million common shares to the vendors over a 4-year period. Once fully vested, each of the properties will be subject to payment of a 2% NSR. One half of this NSR may be purchased at any time after completion of a feasibility study on either property for the sum of \$1.75 million on the WHC claims and \$1.5 million 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.

On November 10, 2010, the Company executed a binding Letter of Intent with Osisko Mining Corporation ("Osisko") whereby Osisko has the option to acquire up to a 70% interest in the mining claims held under option from third parties or wholly owned by the Company in Atikokan. Under the terms of the option agreement, Osisko will acquire a 60% undivided interest in the Atikokan Project (the "First Option") by subscribing for \$500,000 in shares and warrants of the Company (see Note 13 (a)(iv)) before signing a definitive agreement and a further \$500,000 in shares on November 10, 2011. In addition, Osisko will pay the Company's counterparts to the underlying option agreements (the "UOA") a total of \$340,000 cash and 420,000 shares of the Company before July 10, 2012 and incur aggregate expenditures of at least \$16.5 million before November 10, 2014, including funding and completion of a scoping study.

Upon acquiring a 60% interest, Osisko will have the option of earning an additional 10% interest (aggregate 70% interest, or the "Second Option") by either expending an additional \$6 million on the Atikokan Project or funding and delivering a bankable feasibility study on or before November 10, 2016.

On December 1, 2010, Osisko subscribed for 2,000,000 Sparton Units at a price of \$0.25 per Unit, for gross proceeds of \$500,000. Each Unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole share purchase warrant entitles Osisko to acquire one Sparton common share for \$0.40 for a period of 1.5 years from December 1, 2010.

On March 17, 2011, the Company executed a joint venture agreement (JV) with Osisko Hammond Reef Gold Ltd. ("Osisko Hammond"), which allows Osisko Hammond to spend \$1.2 million on exploration during 2011 to maintain its option to acquire up to a 70% interest in the Atikokan Gold Area, Ontario.

(v) Guojiaping, China

On October 26, 2009, the Company signed a letter of intent ("LOI") with Team 267 of the Exploration Bureau of the Jiangxi Nuclear Industry ("267") for the option to acquire a 65% interest in the Guojiaping Exploration Licence in Jiangxi Province, China, a vanadium and uranium property. 267 holds, and has completed the initial evaluation of the Guojiaping Exploration License.

On July 27, 2010, the Company made an initial payment of 3 million RMB (approximately \$453,000) to 267. The payment will be credited towards the full purchase price of 45 million RMB according to the LOI. A final comprehensive purchase agreement is under negotiation with 267 and will include a schedule of additional payments to complete the acquisition which will be tied to technical and regulatory milestones.

In March 2011 the Company set up a new entity VanSpar Mining Inc. ("VanSpar") and transferred all its interest in Guojiaping to VanSpar, and sold a 25.8% interest in VanSpar. In August 2011 the Company further issued 1.3% of Vanspar shares to investors. See Note 15.

In the period ended September 30, 2011, VanSpar executed an exclusive option agreement for acquisition of 80% interest in Jiangxi Rentian Mining Co., Ltd. ("Rentian") for \$4.67 million (RMB28.67 million). In the period VanSpar has paid \$488,400 (RMB3,000,000) for the acquisition that is recorded as prepayments as negotiations for the acquisition are on-going.

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12. LONG-TERM DEBT

(i) On September 29, 2008 the subsidiary of the Company, SEI, took a US\$2 million loan from Quam Securities Company Ltd. of Hong Kong. The loan bore interest at an annual rate of 10%. Following several partial payments, on March 10, 2011, the Company repaid the outstanding balance and interest in full and the loan was discharged.

(ii) On July 23, 2009, SEI completed a \$1,700,000 loan financing (the "Loan") provided by an arm's length third party (the "Lender"). The Loan was evidenced by a debenture and carried interest of 17.6% per annum, payable on a quarterly basis for 21 months and was repayable on or before April 23, 2011.

On April 17, 2011, the Company restructured the \$1,700,000 long-term debt. The restructuring included the repayment of the sum \$500,000 of the original \$1,700,000 loan and the issuance of a new loan (the "New Loan"). The unsecured New Loan has been issued in the principal amount of \$1,300,000, evidenced by a new debenture. This new debenture carries 6% annual interest, payable on a quarterly basis in arrears, and is repayable on or before November 18, 2011 (subsequently amended July 16, 2012). In addition, the Company issued to the Lender, 600,000 share purchase warrants, whereby one warrant will allow the purchase of one common share of the Company at \$0.25 for one year from the date when TSX-V approval of the transaction is received. If any major financing or asset sale completed by the Company results in the Company having in excess of \$1,500,000 in cash net of the New Loan, the New Loan will be repaid immediately.

