
SPARTON RESOURCES INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

(Expressed in Canadian Dollars)

SPARTON RESOURCES INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(Expressed in Canadian Dollars)

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sparton Resources Inc.:

We have audited the accompanying consolidated financial statements of Sparton Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sparton Resources Inc. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that the Company is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about Sparton Resources Inc.'s ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 29, 2011

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SPARTON RESOURCES INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
As at December 31,
(Expressed in Canadian Dollars)

	2010	2009
Assets		
Current assets		
Cash	\$ 1,110,397	\$ 1,873,390
Accounts receivable (Note 3)	170,471	31,784
Investments (Note 5)	48,500	32,750
Sundry receivables	46,318	39,352
Advances and prepaid expenses	89,920	177,495
Inventory (Note 6)	193,064	-
Due from shareholders of subsidiaries (Note 14)	103,074	91,963
	1,761,744	2,246,734
Equipment (Note 7)	580,342	62,930
Oil and gas properties (Note 8)	553,915	543,217
Mining and exploration properties and deferred exploration expenditures (Note 9)	7,588,661	6,242,678
Payments for acquisition of assets (Note 4)	-	2,023,560
Future income tax asset (Note 12)	-	446,000
	10,484,662	11,565,119
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	295,408	400,554
Current portion of long-term debt (Note 10)	3,191,900	-
	3,487,308	400,554
Long-term debt (Note 10)	-	3,276,500
Future income tax liability (Note 12)	839,000	151,000
	4,326,308	3,828,054
Non-controlling interest (Note 14)	131,004	163,030
Shareholders' Equity		
Capital stock (Note 11(a))	14,712,859	13,786,211
Warrants (Note 11(c))	900,898	841,877
Contributed surplus	4,322,164	4,190,316
Deficit	(13,908,571)	(11,244,369)
	6,027,350	7,574,035
	10,484,662	11,565,119

Going Concern (Note 1)

Commitments and contingencies (Notes 4, 9 and 15)

Subsequent events (Note 19)

Approved on behalf of the Board

Signed: "Richard Williams", Director

Signed: "A. Lee Barker", Director

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

SPARTON RESOURCES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31,

(Expressed in Canadian Dollars)

	2010	2009
Revenue	\$ 97,481	\$ -
Mine operating expenses (Note 6)	380,360	-
Amortization and depletion (Notes 7 and 9(ix))	149,135	-
	529,495	-
Gross loss	(432,014)	-
Expenses		
Stock-based compensation	145,805	39,414
General and administrative expenses (Note 13)	539,689	525,489
Investor relations	371,459	67,690
Management and consultant fees (Note 13)	316,467	227,387
Professional fees	238,551	127,284
Occupancy costs	39,124	46,760
Transfer agent, filing and listing fees	33,477	36,007
Interest expenses	444,276	359,239
	2,128,848	1,429,270
Other (Income) and expenses		
Interest income	(408)	(1,236)
Drilling service income, net of expenses	140,685	(151,795)
Write-down of equipment and properties (Notes 7 and 9(i)(iii)(iv)(xi))	149,942	2,543,151
Write-off of deferred financing costs (Note 10(i))	-	601,632
Foreign exchange (gain)	(100,210)	(188,350)
(Gain) loss on investment	(15,750)	9,235
	2,735,121	4,241,907
Loss before future income taxes	2,735,121	4,241,907
Future income taxes (Note 12)	-	(446,000)
	2,735,121	3,795,907
Non-controlling interest (Note 14)	(70,919)	-
NET LOSS, BEING THE COMPREHENSIVE LOSS, FOR THE YEAR	2,664,202	3,795,907
Loss per share - basic and diluted	0.03	0.06
Weighted average number of common shares		
Basic	88,711,464	67,894,201
Diluted	88,711,464	67,894,201

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SPARTON RESOURCES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31,

(Expressed in Canadian Dollars)

	2010	2009
CAPITAL STOCK (Note 11(a))		
Balance, beginning of the year	\$ 13,786,211	\$ 11,780,330
Shares issued on private placement	500,000	2,759,000
Fair value of warrants - private placement	(44,292)	(841,877)
Conversion of preferred shares of SEI	-	126,548
Shares issued for property acquisition payment	33,000	162,330
Shares issued on exercise of options	25,000	-
Fair value assigned to exercised options	17,900	-
Shares issued on exercise of warrants	592,500	-
Fair value assigned to exercised warrants	248,540	-
Flow-through share tax effect	(446,000)	-
Share issue costs - cash	-	(200,120)
Balance, end of the year	14,712,859	13,786,211
WARRANTS (Note 11(c))		
Balance, beginning of the year	841,877	235,814
Issued	44,292	841,877
Extended	267,212	-
Exercised	(248,540)	-
Expired	(3,943)	(235,814)
Balance, end of the year	900,898	841,877
CONTRIBUTED SURPLUS		
Balance, beginning of the year	4,190,316	3,915,088
Fair value assigned to options granted/vested to employees	90,435	19,724
Fair value assigned to options granted/vested to non-employees	55,370	19,690
Value of exercised options	(17,900)	-
Value of expired warrants	3,943	235,814
Balance, end of the year	4,322,164	4,190,316
DEFICIT		
Balance, beginning of the year	(11,244,369)	(7,448,462)
Net loss for the year	(2,664,202)	(3,795,907)
Balance, end of the year	(13,908,571)	(11,244,369)
TOTAL SHAREHOLDERS' EQUITY, END OF THE YEAR	6,027,350	7,574,035

