

# **SPARTON RESOURCES INC.**

## **For the nine month period ended September 30, 2011**

### **Management's Discussion and Analysis dated November 29, 2011**

The following Management Discussion and Analysis ("MD&A") of results of operations and liquidity and capital resources of Sparton Resources Inc. ("Sparton" or the "Company") for the period ended September 30, 2011 should be read in conjunction with the unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2011 and comparative figures for the period ended September 30, 2010, all of which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All currency is shown in Canadian dollars unless otherwise stated.

#### **Forward-Looking Information**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Forward-looking statements include, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of its management with respect to future events and are subject to a variety of inherent risks, uncertainties and other facts which are beyond the Company's control, and could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reasons, except as required by applicable Canadian securities law. Investors and others should carefully consider these and other factors and not place undue reliance on these forward looking statements.

#### **Adoption and implications of IFRS**

The condensed interim consolidated financial statements ("interim financial statements") for the three and nine months ended September 30, 2011 are the Company's financial statements prepared under IFRS. Note 22 to the interim financial statements contains a detailed description and explanation of our conversion to IFRS, including a numerical reconciliation of the amounts reported under Canadian GAAP to IFRS as at our transition date to IFRS of January 1, 2010, as at and for the year ended December 31, 2010 and as at and for the nine months ended September 30, 2010. Throughout this MD&A, we have amended the amounts we previously reported under Canadian GAAP to reflect the impact of adopting IFRS.

#### **General**

During the period ended September 30, 2011, the Company's activities were directed towards a number of operations. These included developing the vanadium and secondary uranium recovery programs in China and germanium concentrate production at the Huajun germanium-coal operation. Production from stockpiled coal commenced in Q1 2011 and was completed early in Q3 2011. \$193,669 in sales of germanium flue dust concentrate were made during the nine months ended September 30, 2011.

On September 26, 2011 the Company executed a Memorandum of Understanding (the "MOU") with Voltaix LLC, ("Voltaix"), a leading U.S. specialty materials producer, for the sale of all germanium production from the Huajun Mine in Yunnan Province, China. Voltaix will provide approximately \$4,129,000 to the Company in a series of advances related to milestones in the development of the Huajun operations. The MOU contemplates deliveries of germanium dioxide (GeO<sub>2</sub>) to Voltaix under a Strategic Supply Agreement (the "SSA") during the life of the new Huajun Mining Licence. As of September 30, 2011 the Company has received US\$100,000 (\$101,970) from Voltaix which is recorded as deferred revenue.

In March of 2011, a joint venture agreement was signed with Osisko Hammond Gold Corporation, the Osisko Mining Corporation operating subsidiary in the Atikokan area of Northern Ontario. A 2011 exploration budget was set at \$1.2 million dollars for the Sparton claims. The Osisko exploration program continued during the Q3 2011 reporting period.

In the nine month period ending September 30, 2011, a Company subsidiary, Edcor Drilling Services Inc. performed contract drilling services for Osisko and reported \$994,142 of income for these services.

The evaluation of the Guojiaping and other nearby vanadium opportunities in Jiangxi China continued in Q3 2011 through the British Virgin Islands registered Company subsidiary, VanSpar Mining Inc.. In addition to Guojiaping, several new vanadium opportunities became available in the Xiushui County area including the Rentian, Dong Du and Da Chun projects and these are currently under evaluation. VanSpar has been mandated as the exclusive consolidator of vanadium projects in the Xiushui area by the local government. Approximately 1,000 metres of drilling was completed on the Quankeng Mining Licence area during Q3 2011 and independent technical reports currently in preparation will compile these results and those from other vanadium projects evaluated in the area. In the period in 2011 the Company's subsidiary VanSpar executed an exclusive option agreement for acquisition of 80% interest in Jiangxi Rentian Mining Co., Ltd. ("Rentian") for \$4.67 million (RMB28.67 million) and has paid \$488,400 (RMB3,000,000) to the other party that was recorded as prepayments as of September 30, 2011.