The Company has determined that the New Loan agreement contains two components, a loan (debenture) and the warrants. The warrants were issued on July 16, 2011 and were valued at \$14,610 (see Note 13(c)) and the debenture was valued at \$1,238,940 on September 30, 2011 and the effective annual interest rate is determined to be 13.27%.

Subsequent to September 30, 2011 \$900,000 of the New Loan balance was repaid.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****13. CAPITAL STOCK****(a) Common Shares**

Authorized:

Unlimited common shares

Issued:

98,755,597 common shares

The transactions during the periods are as follows:

	Number of Shares	Consideration
Balance, January 1, 2010	87,783,930	13,826,211
Shares issued on exercise of options (iii)	250,000	25,000
Fair value assigned to exercised options (iii)	-	17,900
Shares issued on exercise of warrants (ii)	3,950,000	592,500
Fair value assigned to exercised warrants (ii)	-	248,540
Share issued on private placement (iv)	2,000,000	500,000
Fair value of warrants - private placement (iv)	-	(44,292)
Shares issued for property interests (i)	300,000	33,000
Balance, December 31, 2010	94,283,930	15,198,859
Shares issued on exercise of warrants (v)	4,166,667	625,000
Fair value assigned to exercised warrants (v)	-	275,078
Shares issued on exercise of options (vi)	80,000	8,000
Fair value assigned to exercised options	-	4,701
Shares issued for property acquisition (vii)	225,000	20,250
Balance, September 30, 2011	98,755,597	\$ 16,131,888

(i) On July 16, 2010, 300,000 common shares valued at \$33,000, based upon the market price at the date of issue, were issued to the vendors of the Atikokan Project (Note 11 (v)).

(ii) In November and December 2010, an aggregate of 3,950,000 share purchase warrants were exercised for total proceeds of \$592,500.

(iii) In November 2010, an aggregate of 250,000 incentive stock options, granted to the Company's consultants, were exercised for total proceeds of \$25,000.

(iv) On December 1, 2010, Osisko subscribed for 2,000,000 units at a price of \$0.25 per unit, for gross proceeds of \$500,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole transferable common share purchase warrant entitles Osisko to acquire one additional common share for \$0.40 for a period of 1.5 years from December 1, 2010.

The fair value of the 1,000,000 warrants was estimated on the date of grant to be \$44,292 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 82%, a risk-free interest rate of 1.65%, and an expected life of 1.5 years.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

13. CAPITAL STOCK (Continued)**(a) Common Shares (Continued)**

(v) On March 28, 2011, 1,250,000 share purchase warrants were exercised for total proceeds of \$187,000. On April 5, 2011, 2,916,667 share purchase warrants were exercised for total proceeds of \$438,000. Accordingly, 4,166,667 common shares have been issued from treasury.

(vi) On June 30, 2010, 80,000 options granted to an employee were exercised for cash consideration of \$8,000.

(vii) On August 16, 2011, 225,000 shares were issued to the vendors of the Atikokan project as per the acquisition described in Note 11(iv). The 225,000 shares were valued at \$20,250 based on the market quoted price as of 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. The plan provides that the exercise price of an option granted under the plan shall not be less than the market price at the time of granting the option. Options have a maximum term of 5 years, vest immediately upon issue, unless otherwise stated, and terminate on the 90th day after the optionee ceases to be any of an employee, director or consultant of the Company.

A summary of the stock option activity for the periods ended September 30, 2011 and December 31, 2010 are as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, January 1, 2010	6,230,000	0.23
Granted (i)	1,735,000	0.11
Exercised	(250,000)	0.10
Expired	(700,000)	0.19
Outstanding, December 31, 2010	7,015,000	0.20
Granted (ii)	400,000	0.13
Exercised	(80,000)	0.10
Expired/forfeited	(1,835,000)	0.30
Outstanding, September 30, 2011	5,500,000	0.18

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

13. CAPITAL STOCK (Continued)

(b) Stock Options (continued)

- (i) On May 20, 2010, the Company granted a total of 1,485,000 stock options to its employees and others providing similar services. The options vested immediately. These options entitle the holders to purchase common shares of the Company at a price of \$0.10 per share and expire on May 20, 2015. The fair value of all the 1,485,000 options was estimated as \$108,000 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 94%, a risk-free interest rate of 2.57% and an expected average life of 5 years. \$108,000 was recorded as stock-based compensation during the year ended December 31, 2010 for the options vested.