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

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

	2010	2009
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the year	\$ (2,664,202)	\$ (3,795,907)
Adjustments for:		
Amortization and depletion	153,524	7,141
Investment (gain) loss	(15,750)	9,235
Stock-based compensation	145,805	39,414
Fair value of extended warrants (Note 11(c))	267,212	-
Future income taxes	-	(446,000)
Write-down of equipment and properties	149,942	2,543,151
Write-off of deferred financing costs	-	601,632
Non-controlling interest	(70,919)	-
Unrealized foreign exchange (gain)	(70,771)	(334,000)
Changes in non-cash working capital	(356,288)	87,674
Cash flows (used in) operating activities	<u>(2,461,447)</u>	<u>(1,287,660)</u>
INVESTING ACTIVITIES:		
Purchase of equipment	(29,239)	(52,178)
Due from shareholders of subsidiary	(11,111)	-
Proceeds on sale of investments	-	6,030
Payments for asset acquisition (Note 4)	-	(1,713,960)
Proceeds on sale of property (Note 9(i))	2,074,983	-
Mining and exploration property expenditures	(1,453,679)	(1,097,851)
Cash flows from (used in) investing activities	<u>580,954</u>	<u>(2,857,959)</u>
FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	1,700,000
Financing costs	-	(317,882)
Repayment of long-term debt	-	(525,500)
Proceeds from private placements	500,000	2,759,000
Exercise of warrants and options	617,500	-
Share issue costs	-	(200,120)
Cash flows provided by financing activities	<u>1,117,500</u>	<u>3,415,498</u>
(DECREASE) IN CASH	(762,993)	(730,121)
CASH, BEGINNING OF THE YEAR	1,873,390	2,603,511
CASH, END OF THE YEAR	1,110,397	1,873,390
Supplemental cash flow information		
Shares issued for property interests	33,000	162,330
Interest paid	457,366	354,682
Income taxes paid	8,542	-
Broker warrants issued	-	124,356

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

SPARTON RESOURCES INC.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. 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 consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

The Company has a need for equity capital and financing for working capital, and exploration and development of its properties. As at December 31, 2010, the Company had a working capital deficiency of \$1,725,564 (2009 - working capital of \$1,846,180). Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

The Company's operations in China are subject to government legislation, policies and controls relating to mining, environmental protection, taxes and labour 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.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Energy Data Science Corporation, EDCOR Drilling Services Inc., and Sparton International Holdings, and its 90% interest in Beijing Sparton Mineral Investment and Consulting Ltd. ("Beijing Sparton"), 94.5% interest in Sparton Energy Inc. ("SEI"), and 93% interest in Vanspar Mining Inc. In addition, SEI's 70% interest in Yunnan Sparton New Environ-tech Consulting Co. Ltd. ("YSNET"), SEI's wholly owned subsidiary Yunnan Blue Bay Mining Co. Ltd. ("YBB"), and its 51% owned Lincang City Linxiang Area 306 Huajun Coal Industry Co., Ltd. ("Huajun") were also consolidated by the Company. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated. The interest in YSNET is a joint venture and is consolidated proportionately.

New Accounting Policies

Inventory:

Germanium concentrate is available for sale and is stated at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine site overhead expenses, amortization of operating property and equipment and depletion of mineral property costs.

Work-in-progress inventory, which consists of crushed ore, in-circuit material at properties with milling operations as well as metal concentrates that will be used for processing, is valued at the lower of average production costs and net realizable value.

Material and supplies inventory include the cost of consumables used in operations, such as fuel, chemicals, reagents and repair parts, and are valued at the lower of average cost and net realizable value.

Revenue recognition:

Revenue from the sale of metal concentrate is recognized when title, risk and rewards are passed to the customer, the price is fixed and determinable and collection of the proceeds is reasonably assured. The passing of title and risks occurs based on the terms of the sales contract. The price is based on the formula in the sales contract that includes the market price and the price factor determined by the grade level of concentrate.

Funds received in advance of revenue recognition criteria being met is included in deferred revenue.

Revenue from drilling service is recognized when the service is provided, the price is fixed and determinable and collection is reasonably assured.

Significant Accounting Policies

Equipment and amortization:

Equipment is stated at acquisition cost. Amortization is provided at the following annual rates based on their estimated useful lives:

Mining equipment	-	5 years straight line
Automobile	-	5 – 8 years straight line
Office equipment	-	3 – 5 years straight line

Amortization of equipment related to exploration properties is charged to exploration properties and deferred exploration expenditures. Amortization of equipment related to administration is included in general and administrative expenses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Mining and exploration properties and deferred exploration expenditures:

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

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

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

Impairment of long-lived assets:

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

Oil and gas properties:

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

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

Depletion and Amortization

Costs capitalized, including well equipment, together with estimated future capital costs associated with proven reserves, are amortized and depleted using the unit-of-production method, which is based on gross production and estimated proven oil and gas reserves as determined by independent engineers. The cost of unproven properties is excluded from the amortization and depletion base. For purposes of the depreciation and depletion calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content, being six thousand cubic feet of gas for one barrel of oil.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ceiling Test

Under the full cost method of accounting, a limit is placed on the carrying amount of oil and gas properties. A "ceiling test" is performed to recognize and measure impairment, if any. Impairment is recognized if the carrying amount of oil and gas properties, less the cost amount of undeveloped properties not subject to depletion (the "adjusted carrying" amount) exceeds the estimated undiscounted future cash flows from the Company's proved reserves. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company's proved and probable reserves. The future cash flows are discounted at the Company's risk free rate, using forecasted prices and costs. Any impairment recognized is recorded as additional depletion and amortization expense. For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as interest, general and administrative expenses and income taxes.