Sparton's management continued to devote considerable effort to seek new financing to support the advancement of the vanadium and secondary uranium recovery programs, its germanium production operations, and in rationalizing the Company's diverse portfolio of assets. On March 8, 2011 Sparton sold an 18.89% interest in VanSpar to the private investment company Alpha Prime Investments Ltd. for US \$1.514 million dollars. Mr. Adrian Lungan, a senior mining executive, agreed to become the CEO and President of VanSpar. In the third quarter of 2011, approximately 1.3% of VanSpar's total shares were sold by the Company to new investors for total proceeds of \$270,000.

On May 11, 2011 the Company signed an agreement with American Consolidated Minerals Corp. ("AJC") for sale of its interest in the Sierra Rosario Project in Sinaloa Mexico in consideration of receiving a total of \$500,000 in cash, 500,000 shares of AJC and a retained royalty interest in the property. In the three month period ended September 30, 2011 the Company received a total of \$200,000 in cash and 250,000 shares from AJC.

On June 17, 2011, Sparton signed an agreement with Purple Gold Corp. ("PGC") for the sale of a 100% interest in the Company's SBD Project in Nevada in consideration of receipt of \$500,000 in cash, and \$500,000 in value in PGC shares and a retained royalty interest in the property. As of September 30, 2011, the Company has received US\$125,000 from PGC.

Please refer to the Note 11 of the unaudited condensed interim consolidated financial statements for details.

## **Coal / Germanium Operations**

Current objectives are to complete the full 85% Huajun interest acquisition with the finalizing of the new Mining Licence for Huajun, and then resume underground development of the Huajun operations and enhance their profitability by increasing output. The Huajun operation is awaiting a new Mining Licence and is expected to resume production in late Q1, 2012.

## **Secondary Uranium Recovery Program**

The Company progressed in developing its uranium clean-up program in the Lincang Area. In Q3, the CNNC Remote Sensing subsidiary "ARCN" sold to Sparton its 30% interest in the Chinese joint venture company Yunnan Sparton New Environ-Tech Consulting Co. Ltd. ("SNET") which operates the secondary uranium recovery programs in Yunnan which is now 90% owned by Sparton. Sparton also carried the 10% shared costs of its other PRC partner in SNET, Beijing John Hangseng Investment Company ("JHIC").

The Company is currently revising a budget for a bulk test facility for Lincang waste that was prepared in early 2011. All CNNC radioactive materials programs came under security scrutiny after the tsunami related Fukushima power plant problems in Japan and these activities have generally produced positive evaluations. Test programs, such as those of SNET, are not felt to be significantly affected by these security reviews, but some permitting delays are likely to occur.

A new financing initiative was undertaken for the secondary uranium program bulk test and a submission was made to the Yunnan Technology Development Fund to support the proposed bulk test in the Lincang area. The submission was favourably received and the Fund has indicated it is prepared to provide significant financial support to the project, subject to final due diligence.

## **Guojiaping and Xiushui Area Vanadium Projects**

In February 2011, VanSpar Mining Inc. was incorporated as a BVI registered Company subsidiary to develop the vanadium opportunities in China. All the vanadium project interests held by Company subsidiary Sparton Energy Inc., were transferred to VanSpar. The initial vanadium project under evaluation, named Guojiaping, is held in an exploration licence which covers an area of 9.02 sq. km. Past exploration work on this project includes, in total, 7,760 meters of core drilling (in 131 holes), 3,528 cubic metres of trenching, several shallow shafts, and related geological mapping, sampling and analyses.

Team 267 is in the process of revising the Guojiaping Exploration Licence from a multi - metal licence to one specific to vanadium. A NI 43-101 Independent technical report was released for Guojiaping in May 2010 and revised the Chinese figures into a NI 43-101 compliant 'Potential Target' of 139,000 tonnes of V<sub>2</sub>O<sub>5</sub> with potential for expansion.

, Earlier in 2011 the Company signed a memorandum of understanding ("MOU") with the owners of the Rentian Mining Company, which owns a vanadium processing plant in Xiushui County, near Guojiaping. The plant was completed in 2009, experienced technical difficulties, and only operated for a few months before being shut down, in early 2010. The MOU allowed Sparton to review the technical operation and provide recommendations for reactivating the operations. This plant has the capacity to produce 800-1,000 tonnes of V<sub>2</sub>O<sub>5</sub> per year and could be a major asset to the Xiushui project area. During Q3 2011 after initial due diligence studies proved positive, an exclusive option agreement was signed with Rentian for a 90 day period subject to completion of final due diligence and negotiations are continuing.