On October 25, 2010, the Company granted a total of 250,000 stock options to a director vesting immediately. These options entitle the holder to purchase common shares of the Company at a price of \$0.17 per share and expire on October 25, 2015. The fair value of the 250,000 options was estimated as \$32,435 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 92%, a risk-free interest rate of 1.91% and an expected average life of 5 years. \$32,435 was recorded as stock-based compensation during the year ended December 31, 2010.

- (ii) In April 2011, the Company granted 400,000 stock options to a consultant. The options vested immediately. These options entitle the holders to purchase common shares of the Company at a price of \$0.13 per share until April 11, 2016. The options are issued in addition to monthly consulting fees of \$2,500 cash paid to the consultant. The fair value of the services provided by the consultant in excess of the monthly fees cannot be reliably measured, the fair value of the 400,000 options was estimated as \$19,630 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 69%, a risk-free interest rate of 1.05% and an expected average life of 0.4 years. \$19,630 was recorded as stock-based payment during the period ended September 30, 2010 for the options vested. The consultant agreement was terminated in May 2011 and the options forfeited unexercised at the end of August 2011.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****13. CAPITAL STOCK (Continued)****(b) Stock Options (continued)**

As at September 30, 2011, the Company had the following stock options outstanding:

Number of Options	Black-Scholes Valuation (\$)	Exercise Price (\$)	Expiry Date
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
535,000	29,138	0.10	August 11, 2013
860,000	39,822	0.10	July 3, 2014
100,000	12,530	0.10	September 3, 2014
1,450,000	105,454	0.10	May 20, 2015
250,000	32,435	0.17	October 25, 2015
5,500,000	770,708	0.18	

As at September 30, 2011, 5,500,000 (December 31, 2010 – 7,015,000) options were exercisable with a weighted average remaining life of 1.5 (December 31, 2010 - 2.20) years.

The weighted average exercise prices of the exercisable options as at September 30, 2011 and December 31, 2010 were \$0.18 and \$0.20 respectively. The weighted average grant date fair values of the options granted during the year ended December 31, 2010 were \$0.08.

As at September 30, 2011, total shares reserved for issuances under options and warrants are 16,624,167 common shares.

(c) Warrants

A summary of the warrant activity for the periods ended September 30, 2011 and December 31, 2010 are as follows:

	Number of Warrants #	Weighted Average Exercise Price \$
Balance, January 1, 2010	17,739,167	0.17
Granted (Note 13(a)(iv))	1,000,000	0.40
Exercised (Note 13(a)(ii))	(3,950,000)	0.15
Expired	(98,333)	0.15
Balance, December 31, 2010	14,690,834	0.20
Exercised (Note 13(a)(vi))	(4,166,667)	0.15
Granted	600,000	0.25
Balance, September 30, 2011	11,124,167	0.22

13. CAPITAL STOCK (Continued)**(c) Warrants (continued)**

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

As at September 30, 2011, the Company had the following warrants outstanding:

Black-Scholes Valuation	Number of Warrants	Exercise Price(\$)	Expiry Date
\$ 8,967	224,167	0.15	October 5, 2011
474,021	8,250,000	0.20	December 19, 2011
111,446	1,050,000	0.17	December 19, 2011
31,386	1,000,000	0.40	June 1, 2012
14,610	600,000	0.40	July 16, 2012
\$ 640,430	11,124,167		

(i) On September 27, 2010, the expiry date of a total of 8,116,667 warrants with original expiry dates of October 5 and October 16, 2010 was extended to April 5, 2011. The fair value increase of the extended warrants was estimated on the date of extension to be \$267,212, using the Black-Scholes option pricing models with the following assumptions: expected dividend yield of 0%, expected volatility of 116% - 154%, a risk free interest rate of 1.45%, and an expected life of 0.52 year. \$267,212 was recorded as investor relations expense during the year ended December 31, 2010. During 2010, 3,950,000 warrants were exercised. During the nine months in 2011, the remaining 4,166,667 warrants were exercised.

(ii) On July 16, 2011, the Company issued 600,000 warrants to the Lender of the loan described in Note 12(ii). As the fair value of the services or cash considerations for the warrants was not reliably measured, the Black-Scholes model was used to value the warrants at \$14,610 at the date of issue based on the following assumptions: expected dividend yield of 0%, expected volatility 105%, a risk-free interest rate of 1.23%, and an expected life of 1 year.

14. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011, professional fees of \$76,500 (2010 – \$91,380) were paid to a director who is also the President of the Company. Also, \$58,000 (2010 – \$74,880) in management and consultant fees was paid to another director. The Company also paid \$22,500 to a company controlled by an officer of the Company for consulting fees.

During the year ended December 31, 2010, the Company paid \$19,506 to a corporation which is controlled by a director of the Company, for consulting fees relating to the Company's germanium and vanadium projects in China. These fees were charged as general and administrative expenses on the statement of operations.

The above 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.

During the nine months ended September 30, 2011 the Company's newly incorporated subsidiary VanSpar issued 450,000 common shares to the President of the Company for consideration of 1 USD, 400,000 common shares to a director of the Company for 1 USD, 1,400,000 common shares to certain officers and employees of the Company for 1 USD, and 40,000 shares to a director of the Company for \$20,000. These shares in total of 2,290,000 common shares of VanSpar represent 7% of the total outstanding shares of VanSpar as at September 30, 2011. See Note 15 for more details.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

14. RELATED PARTY TRANSACTIONS (continued)

During the period in 2011 a director of VanSpar provided a cash advance of US\$1,000,000 to VanSpar for funding the paid up capital of Jiujiang Sparton, the local VanSpar operating company. The advance is non-interest bearing and as of September 30, 2011 the unpaid balance of the advance was \$559,800.

During the period the same director of VanSpar provided a \$488,400 (RMB3,000,000) loan to VanSpar for the acquisition of Rentian as described in Note 11(v) that bears annual interest of 6%, due on demand, and convertible into shares of VanSpar at US\$0.25 per share.

15. NON-CONTROLLING INTERESTS

	September 30, 2011	December 31, 2010
	\$	\$
49% of 306 Mine	39,723	36,819
5.5% of SEI	47,508	92,671
27% of Vanspar	101,399	-
	188,630	129,490

On March 10, 2011, the Company, through its wholly owned subsidiary, Sparton International Holdings ("SIH"), sold an 18.8% interest, equal to 6,057,534 common shares of VanSpar Mining Inc. ("VanSpar"), at US \$0.25 per share, for total proceeds of US \$1,514,384 (\$1,468,346) to Alpha Prime Investments Ltd. ("Alpha Prime"). VanSpar is a newly incorporated British Virgin Islands (BVI) subsidiary that holds the Company's various vanadium project rights and assets in China. Vanspar was 74.2% owned by the Company through SIH, 18.8% by the new investor, Alpha Prime, and the remaining 7% by officers, directors, consultants and employees of the Company. The condition of the sale to Alpha Prime is that if SIH does not complete a liquidity event, or if VanSpar's interest in the mineral properties located in Jiangxi Province is cancelled, not granted, or lost to, or removed from VanSpar within 18 months from closing, Alpha Prime, shall have the right to exchange the 6,057,534 shares of VanSpar for a maximum potential shares issuance of 12,619,863 shares at \$0.12 per share of the Company within 20 months from the closing.

The transaction with Alpha Prime is accounted for as an equity transaction with non-controlling shareholder. The agreement signed with Alpha Prime consists of an equity instrument of VanSpar, and an embedded derivative instrument entered into by SIH. Since the embedded derivatives can be settled by equity instrument of the Company, all are presented as equity instruments. The embedded derivative's fair value is \$nil at the date of transaction and as long as the Company's share price is over \$0.12. If after 20 months from the closing Alpha Prime does not exchange the VanSpar shares for the Company's shares, the Company will report a gain of \$1,379,202 in contributed surplus, being the proceeds of \$1,468,346 received over the carrying value of 18.8% of VanSpar of \$89,144 as at the transaction date. If Alpha Prime exercises its rights to exchange the VanSpar shares for common shares of the Company, such gain will not be realized. Hence the gain is recorded as deferred gain on the statement of financial position as at the date of transaction and as of September 30, 2011.

In the third quarter of 2011, VanSpar further issued 540,000 common shares at \$0.50 each to investors for proceeds of \$270,000. This is accounted for as a transaction with shareholders and a gain of \$257,745 is recorded into the equity of the Company. As of September 30, 2011, VanSpar was 73% owned by SIH.