Investments:

(i) Publicly-traded investments:

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

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

(iii) Investment in joint ventures

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

Stock-based compensation plan:

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

Asset retirement and reclamation obligations:

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is initially recorded as an increase to properties and deferred exploration expenditures and amortized over the useful life of the respective property. Accretion is expensed in the statement of operations as incurred. Management is not aware of any significant asset retirement and reclamation obligations as at December 31, 2010 and 2009.

The Company's activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

SPARTON RESOURCES INC.
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding and the number of special warrants outstanding that can be converted into common shares for no additional consideration. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. The outstanding stock options and warrants to purchase common shares as described in Notes 11(b) and (c) were not included in the computation of the diluted loss per share as at December 31, 2010 and 2009 as the effect would be anti-dilutive.

Financial instruments – recognition and measurement:

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

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews.

The Company designated its investments as held-for-trading, which are measured at fair value. Cash, accounts receivable, sundry receivables and due from shareholders of subsidiaries are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

As at December 31, 2010 and 2009, the Company's financial instruments that are carried at fair value, consisting of investments, have been classified as Level 1 within the fair value hierarchy.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates:

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

Translation of foreign currencies:

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

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

Since the Chinese Renminbi ("RMB") is not a fully convertible currency, all foreign exchange translations involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

Income taxes:

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

Flow-through financing:

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

Business acquisitions and goodwill:

Business acquisitions are accounted for using the purchase method and accordingly, the results of operations of the acquired business are included in the consolidated statements of operations effective from their respective dates of acquisition. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the fair value of identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill recorded on acquisition is not amortized, but is instead tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill may be impaired by comparing the fair value of a particular reporting unit to its carrying value. Any impairment loss will be charged against current period operations and shown as a separate item in the consolidated statement of operations, comprehensive loss and deficit.

Comparative figures:

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

Future Accounting Changes

Business Combinations:

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are reliably measured will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be premeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The new standard will be effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact that this new standard may have on the consolidated financial statements of the Company.

Consolidated Financial Statements and Non-controlling Interests:

CICA Handbook Sections 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The new standard will be effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact that this new standard may have on the consolidated financial statements of the Company.

International Financial Reporting Standards ("IFRS"):

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for annual financial statements relating to fiscal years effectively beginning on or after January 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company has been assessing the potential impact of this changeover and developing its IFRS changeover plan, which includes project structure and governance, outsourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential exemptions to the initial adoption of IFRS as permitted by IFRS.

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3. RISK FACTORS

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.

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

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, investments, accounts receivable, sundry 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. Accounts receivable consists of an amount receivable from one customer, which has been received subsequent to year end. Sundry 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, accounts receivable, sundry 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 December 31, 2010, the Company had a cash balance of \$1,110,397 (2009 - \$1,873,390) to settle current liabilities of \$3,487,308 (2009 - \$400,554). The Company's account payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The current portion of long-term debt matured in April 2011. Included in the current portion of long-term debt, was an amount of US\$1,500,000 (\$1,491,900), which was repaid in full subsequent to December 31, 2010 with the proceeds from the subsequent sale of a subsidiary's shares (Note 19).

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 rates of 10% - 17.6% per annum. Management believes that interest rate risk is remote as the Company currently does not carry interest bearing debt at floating rates (Note 19).

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3. RISK FACTORS (Continued)

Foreign Currency Risk

The Company is exposed to foreign exchange rate risk, as a portion of the Company's business is carried out in US dollars ("USD") and Chinese Renminbi ("RMB") and the Company and its subsidiaries maintain USD and RMB denominated bank accounts. Unfavorable changes in the applicable exchange rate between USD, RMB and the 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 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% (2009 - 18%) of its assets were carried at foreign currencies and approximately 28% (2009 -25%) 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 December 31, 2010	US\$	RMB
Cash	391,321	149,307
Sundry receivable	-	21,131
Advances and prepaid expenses	-	17,437
Inventory	-	193,064
Due from shareholders of subsidiaries	87,028	16,047
Equipment	-	569,456
Mining and exploration properties and deferred exploration expenditures	-	3,103,873
Accounts payable and accrued liabilities	-	(58,777)
Current portion of long-term debt	(1,491,900)	-
Future income tax liability	-	(151,000)
Net balance sheet exposure	(1,013,551)	3,860,538

Balances as at December 31, 2009	US\$	RMB
Cash	31,418	180,303
Sundry receivable	-	8,819
Advances and prepaid expenses	-	127,511
Inventory	-	-
Due from shareholders of subsidiaries	91,963	-
Equipment	-	49,309
Mining and exploration properties and deferred exploration expenditures	-	3,303,448
Accounts payable and accrued liabilities	-	(3,013)
Current portion of long-term debt	(1,576,500)	-
Future income tax liability	-	(151,000)
Net balance sheet exposure	(1,453,119)	3,515,377

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3. RISK FACTORS (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 be taken by the Company.

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 held-for-trading where price volatility is reflected in operations.

Sensitivity Analysis

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments related to cash, investments, accounts receivable, sundry receivables, and accounts payable and accrued liabilities 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 December 31, 2010, \$540,628 of cash, \$21,131 of sundry receivables, \$72,520 of accounts payable and accrued liabilities, and \$1,491,900 of long-term debt are in foreign currencies. A 10% fluctuation in the exchange rate from US\$ and RMB to CDN\$ will generate a foreign exchange gain or loss of approximately \$99,000.
- (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.

A 10% change in the average germanium price during 2010 with all other variables constant, would have resulted in an impact to operations of approximately \$10,000.

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4. ACQUISITION OF CONTROL OF LINCANG CITY LINXIANG AREA 306 HUAJUN COAL INDUSTRY CO., LTD.