Three new vanadium projects in the area are also currently under evaluation. The DongDu, DaChun and Quankeng Mining Licence areas are adjacent to or near Guojiaping and are being studied by VanSpar. All of these have modest Chinese standard resources with the exception of Quankeng. VanSpar completed eleven diamond drill holes, totalling approximately 1,000 metres, on the Quankeng property in the Q3 2011 period with results meeting expectations.

All the vanadium deposits in the area appear to be amenable to simple open pit mining with a very low strip ratio. Additional drilling can expand the “resources” in all of these defined deposits relatively easily and bring them to a higher level of reliability.

At current vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) prices of about US\$ 6.75 per pound, management believes this project represents a significant opportunity for the Company.

### **SBD Gold Project Nevada, USA**

In Q3 2011, the Company signed an option purchase agreement with Purple Gold Corp. (“PGC”) for PGC to acquire all of the Company’s interest in the SBD project in Nevada, located near Newmont’s Phoenix Gold Mine. Purple Gold Corp must pay Sparton a total value of US\$ 1.0 million (minimum US\$ 500,000 in cash) in a combination of cash and or free trading shares to complete the acquisition on or before Dec. 15, 2012. Sparton will retain a 1% Net Smelter Return Royalty on production and Purple Gold must spend a minimum of US\$ 750,000 on new exploration to complete the transaction. Please refer to Note 11(ii) to the unaudited condensed interim consolidated financial statements for details. As of September 30, 2011 the Company has received US\$125,000 from PGC.

### **Sierra Rosario Gold Project, Sinaloa, Mexico**

During Q3 2011, Sparton signed a purchase agreement with American Consolidated Minerals Corporation (“AJC”) to sell the Company’s interest in Sierra Rosario in return for cash payments totalling \$500,000 and the issuance of 500,000 AJC shares to the Company. Sparton will also retain Net Smelter Return production royalties for base and precious metals on the AJC share of ownership in the property. AJC will become the Joint Venture partner with International Northair Mines for Sierra Rosario and Northair will be the operator of work programs going forward. The Company has received \$200,000 from AJC and 250,000 shares of AJC, as of September 30, 2011.

### **Canadian Mineral Properties**

#### **Marmion Gold Project, Atikokan Ontario, Osisko Joint Venture**

In 2009, the Company entered into an option agreement to acquire a 100% interest in approximately 6,800 hectares of mineral claims in several claim groups (collectively called “the Marmion Project”), near the town of Atikokan. The Marmion Project straddles Osisko Mining Corporation’s Hammond Reef Project property, which hosts a NI 43-101 compliant inferred resource of 10.62 million ounces of gold. As one of the largest development programs in North America, there are up to 21 drills operating at Hammond Reef.

On November 11, 2010 the Company signed a Letter of Intent (“LOI”) to option its Marmion Project to Osisko. In early 2011 the LOI was converted into an Option and Joint Venture Agreement with Osisko Hammond Reef Gold Ltd. the local operating subsidiary of Osisko Mining Corporation. Under this agreement Osisko will spend an initial \$8 million dollars over a 4 year period to earn a 60% interest in the claims and have an option to spend an additional \$4 million dollars to earn an additional 10% ( for a total

of 70%) in the claims. The agreement provided for Osisko to subscribe to purchase Sparton shares with a total value of \$1 million during the first two years of the option, and for Osisko to expend a minimum of \$1 million on exploration prior to November 11, 2011. In 2010 Osisko subscribed for \$500,000 of shares of the Company, valued at \$0.25 per share.

The planned 2011 exploration program on the Sparton claims began in Q2, 2011 and was budgeted at \$1.2 million. It is being managed by a committee with representatives of Osisko and Sparton and continued through the reporting period.

Drilling by Osisko will initially involve deeper drilling of the gold discoveries made by Sparton.