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)****16. COMMITMENTS AND CONTINGENCIES**

(a) Pursuant to the acquisition of Huajun and 306 Mine as described in Note 5, the Company signed an agreement to purchase 85% of the shares of Huajun for a cash consideration of RMB 22 million (\$3,320,000). The payments committed that have not been paid are as follows:

RMB 4.4 million due 10 business days after the new comprehensive mining licenses for 306 Mine granted to Huajun;

RMB 4.4 million due 90 business days after the third payment or within 10 business days upon completion of all the conditions above and the employees have entered into employment agreements with Huajun.

(b) See also Note 11 for the Company's commitments related to various mineral properties acquisitions and expenditures.

(c) The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

17. SEGMENTED INFORMATION

	December 31, 2010	September 30, 2011
PROPERTIES, PLANT AND EQUIPMENT EXPLORATION AND EVALUATION ASSETS AND OIL AND GAS PROPERTIES		
Canada	\$ 1,950,218	\$ 2,139,179
United States	1,509,381	1,388,919
China	4,176,269	4,578,294
Mexico	915,777	354,871
	\$ 8,551,645	\$ 8,461,263
REVENUES		
	9 months ended September 30,	
	2010	2011
Canada, drilling service income	\$ 143,989	\$ 994,142
China, sales of germanium	51,105	193,669
	\$ 195,094	\$ 1,187,811

During the periods ended September 30, 2011 and 2010, all revenues in China were derived from a single customer from the sale of germanium concentrate and coal.

During the period ended September 30, 2011, the Company had one significant customers in Canada (2010 – two) that represented over 90% of drilling service income.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

18. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of capital stock, contributed surplus, warrants and long-term debt. 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, the exercise of warrants and long-term debt.

There were no changes in the Company's approach to capital management during the periods presented. The Company and its subsidiaries are not subject to externally imposed capital requirements.

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

19. CONTRACT WITH VOLTAIX

On September 26, 2011 the Company executed a Memorandum of Understanding (the "MOU") with Voltaix LLC, ("Voltaix"), a leading U.S. specialty materials producer, for the sale of all germanium production from the Huajun Mine in Yunnan Province, China. Voltaix will provide approximately \$4,129,000 to the Company in a series of advances related to milestones in the development of the Huajun operations. The MOU contemplates deliveries of germanium dioxide (GeO₂) by YBB to Voltaix over the life of the Strategic Supply Agreement (the "SSA"). The price for this product is based on a blended formula related to actual processing and refining costs and local market pricing for GeO₂. As of September 30, 2011 the Company had received US\$100,000 (\$101,970) from Voltaix that is recorded as deferred revenue.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information in the nine months period is as follows:

	2011	2010
	\$	\$
Shares issued for property	20,250	33,000
Interest paid	126,660	343,680
Income taxes paid	-	8,542

21. EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2011, 150,000 options and 224,167 warrants expired unexercised.

Subsequent to September 30, 2011, the Company executed an agreement with Osisko and received \$1,000,000 cash advance from Osisko for the drilling services to be provided by the Company to Osisko. The Company has amended the agreement with Osisko to void the requirement for Osisko to further subscribe to the \$500,000 common shares of the Company, as described in Note 11(iv).

Subsequent to September 30, 2011 the Company repaid \$900,000 principal of the Loan described in Note 12(ii).

The Company is investigating whether it is entitled to participate in the proceeds of a compensation award relating to the Blizzard project in British Columbia.

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

22. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

The Company has applied some IFRS 1 applicable exemptions and exceptions in the conversion from Canadian GAAP to IFRS. Such application exemptions and exceptions are disclosed as Note 12 to the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2011.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, deficit and comprehensive loss:

Reconciliation of equity	12/31/2010	9/30/2010
	\$	\$
Under Canadian GAAP	6,027,350	6,694,640
Change in foreign exchange translation policy	(148,255)	(139,782)
De-recognition of exploration expenditures	(194,110)	(716,634)
Adjustment for flow-through shares	-	(128,000)
Adjustment to royalty liability	(142,717)	(144,561)
Non-controlling interest	129,490	157,085
Total equity under IFRS	5,671,758	5,722,748

Reconciliation of loss for the period ended	3 month ended 9/30/2010	9 months ended 9/30/2010
	\$	\$
Loss under Canadian GAAP	409,268	1,006,268
Change in foreign exchange translation policy	176,636	126,636
De-recognition of exploration expenditures	18,728	529,737
Adjustment to royalty liability	10,930	30,930
Non-controlling interest	(21,758)	-
Total loss under IFRS	593,804	1,693,571

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

22. TRANSITION TO IFRS (continued)

Reconciliation of comprehensive loss for the period ended	3 month ended	9 months ended
	9/30/2010	9/30/2010
	\$	\$
Under Canadian GAAP	409,268	1,006,268
Differences in loss	184,536	687,303
Foreign exchange translation adjustment to equity	(85,838)	23,162
Total comprehensive loss under IFRS	507,966	1,716,733

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, there are significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company, as explained in the Note 22 of the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2011.