On March 31, 2008, SEI's 100% owned subsidiary YBB signed an agreement to acquire 85% of Huajun from two individuals in an arm's length transaction for total consideration of RMB22,000,000 (\$3,319,800) (Note 15). On the date of the agreement, the two individuals owned the adjacent 306, Chuang Zhong and Defu Coal Mine (collectively the "306 Mine") that are germanium/coal producers in Lincang City, Yunnan Province, China. These operations had been unitized into Huajun as one operation. The agreement to acquire Huajun required the two individuals to transfer 100% of the physical assets of 306 Mine to Huajun which has been done. The agreement provided for payment in several tranches subject to certain deliverables by the vendors. The Huajun operations are the subject of an application for a new comprehensive mining license which covers all of the 306 Mine operating area. Pursuant to the purchase agreement as amended, once 60% of the agreed purchase price is paid to the vendors, YBB would own a 51% controlling interest in Huajun and assume control of the Huajun operations. The agreement also provides that the remaining 40% of the agreed purchase price will become due once the new comprehensive mining license for Huajun is granted.

In 2009, YBB made cash payments of RMB 13,200,000 (\$2,104,080) 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 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 licence 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 December 31, 2010, the Company's mining license and coal production permit have expired. The Company continues to pursue a consolidated mining license of the 306 Mine. On July 2010, a co-confirmation letter between Huajun and 306 Wenhua, the entity which holds the old 306 Mine mining license, was signed to confirm that YBB through Huajun is the actual controlling entity of the entire 306 Mine mining area. Accordingly, the Company consolidated the assets and operations of Huajun and the 306 Mine in fiscal 2010.

The transaction was accounted for as a business combination. The allocation of the purchase price of \$2,104,080 (RMB 13,200,000) paid to the vendors of Huajun and the 306 Mine, to the fair value of the identifiable assets acquired as at the date of acquisition is as follows:

	RMB	CAD
Cash consideration paid	13,200,000	2,104,080
Net assets acquired:		
Equipment	4,420,433	704,617
Mining property	13,094,915	2,087,463
Future income tax liability	(4,315,348)	(688,000)
	13,200,000	2,104,080

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5. INVESTMENTS

The Company received 1,000,000 Santoy Resources Ltd. ("Santoy") common shares and 1,000,000 warrants pursuant to an agreement with Santoy regarding the Blizzard Project sold to Santoy in 2006.

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

As at December 31, 2010, the Company held 100,000 common shares of VAE. The warrants expired without being exercised. The estimated fair value of the securities, based on their quoted market price at the year end, was as follows:

	2010		2009	
	#	\$	#	\$
VAE common shares	100,000	48,500	100,000	32,000
VAE warrants	-	-	25,000	750
		<u>48,500</u>		<u>32,750</u>

6. INVENTORY

	2010	2009
	\$	\$
Material and supplies	42,330	-
Germanium concentrate	150,734	-
	<u>193,064</u>	-

The amount of inventory recognized as an expense during the year ended December 31, 2010 was \$380,360. (2009 - \$Nil), of which \$268,560 was related to write-down of inventory during the year ended December 31, 2010 (2009 - \$Nil).

All inventory is carried at the lower of cost and net realizable value. Material and supplies and Germanium concentrate are recorded at net realizable value as at December 31, 2010.

7. EQUIPMENT

	December 31, 2010			December 31, 2009		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Mining equipment	793,859	267,024	526,835	-	-	-
Office equipment	39,794	16,948	22,846	35,749	9,012	26,737
Automobile	37,351	6,690	30,661	37,351	1,158	36,193
	<u>871,004</u>	<u>290,662</u>	<u>580,342</u>	<u>73,100</u>	<u>10,170</u>	<u>62,930</u>

During the year ended December 31, 2010, the Company expensed \$125,986 (2009 - \$7,141) in amortization to the statement of operations, and wrote off \$46,770 (2009 - \$Nil) of the value of equipment due to the fact that it was no longer functioning.

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

(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.

9. MINING AND EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Balance Dec. 31, 2008 \$	Additions Net of Recoveries/write offs 2009 \$	Balance Dec. 31, 2009 \$	Additions Net of Recoveries/write offs 2010 \$	Depletion	Balance Dec. 31, 2010 \$
China						
Producing:						
306 Mine (ix)	-	-	-	2,093,902	(27,538)	2,066,364
Non-Producing:						
Luxi Gold (i)	3,682,970	(1,536,770)	2,146,200	(2,146,200)	-	-
ARCN (ii)	811,856	345,392	1,157,248	94,096	-	1,251,344
208 Project (iii)	49,976	(49,976)	-	-	-	-
Guojiaping (x)	-	-	-	474,165	-	474,165
	<u>4,544,802</u>	<u>(1,241,354)</u>	<u>3,303,448</u>	<u>515,963</u>	<u>(27,538)</u>	<u>3,791,873</u>
Canada						
Non-Producing:						
Whiskey (iv)	625,160	(625,160)	-	-	-	-
Atikokan (viii)	-	617,559	617,559	767,858	-	1,385,417
	<u>625,160</u>	<u>(7,601)</u>	<u>617,559</u>	<u>767,858</u>	<u>-</u>	<u>1,385,417</u>
United States						
Non-Producing:						
Nevada SBD (v)	1,093,567	125,430	1,218,997	82,487	-	1,301,484
Coal Canyon (vi)	190,057	(190,057)	-	-	-	-
	<u>1,283,624</u>	<u>(64,627)</u>	<u>1,218,997</u>	<u>82,487</u>	<u>-</u>	<u>1,301,484</u>
Mexico						
Non-Producing:						
Sierra Rosario (vii)	906,631	9,146	915,777	-	-	915,777
Other (xi)	108,985	77,912	186,897	7,213	-	194,110
Total	<u>7,469,202</u>	<u>(1,226,524)</u>	<u>6,242,678</u>	<u>1,373,521</u>	<u>(27,538)</u>	<u>7,588,661</u>

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9. MINING AND EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(i) Luxi Gold Project, China

In 2003 the Company acquired the right to participate, with an 80% interest, in a project to explore certain mineral licenses in the Yunnan Province, China by making various payments in cash and shares, and by completing an exploration program on the area covered by the licenses. In 2006 the Company completed the requirements to earn its interest, and subsequently sold 41% in 2007, leaving the Company with a 39% residual interest.