## **Chebucto Gas**

Sparton holds an estimated 6.5% unitized working interest in the Chebucto natural gas field in the Sable Island area of offshore Nova Scotia part of the Scotia Offshore Energy Project ('SOEP') These include SDL 2286, part of the Chebucto field, in which the Company owns a 12.5 % working interest. Chebucto is located near the existing North Triumph production facilities. The SOEP supplies natural gas into the northeast seaboard areas of the United States and Canada. Sparton has owned the Chebucto interest since 1997.

ExxonMobil began a program in late 2009 to do geological and engineering studies to confirm the resource size and production expectations, design the required facilities, and estimate the capital costs for all of the fields under consideration. As well, certain commercial and regulatory matters needed to be resolved.

There were no material developments with Chebucto during the Q3 2011.

## **Financial Highlights, Expenditures**

Exploration and evaluation assets decreased to \$5,209,038 in the nine month period ended September 30, 2011 from \$5,478,383 as of December 31, 2010, due to proceeds received from sales of the SBD Nevada and the Mexico Sierra Rosario projects. After transition to IFRS, the Company reclassified its interest in the Huajun, 306 Mine producing property from exploration and evaluation assets to property plant and equipment assets. Depletion charges for the nine months in 2011 for the 306 mine property plant and equipment amounted to \$195,786. In transition to IFRS, the Company also wrote off some \$194,110 of other exploration and evaluation assets recognized under Canadian GAAP that do not meet the IFRS criteria for capitalization.

Expenditures of \$164,219 were incurred in the nine months ending September 30, 2011 on the ARCN secondary uranium recovery program (waste ash) in China pending the planned bulk test program, compared to \$94,096 in the same period for the year 2010.. There was a \$196,269 expenditure incurred for the vanadium projects in the nine month period ended September 30, 2011, compared to \$474,165 of expenditures in the 12 months in 2010.

In the period ended September 30, 2011 the Company paid the annual lease and advance royalty payments of US\$75,000 (equal to \$74,000) for the SBD project which is recorded against the royalty liability recognized (in transition to IFRS the Company recognized the royalty liability at initiation and increased the cost of the SBD property by approximately \$284,000 at the Transition Date). During the third quarter of 2011, the Company signed an agreement to sell the SBD project to PGC and has received US\$125,000 from SBD as of September 30, 2011, see Note 11(ii) of the condensed interim consolidated financial statements for the period ended September 30, 2011.

No significant expenditures were incurred by the Company on the Company's Atikokan Project, optioned to Osisko, in the nine month period ended September 30, 2011.

No significant expenditures were incurred at the Mexican Sierra Rosario Project during the first nine months in 2011. During the period the Company received \$200,000 from AJC, 250,000 common shares of AJC, and recorded a receivable of \$330,000 from AJC pursuant to the agreement signed with AJC for the sale of Sierra Rosario.

All the costs of the active projects are carried on the books under exploration and evaluation assets (See Note 11 to the unaudited condensed interim September 30, 2011 consolidated financial statements). All the results of our exploration work were described in the quarterly Management Discussion and Analysis which accompany the unaudited quarterly financial statements and by way of press releases throughout the period. Comparisons of financial results are given for the previous corresponding reporting period. While it is extremely difficult to predict future events, management is hopeful that current projects and overall strategy should allow the Company to finance its continuing production, exploration and development activities.

## **Results of Operations**

### **Nine months ended September 30, 2011**

For the nine month period ended September 30, 2011, the Company's investing activities amounted to a net out-flow of \$365,844 as compared to \$180,564 in the comparable period in 2010. The investing activities in the period in 2011 included \$380,898 used in exploration and evaluations, \$320,243 received from disposal of properties, \$74,102 royalty payment, and \$208,446 additions to plant and equipment.