Restated financial statements

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the amended financial statements prepared under IFRS.

SPARTON RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
September 30, 2011
(Unless otherwise stated, all amounts are in Canadian dollars)
Reconciliation of Consolidated Statement of Financial Position as of January 1, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Assets					Assets
Current assets					Current assets
Cash	1,873,390	-	-	1,873,390	Cash
Accounts receivable	31,784	-	39,352	71,136	Trade and other receivable
Investments	32,750	-	-	32,750	Investments
Sundry receivables	39,352	-	(39,352)	-	
Advances and prepaid expenses	177,495	-	-	177,495	Advances and prepaid expenses
Inventories	-	-	-	-	Inventories
Due from shareholders of subsidiaries	91,963	-	-	91,963	Due from shareholders of subsidiaries
	2,246,734	-	-	2,246,734	
Equipment	62,930	-	-	62,930	Equipment
Oil and gas properties	543,217	-	-	543,217	Oil and gas properties
Mining and exploration properties and deferred exploration expenditures	6,242,678	121,881	(2,146,200)	4,218,359	Mining and exploration properties and deferred exploration expenditures
Payments for acquisition of assets	2,023,560	-	-	2,023,560	Payments for acquisition of assets
	-	-	2,146,200	2,146,200	Assets held for sale
Future income tax asset	446,000	-	-	446,000	Deferred income tax asset
	11,565,119	121,881	-	11,687,000	
Liabilities					Liabilities
Current liabilities					Current liabilities
Accounts payable and accrued liabilities	400,554	-	-	400,554	Accounts payable and accrued liabilities
Other liability	-	-	128,000	128,000	Other liability
	400,554	-	128,000	528,554	
Long-term debts	3,276,500	-	-	3,276,500	Long-term debts
		412,393	-	412,393	Royalty liability
					Deferred gain
Future income tax liability	151,000	-	-	151,000	Deferred income tax liability
	-				
	3,828,054	412,393	128,000	4,368,447	
Non-controlling interest	163,030	-	(163,030)	-	
Shareholders' equity					Shareholders' equity
Common shares	13,786,211	-	40,000	13,826,211	Common shares
Warrants	841,877	-	-	841,877	Warrants
Contributed surplus	4,190,316	-	(3,222,275)	968,041	Contributed surplus
		-	-		Accumulated other comprehensive income
Deficit	(11,244,369)	(290,512)	3,054,275	(8,480,606)	Deficit
	7,574,035	(290,512)	(128,000)	7,155,523	
			163,030	163,030	Non-controlling interest
	7,574,035	(290,512)	35,030	7,318,553	
	11,565,119	121,881	-	11,687,000	

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

Reconciliation of consolidated statement of operations

For the nine months ended September 30, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS Reclassifications	IFRS balance	IFRS accounts
	\$	\$		\$	
EXPENSES					EXPENSES
Stock based compensations	113,370	-		113,370	Stock based compensations
General and administrative expenses	594,626	108,461		703,087	General and administrative expenses
Investor relations	86,291	-		86,291	Investor relations
Management and consultant fees	240,684	-		240,684	Management and consultant fees
Professional fees	81,860	-		81,860	Professional fees
Occupancy costs	32,565	-		32,565	Occupancy costs
Transfer agent, filing and listing fees	25,641	-		25,641	Transfer agent, filing and listing fees
Interest expense	342,646	30,930		373,576	Interest expense
	1,517,683	139,391		1,657,074	
Other (income) and expenses					Other (income) and expenses
Drilling service income, net of expenses	(417,703)	421,276		3,573	Drilling service income, net of expenses
Foreign exchange (gain) loss	(106,962)	126,636		19,674	Foreign exchange loss
	-	-		-	Write down of property
Investment loss (gain)	13,250	-		13,250	Investment loss (gain)
Loss before income taxes	1,006,268	266,027		1,693,571	Loss before income taxes
Income taxes	-			-	Income taxes
	1,006,268			1,693,571	Net loss
Minority interest	-				
Net loss	1,006,268				
Basic and diluted loss per share (cent per share)	0.01			0.02	Basic and diluted loss per share
Weighted average number of shares outstanding					Weighted average number of shares outstanding
Basic and diluted	87,868,545			87,868,545	Basic and diluted
				9,625	Loss attributed to non-controlling interests
				1,683,946	Loss attributed to shareholders