On March 17, 2010, the Company signed a sale agreement to sell its 39% interest in Luxi to a third party for RMB 14,000,000 (\$2,146,200). The carrying value of the project as of December 31, 2009 was written down to reflect the recoverable value of \$2,146,200 using the foreign exchange rate as of December 31, 2009. The transaction was effected by the Company selling a 100% interest in its 100% owned British Virgin Islands ("BVI") registered subsidiary Sparton International Resources Inc. ("SIR").

Additional terms of the sale agreement give the Company a right of first refusal to become a 35% participant in any future expansion and development of the Luxi Gold Project. Further, Sparton will have a right of first refusal to participate, with an interest equal to 35% of the purchaser's interest, in any production operation in the Luxi Gold Project area.

(ii) ARCN Project, China

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

On June 4, 2007, the Company through its 94.5% owned subsidiary, Sparton Energy Inc. ("SEI") and its China based partner, Beijing John Hanseng Investment Consulting Company ("BJH"), signed a Memorandum of Understanding ("MOU") with Airborne Survey and Remote Sensing Center of Nuclear Industry ("ARC�N"), the Airborne Remote Sensing Institute branch of the China National Nuclear Corporation ("CNNC"), to increase their interest in the Uranium ARCN Project from 60% to 80%. On January 18, 2008, SEI, BJH and ARC�N signed a joint venture agreement, replacing the MOU, to form Yunnan Sparton New Environtech ("YSNET"), the operating company for secondary uranium recovery operations. YSNET is owned 60% by SEI, 30% by ARC�N and 10% by BJH. BJH has agreed to convert its interest into shares of SEI upon a successful financing of SEI.

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9. MINING AND EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(ii) ARCN Project, China (Continued)

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

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

(iii) 208 Project, China

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

(iv) Whiskey Project, Canada

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

(v) Nevada SBD Project, United States

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

In 2007, 2008, and 2009, the Company has elected to make the SBD annual advance royalty payments in shares:

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

For 2010, the Company paid the advance royalty payment in cash (valued at US \$75,000 or \$76,260).

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9. MINING AND EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(vi) Coal Canyon Project, United States

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

(vii) Sierra Rosario Project, Mexico

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

(viii) 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 northern Ontario. Under the terms of the option agreements, the Company will earn a 100% interest in the claims by making total cash payments of \$505,000 (\$65,000 on signing) and issuing 1.5 million common shares (335,000 on signing) to the vendors over a 4-year period. Once fully vested, each of the properties will be subject to payment of a 2% 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 \$1,750,000 on the WHC claims and \$1,500,000 on the CL claims. After the end of the fourth year, if the Company has fully vested its interest in either or both of the properties, the WHC and CL claims will be subject to advance annual royalty payments of \$60,000 and \$40,000 respectively.

In 2009, the Company made the initial cash payment of \$65,000 and issued 335,000 common shares under the property option agreements. The 335,000 common shares issued were valued at \$67,000 based upon the share price as at the date of issue.

During the year ended December 31, 2010, the Company made the 1st anniversary cash payment of \$100,000 and issued 300,000 common shares to the vendors of Atikokan Project under the purchase agreement. The 300,000 common shares issued were valued at \$33,000 based upon the share price as at the date of issue.

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 11 (a)(vii)) 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 \$16,500,000 before November 10, 2014, including funding and completion of a scoping study.

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9. MINING AND EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(viii) Atikokan Project, Canada (Continued)

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 \$6,000,000 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.

(ix) 306 Mine, China

As a result of the 51% acquisition of Huajun (Note 4), the 306 Mine valued at \$2,087,463 was acquired by the Company. 306 Mine is a producing property. The total depletion charged to the statement of operations in 2010 is \$27,538 (2009 - \$Nil).

(x) Guojiaping, China

On October 26, 2009, the Company's subsidiary YSNET 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's subsidiary YSNET made an initial payment of 3 million RMB (approximately \$452,700) to 267 in accordance with a prepayment agreement negotiated between the Company and 267 following the completion of the due diligence program and the completion and receipt of the Independent Technical Report by Quest Geological Consultants. The payment will be credited towards the full purchase price of 45 million RMB according to the LOI between 267 and YSNET. 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.

(xi) Total other property additions were \$110,385 in 2010. Included in other properties is the write off of Euroash property cost of \$103,172 in 2010 due to the Company's decision of not pursuing this project further.

10. LONG-TERM DEBT

(i) On September 29, 2008, the subsidiary of the Company, SEI, closed a bridge loan of US\$2,000,000 from Quam Securities Company Ltd. of Hong Kong ("Quam") to finance the initial acquisition of Huajun, as described in Note 4. The loan bears interest at an annual rate of 10%. The loan is secured by SEI, the Company and another subsidiary of the Company which are providing security for the loan in the form of a guarantee backed by the Huajun shares, SEI's tangible and intangible assets and certain other assets of the Company.