Cash flow from operating activities showed a net use of cash totalling \$1,021,686 in the first nine months in 2011 versus \$1,033,626 in the corresponding period in 2010. The net loss for the nine month period in 2011 was \$1,187,596 compared to a net loss of \$1,272,295 in the same period in 2010. Mining revenue from the Company's newly consolidated operating operations amounted to \$193,669 in the nine month period in 2011 with corresponding costs of \$246,450 and a gross loss of \$52,781 for the period. This loss reflects costs for significant investments in new safety and electrical equipment at Huajun and the timing of Germanium concentrate sales. The local market for Germanium concentrates in the Huajun operating area decreased in value by approximately 50% through 2010. The local market for concentrate strengthened considerably in early 2011 and prices are now about 70% higher than the 2010 lows. The Company's contract drilling arm, Edcor Drilling Services signed a large long term contract with Osisko which has produced significant revenue of \$994,142 in the nine months ended September 30, 2011, reporting a gross margin of \$122,243. Overall corporate expenses totalled \$1,235,425 in the nine months in 2011, compared to \$1,657,074 in the same period in 2010. Administrative expenses include \$692,642 general and administrative expenses, \$150,919 management and consulting fees, \$221,265 interest expenses, \$19,630 stock based compensation, and other expenses.

In the nine month period ended September 30, 2011 the Company repaid \$2,077,000 of long term debt plus interest. In the second quarter of 2011, the Company disposed of an 18.82% interest in VanSpar and received \$1,477,000 proceeds for the transaction. For details please refer to Note 15 of the unaudited condensed interim consolidated financial statements. In the third quarter of 2011 the Company sold an approximately 1.3% interest in VanSpar to investors for \$270,000. In the nine months in 2011 the Company also issued its shares upon exercise of warrants and options by investors for \$633,000

### **Financial results for the quarter ended September 30, 2011**

The net loss for the three months ended September 30, 2011 was \$270,629 compared to a net loss of \$593,804 in the comparable period in 2010. Mining revenue from the Company's newly consolidated

operations amounted to \$37,880 in the third quarter of 2011 with corresponding costs of \$92,427 and a gross loss of \$54,547 for the three months period. The drilling business reported \$587,083 sales in the three month Q3 period, and costs of \$438,729. Overall corporate expenses totalled \$347,273 in the third quarter compared to \$428,049 in the third quarter of 2010.

### Quarterly Information

The following table sets out selected quarterly financial information of Sparton and is derived from unaudited quarterly financial statements prepared by management:

	Sept. 30, 2011	June 30, 2011	Mar 31, 2011	Dec. 31, 2010	Sep.30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2009*
Operating Revenue (\$)	624,963	108,000	48,000	97,000	0.00	0.00	0.00	0.00
Total Net Loss (\$)	270,629	293,000	624,000	1,658,000	409,000	530,000	156,000	3,204,000
Basic and Diluted Loss Per Share (\$)	0.00	0.00	0.01	0.03	0.00	0.01	0.00	0.06

\*The quarterly financial information has not been adjusted for the adoption of IFRS and is presented under Canadian GAAP.

### Liquidity and Financial Condition

As at September 30, 2011, Sparton had current assets of \$2,379,863 versus \$1,760,221 at the year-end 2010. Cash equivalents and short term investments totalled \$705,021 compared to \$1,158,897 at the end of 2010. Accounts receivable increased to \$809,474 from \$216,789 at the end of the previous year, and inventory of \$149,537 was recorded at September 30, 2011. Equipment assets were \$2,698,310 at September 30, 2011 compared to \$2,519,347 at December 31, 2010. Current liabilities totalled \$2,653,158 at September 30, 2011, compared to \$3,487,308 at 2010 year-end. Included in the current liability is the \$1,238,940 loan that is due July 16, 2012, and a \$559,800 loan advance from a related party.

Minority interests representing carrying value of the share interest held by minority shareholders in Sparton's subsidiary companies was \$188,630 as at September 30, 2011 compared to \$129,490 at 2010 year end. The increase was due to the increase in the non-controlling interest in VanSpar.

### Outstanding Share Data

Sparton's authorized capital consists of an unlimited number of common shares without par value. As at September 30, 2011, there were 98,755,597 common shares issued and outstanding. The following options and share purchase warrants were also outstanding:

Options – 5,550,000 at a weighted average exercise price of \$0.18.

Share Purchase Warrants – 11,124,167 at a weighted average exercise price of \$0.21.