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

Reconciliation of consolidated statement of comprehensive loss

For the nine months ended September 30, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS adjustments	IFRS balance	IFRS accounts
	\$				
Net loss for the period	1,006,268	421,276	687,303	1,693,571	Net loss for the period
Other comprehensive loss					Other comprehensive loss
Loss on translation of foreign operations	-	-	23,162	23,162	Loss on translation of foreign operations
	1,006,268	421,276	710,465	1,716,733	

SPARTON RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
September 30, 2011
(Unless otherwise stated, all amounts are in Canadian dollars)
Reconciliation of Consolidated Statement of Financial Position as of September 30, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Assets					Assets
Current assets					Current assets
Cash	659,200	-	-	659,200	Cash
Accounts receivable	-	-	53,264	53,264	Trade and other receivables
Investments	19,500	-	-	19,500	Investments
Sundry receivables	53,264	-	(53,264)	-	
Advances and prepaid expenses	104,324	-	-	104,324	Advances and prepaid expenses
Inventories	50,387	-	-	50,387	Inventories
Due from shareholders of subsidiaries	105,428	-	-	105,428	Due from shareholders of subsidiaries
	992,103	-	-	992,103	
Property, plant and equipment	558,892	1,926,754	-	2,485,646	Property, plant and equipment
Oil and gas properties	543,924	-	-	543,924	Oil and gas properties
Mining and exploration properties and deferred exploration expenditures	7,930,381	(2,588,748)	-	5,341,633	Exploration and evaluation assets
Payments for acquisition of assets	-	-	-	-	Payments for acquisition of assets
Future income tax asset	446,000	-	-	446,000	Deferred income tax asset
	10,471,300	(661,994)	-	9,809,306	
Liabilities					Liabilities
Current liabilities					Current liabilities
Accounts payable and accrued liabilities	211,600	-	-	211,600	Accounts payable and accrued liabilities
Short-term loan	3,243,500	-	-	3,243,500	Short-term loan
Other liability	-	128,000	-	128,000	Other liability
	3,455,100	128,000	-	3,583,100	
Long-term debts	-	-	-	-	Long-term debts
		352,458	-	352,458	Royalty liability
Future income tax liability	151,000	-	-	151,000	Deferred income tax liability
	3,606,100	480,458	-	4,086,558	
Non-controlling interest	170,560	(13,475)	(157,085)	-	
Shareholders' equity					Shareholders' equity
Common shares	13,819,211	40,000	-	13,859,211	Common shares
Warrants	841,877	-	-	841,877	Warrants
Contributed surplus	4,303,686	(3,278,000)	-	1,025,686	Contributed surplus
		(23,162)	-	(23,162)	Accumulated other comprehensive loss
Deficit	(12,270,134)	2,132,185	9,625	(10,128,324)	Deficit
	6,694,640	(1,128,977)	9,625	5,575,288	
		-	147,460	147,460	Non-controlling interest
	6,694,640	(1,128,977)	157,085	5,722,748	
	10,471,300	(661,994)	-	9,809,306	

SPARTON RESOURCES INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unless otherwise stated, all amounts are in Canadian dollars)