On July 23, 2009, as part of the loan agreement (Note 10(ii)), Quam agreed to extend the repayment date of the US\$2 million bridge loan made to SEI to April 23, 2011, provided that US\$500,000 was repaid by December 31, 2009. The said US \$500,000 (\$525,500) was repaid, reducing the loan amount to US \$1,500,000 at December 31, 2010 (\$1,491,900).

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

Subsequent to December 31, 2010, the loan was repaid in full (Note 19(b)).

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10. LONG-TERM DEBT (Continued)

(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 is evidenced by a debenture and carries interest of 17.6% per annum, payable on a quarterly basis for 21 months and is repayable on or before April 23, 2011. The Loan can be prepaid at any time up to 30 days before maturity without penalty. Within 30 days of maturity, the parties can each elect for the repayment of the principal in full plus interest. In the event no such election is made, the Lender can elect to require the transfer of SEI's 34% interest in Huajun acquired with the proceeds of the Loan in full satisfaction of the amounts owing under the Loan. In addition, if at any time the board of directors of SEI formally authorizes a going public transaction of SEI and so long as none of the elections described above have been made, the Lender has the right to convert the debt owed under the Loan into the capital of SEI at an amount equal to 150% of the then outstanding principal amount on the Loan, subject to all applicable regulatory approvals. Subsequent to year end, the Company reduced the amount owing and negotiated an extension and new terms (Note 19(e)).

11. CAPITAL STOCK

(a) Common Shares

Authorized:

Unlimited common shares

Issued:

94,283,930 common shares

The transactions during 2009 to 2010 are as follows:

	Number of Shares	Consideration
Balance, December 31, 2008	63,477,699	\$ 11,780,330
Shares issued on private placement (i)	18,616,667	2,759,000
Fair value of warrants - private placement (i)	-	(717,521)
Conversion of preferred shares of SEI (ii)	3,555,555	126,548
Shares issue costs - cash	-	(200,120)
Share issue costs – warrants (i)	-	(124,356)
Shares issued for property interests(iii)	2,134,009	162,330
Balance, December 31, 2009	87,783,930	13,786,211
Shares issued on exercise of options (vi)	250,000	25,000
Fair value assigned to exercised options (vi)	-	17,900
Shares issued on exercise of warrants (v)	3,950,000	592,500
Fair value assigned to exercised warrants (v)	-	248,540
Share issued on private placement (vii)	2,000,000	500,000
Fair value of warrants - private placement (vii)	-	(44,292)
Shares issued for property interests(iv)	300,000	33,000
Flow-through share tax effect (viii)	-	(446,000)
Balance, December 31, 2010	94,283,930	\$ 14,712,859

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11. CAPITAL STOCK (Continued)

(a) Common Shares (Continued)

(i) On October 5, 2009, the Company completed the first tranche of a non-brokered private placement. The Company issued (a) an aggregate of 3,850,000 flow-through units (the "Flow-Through Units") at a price of \$0.12 per unit for aggregate gross proceeds of \$462,000 and (b) 2,500,000 non-flow-through units at a price of \$0.12 per unit for gross proceeds of \$300,000. Total gross proceeds of these placements were \$762,000.

Both the Flow-Through Units and the non-flow-through units are comprised of one common share of the Company and one warrant. Each warrant was exercisable for one additional common share at a price of \$0.15 per share until October 5, 2010. The fair value of the 6,350,000 warrants was estimated on the date of grant to be \$190,500 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 147%, a risk-free interest rate of 1.18%, and an expected life of one year. On September 27, 2010, the expiry date of the 6,350,000 warrants was extended to April 5, 2011.

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

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

The Flow-Through Units are comprised of one common share of the Company and one share purchase warrant. Each warrant was exercisable for one additional common share at a price of \$0.15 per share until October 18, 2010. The fair value of the 1,766,667 warrants was estimated on the date of grant to be \$53,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 147%, a risk-free interest rate of 1.18%, and an expected life of one year. On September 27, 2010, the expiry date of the 1,766,667 warrants was extended to April 5, 2011.

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

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

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

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

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11. CAPITAL STOCK (Continued)

(a) Common Shares (Continued)

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

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

(ii) On October 6, 2009, Quam exercised its right of conversion pursuant to the bridge facility agreement entered into between the Company and Quam (Note 10). The agreement and amended agreement entitled Quam to convert 2,648,700 preference shares of SEI into an aggregate of 3,555,555 common shares in the capital of the Company (Note 14). As a result of the conversion, the Company's interest in SEI increased from 87% to 94.5%. The 3,555,555 common shares were valued at \$126,548 based upon the market price on the date of issue.

(iii) During the year ended December 31, 2009, the Company issued 1,799,009 common shares to pay the US\$75,000 royalty payment due on its Nevada SBD Project (Note 9(v)). The 1,799,009 common shares were valued at \$95,330 based upon the market price on the date of issue.

On November 22, 2009, the Company issued 335,000 common shares to the vendors of the Atikokan Project as described in Note 9(viii). The 335,000 common shares were valued at \$67,000 based upon the market price on the date of issue.

(iv) 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 9 (viii)).

(v) In November and December 2010, an aggregate of 3,950,000 share purchase warrants (Note 11(a)(i)) were exercised for total proceeds of \$592,500.

(vi) 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.

(vii) 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.

(viii) In February 2010, the Company renounced \$1,439,000 of Canadian exploration expenditures with an effective date of December 31, 2009 related to proceeds from the issue of flow-through shares. As a result, an amount of \$446,000 was debited to capital stock, decreasing the future income tax asset by this amount.