## Related Party Transactions

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

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

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

In Q3, 2011, as a consequence of the transfer of vanadium assets to VanSpar from Company subsidiary Sparton Energy Inc., VanSpar issued 450,000 common shares to the president of the Company for consideration of \$1 USD, 400,000 common shares to a director of the Company for \$1 USD, 1,400,000 common shares to certain officers and employees of the Company for \$1 USD. 40,000 of the Company shares of VanSpar were sold to a director of the Company for \$20,000. These shares, in total, represent 2,290,000 common shares of VanSpar or approximately 7% of the total outstanding shares of VanSpar as at September 30, 2011. See Note 15 of the condensed interim consolidated financial statements for more details.

. A subsidiary of the Company, VanSpar, obtained a Loan of 3 million RMB (approximately USD\$461,538) and an Advance of USD\$1 million from a related party who is a director of VanSpar. Terms of the Loan include 6% annual interest and the option of the lender to convert the outstanding balance into VanSpar shares at US\$0.25. The Advance is repayable without interest and US\$440,200 remains outstanding as of October 21, 2011.

Funds have been set aside for the repayment of the Advance and the intention is to repay same as soon as possible.

## New Accounting Policies

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

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

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

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

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

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

### **Critical Accounting Estimates and Judgements:**

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's:

- most critical estimates and assumptions in determining the value of assets and liabilities; and
- most critical judgments in applying accounting policies.

### **Allowance for doubtful accounts and sales adjustments**

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness,

current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. At September 30, 2011, the combined allowances were insignificant.

### ***Mine rehabilitation provision***

The Company assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, and costs. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The Company has recorded no provision at the reporting date which represents management's best estimate of the present value of the future rehabilitation costs required.

### ***Coal ore estimates***

Coal ore estimates represent the amount of ore that can be economically and legally extracted from 306 Mine's mining properties. The Company estimates its coal ore based on information compiled by persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may have impact upon the carrying value of the assets, mine properties, property, plant and equipment, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

### ***Exploration and evaluation expenditure***

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of the recoverability of the expenditures is an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

### ***Impairment of assets***

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the

asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mineral property, which is the lowest level for which cash inflows are largely independent of those of other assets.

### **Income taxes**

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. In interim periods, the income tax provision is based on estimates of full-year earnings by jurisdiction. The average annual effective income tax rates are re-estimated at each interim reporting date. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods. The Company's 2011 effective tax rate is 28.25% of earnings from continuing operations and its subsidiaries in China are subject to a tax rate of 25%. A 1% increase in the effective tax rate would have no material impact on the income statement.

### **Fair value**

Where the fair value of financial assets and financial liabilities and the fair value of stock based payments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model and stock options and warrants valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments on the discounted cash flow model include considerations of inputs such as liquidity risk, credit risk and volatility. The judgments on the measurement of stock options and warrants valuation include dividends, life of the instruments, volatility and vesting of options. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the equity instruments.

### **Inventory**

In determining the net realizable of inventory the Company needs to estimate the saleability of the inventory, the price of commodity, and the costs to sell. Changes in assumptions about these factors could affect the reported fair value of inventory.

## **Useful lives of property, plant and equipment**

The Company estimates the useful lives of property, plant and equipment at the end of each reporting period. The results will impact the depreciation costs recorded in the period and future periods.

## **Uncertain tax positions**

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, the relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## **Risk Factors**

The Company's major oil and gas properties and mineral properties are the offshore Nova Scotia Chebucto natural gas SDL, the nearby North Triumph SDL, Huajun's 306 Mine, the SNET China secondary uranium recovery joint venture with Team 209, the VanSpar vanadium projects in China, the Atikokan Ontario Marmion Gold Project - Osisko Joint Venture, and residual production royalty interests in the Nevada SBD and Mexico sierra Rosario properties. . Unless the Company acquires or develops additional mineral 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.

Please refer to the Note 4 to the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2011 for discussions on the financial instruments the Company holds, and the risk factors and analysis.

## **Off Balance Sheet Arrangements**

The Company has not entered into any off-balance sheet arrangements.