Unaudited reconciliation of consolidated statements of operations

For the year ended December 31, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS adjustments	IFRS balance	IFRS accounts
	\$				
Revenue	97,481		-	97,481	Revenue
Mine operating expenses	380,360		-	380,360	Mine operating expenses
Amortization and depletion	149,135		-	149,135	Amortization and depletion
	529,495	-	-	529,495	
Gross loss	432,014	-	-	432,014	Gross loss
Expenses					Expenses
Stock based compensations	145,805		-	145,805	Stock based compensations
General and administrative expenses	539,689		7,213	546,902	General and administrative expenses
Investor relations	371,459		-	371,459	Investor relations
Management and consultant fees	316,467		-	316,467	Management and consultant fees
Professional fees	238,551		-	238,551	Professional fees
Occupancy costs	39,124		-	39,124	Occupancy costs
Transfer agent, filing and listing fees	33,477		-	33,477	Transfer agent, filing and listing fees
Interest expense	444,276		24,998	469,274	Interest expense
	2,128,848	-	32,211	2,161,059	
	2,560,862	-	32,211	2,593,073	
Other (income) and expenses					Other (income) and expenses
Other income	(408)	(128,000)	(128,000)	(128,408)	Interest income
Drilling service income, net of expenses	140,685		-	140,685	Drilling service income, net of expenses
Write-down of equipment and properties	149,942		-	149,942	Write-down of equipment and properties
Foreign exchange gain	(100,210)		104,371	4,161	Foreign exchange gain
	-		-	-	
Investment loss (gain)	(15,750)		-	(15,750)	Investment loss (gain)
Loss before income taxes	2,735,121	(128,000)	8,582	2,743,703	Loss before income taxes
Income taxes	-	446,000	446,000	446,000	Income taxes
	2,735,121			3,189,703	Net loss
Minority interest	(70,919)				
Net loss	2,664,202				
Basic and diluted loss per share	0.03			0.04	Basic and diluted loss per share
Weighted average number of shares outstanding					Weighted average number of shares outstanding
Basic and diluted	88,711,464			88,711,464	Basic and diluted

70,919 Loss attributed to non-controlling interests
3,118,784 Loss attributed to shareholders

SPARTON RESOURCES INC.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****September 30, 2011****(Unless otherwise stated, all amounts are in Canadian dollars)**

Unaudited reconciliation of consolidated statements of comprehensive loss

For the year ended December 31, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
	\$				
Net loss for the period	2,664,202	136,582	70,919	3,189,703	Net loss for the period
Other comprehensive loss (income)					Other comprehensive loss (income)
Loss (gain) on translation of foreign operations	-	59,502	-	59,502	Loss (gain) on translation of foreign operations
	2,664,202	196,084	70,919	3,249,205	

SPARTON RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
September 30, 2011
(Unless otherwise stated, all amounts are in Canadian dollars)
Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

(Expressed in Canadian dollars)

Canadian GAAP accounts	Canadian			IFRS balance	IFRS accounts
	GAAP Balance	IFRS adjustments	IFRS reclassifications		
Assets					
Current assets					
Cash	1,110,397	-	-	1,110,397	Cash
Accounts receivable	170,471	-	46,318	216,789	Trade and other receivables
Investments	48,500	-	-	48,500	Investments
Sundry receivables	46,318	-	(46,318)	-	
Advances and prepaid expenses	89,920	-	-	89,920	Advances and prepaid expenses
Inventories	193,064	(1,523)	-	191,541	Inventories
Due from shareholders of subsidiaries	103,074	-	-	103,074	Due from shareholders of subsidiaries
	1,761,744	(1,523)	-	1,760,221	
Equipment	580,342	(17,044)	1,956,049	2,519,347	Equipment
Oil and gas properties	553,915	-	-	553,915	Oil and gas properties
Mining and exploration properties and deferred exploration expenditures	7,588,661	(154,229)	(1,956,049)	5,478,383	Mining and exploration properties and deferred exploration expenditures
Payments for acquisition of assets	-	-	-	-	Payments for acquisition of assets
	-	-	-	-	Assets held for sale
Future income tax asset	-	-	-	-	Deferred income tax asset
	10,484,662	(172,796)	-	10,311,866	
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	295,408	-	-	295,408	Accounts payable and accrued liabilities
Current portion of long term debt	3,191,900	-	-	3,191,900	Current portion of long term debt
Due to related parties	-	-	-	-	Due to related parties
	3,487,308	-	-	3,487,308	
Long-term debts	-	-	-	-	Long-term debts
		350,614	-	350,614	Royalty liability
		-	-	-	Deferred gain
Future income tax liability	839,000	(36,814)	-	802,186	Deferred income tax liability
	-	-	-	-	
	4,326,308	313,800	-	4,640,108	
Non-controlling interest	131,004	(1,514)	(129,490)	-	
Shareholders' equity					
Common shares	14,712,859	-	-	15,198,859	Common shares
Warrants	900,898	-	-	900,898	Warrants
Contributed surplus	4,322,164	-	-	1,022,667	Contributed surplus
		(57,988)	-	(57,988)	Accumulated other comprehensive income
Deficit	(13,908,571)	(427,094)	-	(11,522,168)	Deficit
	6,027,350	(485,082)	-	5,542,268	
		-	129,490	129,490	Non-controlling interest
	6,027,350	(485,082)	129,490	5,671,758	
	10,484,662	(172,796)	-	10,311,866	