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11. CAPITAL STOCK (Continued)

(b) Stock Options

The Company, under its shareholder approved stock-option plan, has granted options for the purchase of common shares to employees, directors, officers and other service providers. The aggregate number of common shares reserved for issuance under this plan is limited to 10% of the aggregate number of common shares outstanding. 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 30th 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 years ended December 31, 2010 and 2009 is as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, December 31, 2008	5,445,000	0.26
Granted (i)	885,000	0.10
Granted (ii)	350,000	0.10
Expired	(450,000)	0.27
Outstanding, December 31, 2009	6,230,000	0.23
Granted (iii)	1,735,000	0.11
Exercised (Note 11 (a)(vi))	(250,000)	0.10
Expired	(700,000)	0.19
Outstanding, December 31, 2010	7,015,000	0.20

- (i) On July 3, 2009, the Company granted a total of 885,000 stock options to directors, officers and consultants of the Company vesting immediately. The options are exercisable at a price of \$0.10 per share and expire on July 3, 2014. The fair value of the 885,000 options was estimated as \$40,980 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 107%, a risk-free interest rate of 2.5% and an expected average life of 5 years. \$40,980 was recorded as stock-based compensation in 2009 for the options vested.
- (ii) On September 3, 2009, the Company granted a total of 350,000 stock options to its consultants. These options entitle the holders to purchase common shares of the Company at a price of \$0.10 per share and expire on September 3, 2014. 250,000 options vested immediately, and 100,000 options vest quarterly over 12 months. As of December 31, 2009, 275,000 of the options had vested. The fair value of the 350,000 options was estimated as \$25,060 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 107%, a risk-free interest rate of 2.57% and an expected average life of 5 years. In 2009, the 275,000 vested options were recorded as stock-based compensation of \$19,690. During the year ended December 31, 2010, the remaining 75,000 of the options vested and the fair value of \$5,370 was recorded as stock-based compensation.
- (iii) On May 20, 2010, the Company granted a total of 1,485,000 stock options to its directors, officers, employees and consultants vesting 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 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.

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11. CAPITAL STOCK (Continued)

(b) Stock Options (continued)

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.

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

Number of Options	Black-Scholes Valuation (\$)	Exercise Price (\$)	Expiry Date
100,000	19,400	0.26	January 12, 2011*
825,000	196,658	0.31	April 21, 2011 *
510,000	31,200	0.21	July 7, 2011
150,000	20,426	0.14	October 25, 2011
50,000	9,050	0.24	March 29, 2012
850,000	164,900	0.25	April 30, 2012
575,000	188,025	0.395	June 25, 2012
200,000	67,860	0.44	July 25, 2012
175,000	40,239	0.30	August 14, 2012
150,000	35,264	0.36	November 12, 2012
50,000	8,400	0.21	February 15, 2013
100,000	16,800	0.21	February 20, 2013
560,000	30,500	0.10	August 13, 2011
885,000	40,980	0.10	July 3, 2014
100,000	12,530	0.10	September 3, 2014
1,485,000	108,000	0.10	May 20, 2015
250,000	32,435	0.17	October 25, 2015
7,015,000	1,022,667	0.20	

* These options expired unexercised subsequent to year end.

As at December 31, 2010 and 2009, 7,015,000 and 6,115,000 options were exercisable with a weighted average remaining life of 2.20 and 2.46 years respectively.

The weighted average exercise prices of the exercisable options as at December 31, 2010 and 2009 were \$0.20 and \$0.23 respectively. The weighted average grant date fair values of the options granted during the years ended December 31, 2010 and 2009 were \$0.08 and \$0.05 respectively.

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11. CAPITAL STOCK (Continued)

(c) Warrants

A summary of the warrant activity for the years ended December 31, 2010 and 2009 is as follows:

	Number of Warrants #	Weighted Average Exercise Price \$
Balance, December 31, 2008	4,200,000	0.38
Issued (Note 11(a)(i))	17,739,167	0.17
Expired	(4,200,000)	0.38
Balance, December 31, 2009	17,739,167	0.17
Granted (Note 11(a)(vii))	1,000,000	0.40
Exercised (Note 11(a)(v))	(3,950,000)	0.15
Expired	(98,333)	0.15
Balance, December 31, 2010	14,690,834	0.20

The weighted average grant date fair value of the warrants issued during the year is \$0.04 (2009 - \$0.05). As at December 31, 2010, the Company had the following warrants outstanding:

Black-Scholes Valuation	Number of Warrants	Exercise Price(\$)	Expiry Date
\$ 262,172	4,166,667	0.15	April 5, 2011 *
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
44,292	1,000,000	0.40	June 1, 2012
\$ 900,898	14,690,834		

* 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 (Note 11(a) (i)) 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. The remaining 4,166,667 warrants were exercised subsequent to year end (Note 19(d)).

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12. INCOME TAXES

(a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the Canadian federal statutory rate of approximately 31% (2009 - 33%) are as follows:

	2010	2009
Loss before income taxes	(2,664,202)	(4,241,907)
Expected income tax benefit based on statutory rates	(826,000)	(1,400,000)
Adjustments to benefit resulting from:		
Share issue costs	-	(63,000)
Stock-based compensation	45,000	13,000
Extension of warrants	83,000	-
Expiring non-capital losses	47,000	-
Write-down of properties	32,000	839,000
Changes in tax rates	136,000	86,000
Other	402,000	(54,000)
Change in valuation allowance	81,000	133,000
Future tax recovery	-	(446,000)

(b) Future income tax balances

	2010	2009
Future tax assets (liabilities)		
Properties and equipment	(933,000)	680,000
Investments	63,000	-
Share issue costs and other	129,000	176,000
Non-capital losses	1,476,000	932,000
Valuation allowance	(1,574,000)	(1,493,000)
	(839,000)	295,000
Net future income tax asset consists of the following:		
Future income tax asset –(Canada)	-	446,000
Future income tax liability – long-term (China)	(839,000)	(151,000)
	(839,000)	295,000

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12. INCOME TAXES (Continued)

(c) Tax loss carry-forwards

The Company has approximately \$5,473,000 of resource expenditures which, under certain circumstances, may be utilized to reduce Canadian taxable income of future years.