## **Corporate Governance and Management's Responsibility for Financial Statements**

Management of the Company is responsible for the preparation and presentation of the annual and interim consolidated financial statements and notes thereto and the accompanying MD&A and other information contained therein. Additionally, it is management's responsibility to ensure the company complies with the laws and regulations applicable to its activities.

The Company's management is accountable to the Board of Directors ("Directors"), each member of which is elected annually by the shareholders of the Company.

Responsibility for the reviewing and approving of the Company's annual audited and quarterly unaudited interim consolidated financial statements and related MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, all of whom are independent of management

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

All relevant information related to the Company is filed electronically at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.spartonres.ca](http://www.spartonres.ca), [www.spartonenergy.com](http://www.spartonenergy.com), and [www.vanspar.com](http://www.vanspar.com).

### **Outlook**

Subject to financing, the Company plans to complete the acquisition of the 85% interest in Huajun Mining, once the new mining licence is issued, (expected in Q4 2011) and further develop the profitable germanium and thermal coal producing operations of that company under the terms of the Voltaix agreement. The demand and pricing structure for germanium metal and concentrates is expected to strengthen in the near term and has stood up well under past and current economic conditions. Sparton's evaluation of the operation after assuming operating and financial responsibility in early September 2009 indicates significant room for upgrades to increase profitability with an underground development program to access new reserves and implementation of process controls to increase germanium recovery efficiencies.

The producing asset base at Huajun is expected to provide modest cash flow to Sparton through its subsidiary YBB by Q3 2012 and will dovetail into the uranium recovery program from waste coal ash in the same area. By early 2012, subject to financing, it is expected to begin a bulk extraction test program on the extraction of uranium from Lincang area waste ash followed by completion of a scoping or prefeasibility level study. This will lead to final feasibility work by the end of 2012. Test work on other ash deposits, mine tailings and low grade waste ore deposits will proceed on an ongoing basis.

The new opportunities to acquire and develop the large Xiushui County vanadium deposits in Jiangxi province, China and the evaluation of the local refinery fits directly into the Company's business plan to become a profitable specialty metal producer and bring new value to the shareholders through its subsidiaries.

New financing initiatives to support all of these activities are being pursued by Company management on an ongoing basis.

Management is in the process of restructuring the diverse asset base of Sparton in order to realize the inherent value of each of its projects for its shareholders and focus on its core specialty metals businesses. New investors and strategic partners will be sought as part of this plan to rationalize the various components of the Company's portfolio. The recent agreements to monetize the SBD Nevada and Sierra Rosario Mexico Projects while retaining potentially valuable production royalties are part of this program (See Subsequent Events below).

### **Subsequent Events**

(a) Subsequent to September 30, 2011, 150,000 options and 224,167 share purchase warrants of the Company expired unexercised.

(b) Subsequent to September 30, 2011, the Company executed two amendment agreements with Osisko Hammond Gold related to the Joint Venture Option Agreement with Osisko and the Edcor Drilling Services contract.

Under the drilling contract amendment, Edcor received a \$1,000,000 cash advance from Osisko for drilling services to be provided to Osisko. The advances are to be repaid by crediting Osisko against invoices for drilling services over the life of the drill contract. The amendment to the Joint Venture and Option Agreement with Osisko cancelled the requirement for Osisko to subscribe to \$500,000 worth of common shares of the Company, as described in Note 11(iv), and extended time frame for Osisko to meet its expenditure obligations under the Joint Venture and Option Agreement, by 120 days, from November 11, 2011 and each subsequent annual expenditure program until calendar year end.

(c) Subsequent to September 30, 2011 the Company repaid \$900,000 of the principal of the 'New Loan' totalling \$1,300,000 described in Note 12(ii) of the Q3 unaudited condensed interim financial statements.

(d) The Company is investigating whether it is entitled to participate in the compensation received by a third party company relating to the Blizzard uranium project, which was expropriated by the British Columbia Government..e) Subsidiary company SNET has signed a letter of intent with Lafarge Shui On (Beijing) Technical Services Co. a subsidiary of Lafarge Cement the world leader in building materials. The agreement relates to the evaluation and recycling of waste coal ash for use in Lafarge's cement manufacturing operations in China after removal of radioactive material in SNET's secondary uranium recovery programs.