As at December 31, 2010, the Company has approximately \$4,354,000 of non-capital losses in Canada and \$2,086,000 (RMB13,824,000) of non-capital losses in China, which can be used to reduce taxable income of future years. These losses expire as follows:

Year of expiry	Canada	China
2011	\$ -	\$ 69,000
2012	-	223,000
2013	-	242,000
2014	274,000	847,000
2015	356,000	705,000
2026	400,000	-
2027	458,000	-
2028	317,000	-
2029	1,490,000	-
2030	1,059,000	-
	\$ 4,354,000	\$ 2,086,000

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, professional fees relating to the Company's capitalized exploration projects of \$116,800 (2009 – \$72,000) were paid to a director who is also the President of the Company. Also, \$89,880 (2009 – \$54,000) in management and consultant fees was paid to another director. The related parties were also reimbursed for out-of-pocket expenses relating to the business of the Company.

Management fees of \$18,710 (2009 – \$19,420) were paid to an officer of the Company.

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.

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

14. NON-CONTROLLING INTEREST

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

On December 31, 2008, the stock options described above were fully exercised for total consideration of \$13 and demand loan of US\$87,500 (\$87,028) included in the balance sheet as "Due from shareholders" of the subsidiary.

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14. NON-CONTROLLING INTEREST (Continued)

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

As of December 31, 2010, the non-controlling interest representing the value of the 1,750,000 SEI shares described above, valued at \$163,030, was reduced to \$92,111 by its share of the net loss of SEI.

15. COMMITMENTS AND CONTINGENCIES

(a) Pursuant to the acquisition of Huajun and 306 Mine as described in Note 4, the Company signed an agreement to purchase 85% of the shares of Huajun for a cash consideration of RMB 22,000,000 (\$3,319,800). The payment terms are as follows:

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

RMB 8,800,000 due 10 business days after the government approval of the Company's acquisition of 85% of Huajun; (paid in 2009)

RMB 4,400,000 due 10 business days after the new comprehensive mining licenses for 306 Mine granted to Huajun;

RMB 4,400,000 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.

See also Note 9 for the Company's commitments related to various mineral properties acquisitions and expenditures.

(b) 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.

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16. SEGMENTED INFORMATION

	2010	2009
EQUIPMENT AND PROPERTIES		
Canada	\$ 1,950,218	\$ 1,174,396
United States	1,301,484	1,218,997
China	3,673,329	3,352,758
Mexico	915,777	915,777
Other	194,110	186,897
	\$ 8,034,918	\$ 6,848,825
REVENUES		
Canada, drilling service income	\$ 185,000	\$ 297,000
China	97,481	-
	\$ 282,481	\$ 297,000

During the year ended December 31, 2010, all revenues in China were derived from a single customer from the sale of germanium concentrate and coal.

During the year ended December 31, 2010, the Company had two significant customers in Canada (2009 – three) that represented 99% of drilling service income (2009 – 100%).

17. 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 years ended December 31, 2010 and 2009. 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.

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18. INTEREST IN JOINT VENTURE

The Company is party to a 70% joint venture interest in the ARCN Project (Note 9(ii)). The Company is the operator of this joint venture. The Company's proportionate share of the assets, liabilities and cash flows of this joint venture included in these consolidated financial statements are as follows:

	2010 \$	2009 \$
Current assets	35,175	78,466
Equipment	2,431	1,522
Exploration properties and deferred exploration expenditures	1,251,344	1,157,248
Current liabilities	(135)	(156)
Revenues	-	-
Expenses	-	-
Cash flows from operating activities	-	-
Cash flows from investing activities	(94,984)	(345,392)

19. SUBSEQUENT EVENTS

(a) 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 \$1,514,383 (\$1,477,432) 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, including Guojiaping project and Rentian project, which is under a Memorandum of Understanding signed on November 21, 2010 between the Company and Jiangxi Rentian Mining Co. Ltd. There are currently 32,250,000 shares of VanSpar issued and outstanding, of which 74.2% are now 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.

(b) On March 10, 2011, upon receiving the proceeds of the above financing from Alpha Prime, the Company repaid the outstanding bridge loan by Quam. The \$1,514,383 repayment of principal and interest resulted in the release and discharge of all related covenants and obligations to Quam (see Note 10(i)).

(c) 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 \$1,000,000 on exploration during 2011 to maintain its option to acquire up to a 70% interest in certain mining claims held under options from third parties or wholly owned by the Company in the Atikokan Gold Area, Ontario (see Note 9(viii)).

(d) On March 28, and April 5, 2011 respectively, an aggregate of 4,166,667 share purchase warrants were exercised for total proceeds of \$625,000. Each warrant exercised entitled each holder to one common share of the Company and accordingly, 4,166,667 common shares have been issued from treasury.

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19. SUBSEQUENT EVENTS (Continued)

(e) Debt Reduction and Restructure

On April 17, 2011, the Company restructured the \$1,700,000 long-term debt described in Note 10(ii). 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. In addition, the Company will issue to the Lender, subject to regulatory approval, 1,200,000 one-half share purchase warrants, whereby a full 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.