

# SPARTON

## 2016

ENERGY STORAGE AND SPECIALTY METALS



UNIQUE OPPORTUNITIES IN A CHANGING WORLD

**THIRD QUARTER – 2016**

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

**UNAUDITED INTERIM  
CONSOLIDATED FINANCIAL  
STATEMENTS**

*SPARTON RESOURCES INC.*

# **SPARTON RESOURCES INC.**

## **For the period ended September 30, 2016**

### **Management's Discussion and Analysis dated November 28, 2016**

The following discussion and analysis of results of operations of Sparton Resources Inc. ("Sparton" or the "Company") and its subsidiaries for the period ended September 30, 2016 should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended September 30, 2016 and the audited consolidated financial statements of the Company for the year ended December 31, 2015 and the MD&A for the year 2015, all of which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with IAS 34, Interim Financial Reporting. All currency is shown in Canadian dollars unless otherwise stated. The Company's active subsidiaries are comprised of (i) Sparton International Holdings Inc. (100% owned) ("SIH") (ii) VanSpar Mining Inc. (89.8% owned by SIH) ("VanSpar"), both of which are registered in the British Virgin Islands, (iii) Jiujiang Sparton Vanadium Tech and Trade Company ("JJ Sparton") (90% owned by VanSpar), registered in China as its operating subsidiary and (iv) Edcor Drilling Services Inc. (100% owned) ("EDCOR"), registered in Ontario, Canada.

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

This Management's Discussion and Analysis ("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.

#### **General**

The Company continues to seek financing for its various vanadium related projects and evaluate other opportunities related to the mineral exploration and vertically integrated energy storage industry activities.

On August 28, 2015, the Company's subsidiary, JJ Sparton, executed an Agreement for Services with a PRC-based private company (the "Client") to fund the commissioning one of the world's largest vanadium flow batteries. Pursuant to the Agreement, JJ Sparton was to provide funding to complete all work as planned under the Agreement. According to the Agreement, once the commissioning work was completed, the test protocol successfully carried out, certain reports submitted, and the owner of the battery, namely the State Grid North China Company Ltd. ("SG"), approved the completion of commissioning, a payment which was expected to be up to RMB16.44 million (\$3,503,364) would become payable by SG to JJ Sparton's Client, and 3 payments of up to RMB5.48 million (\$1,116,788) would be paid by SG to JJ Sparton's Client on each annual anniversary after the completion date of the commissioning under a maintenance protocol for the battery. These payments would be net of expenses incurred by the Client, and net of some liabilities of the Client before determining the amount of money left for paying JJ Sparton. The commissioning work

was completed and SG, accepted the battery on February 22, 2016, and paid in June 2016 RMB15.265 million (\$3,022,000) to JJ Sparton's Client. After certain payments were deducted pursuant to a court approval process for the Client's liabilities, \$556,238 (RMB2,734,700) was paid to JJ Sparton in the period in 2016.

See the "Events after the Reporting Period" section below for recent events regarding the funding of VanSpar in connection with its acquisition of JD Holding Inc. ("JDH") which, if successfully completed, would result in the Company receiving US\$605,000 for working capital for its mineral exploration activities and retaining approximately 18% of JDH.

In addition, management is continuing to pursue other initiatives intended to address the current working capital deficiency and reduce operating overheads.

### **Contract Drilling Business**

Revenue and expenses relating to one of the drill units owned by the Company's EDCOR subsidiary is shared with Eva Lake Mining Ltd., an aboriginal Metis service company, based in Atikokan Ontario.

For the nine months ended September 30, 2016, the Company reported \$nil drilling revenue (2015 - \$91,875 with a gross margin of \$15,889).

The Company is actively seeking new clients and new service contracts for EDCOR.

### **Diamond Exploration Claims, Quebec**

In late 2015 and early 2016, the Company, jointly with an independent consultant (as to 50% ownership each), staked a number of mineral claims (29) totaling 1,388 hectares in the Wemindji diamond exploration area of Northern Quebec. Due to intense competition in the online staking of a number of these claims a random draw was held by the Quebec Ministry of Natural Resources to establish which competitor in the staking would be awarded the claims. The Company and Consultant were awarded all of the disputed claims. On May 19, 2016, the Company executed an agreement with Honey Badger Exploration Inc. where under Sparton sold its 50 % interest in these claims for a total consideration of \$5,000 cash and 1,000,000 common shares of Honey Badger. The Company and the Consultant will each retain a 1% Net Smelter Return Royalty on any mineral production from these claims. These royalties can be purchased at any time for a total of \$1,000,000, each. Final closing of the transaction is complete and the Honey Badger shares have been received.

### **Mexico Mineral Property Royalties**

In 2011, the Company signed a sale and purchase agreement with American Consolidated Minerals Corporation ("AJC") to sell Sparton's full interest in the Sierra Rosario Mexico precious metal property in return for cash payments totalling \$560,000 and the issuance of 500,000 AJC shares to the Company with half of the payment received in 2011 and the balance in 2012. In August 2014, AJC was acquired by Starcore International Mines Ltd., a base and precious metals producer in Mexico. Starcore now owns a 100% interest in Sierra Rosario. Sparton retains Net Smelter Return ("NSR") production royalties for base and precious metals as follows:

- i) 3% NSR on a 50% share of Base Metal Production
- ii) 2% NSR on a 50% share of Gold Production
- iii) 1.5% NSR on a 50% share of Silver Production

## **VanSpar and Xiushui, Jiangxi Vanadium projects**

In 2011, VanSpar was mandated as the exclusive consolidator of vanadium projects in the Xiushui area by the local government. The evaluation of the several nearby vanadium opportunities in Jiangxi Province, China continued through 2012 by VanSpar and its local operating subsidiary, JJ Spartron. The vanadium opportunities evaluated included the Guojiaping, Rentian, Dong Du and Da Chun projects. All of 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” of these defined deposits relatively easily and bring them to a higher level of reliability.

In 2011, the Company prepaid \$484,800 (RMB 3 million) for the acquisition of the Rentian Mining Company assets, including the Quankeng Mining Licence and its vanadium production plant infrastructure. In 2012, the Company took legal action against Rentian for falsifying due diligence information about its assets in order to recover the prepayment. A positive court judgment against Rentian in favour of the Company was received in the third quarter of 2012. See Note 9 to the December 31, 2015 audited consolidated financial statements. On the basis of the court judgment, the Company is now a secured creditor of Rentian and will seek to resolve the collection for the payment as the project moves forward.

VanSpar also entered into a Preliminary Agreement for the purchase of an 89% interest in the Dong Du licence, subject to positive due diligence studies. VanSpar had not concluded final agreements for the acquisition of any of the vanadium properties as of September 30, 2016.

Vanadium prices have dropped somewhat from previous highs due to softer steel markets, but at current vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) prices, of about US\$4.00 per pound, for standard grade material, management believes that the Dong Du project represents a significant opportunity with strong growth potential for the Company and strategic investors or partners. High purity V<sub>2</sub>O<sub>5</sub> sells for substantially higher prices and is the quality of material which would be produced from the Xiushui deposits. Investigations are continuing for other vanadium acquisitions in the general Xiushui project area. Discussions are continuing with interested parties for senior VanSpar financing. As various international economies recover, vanadium prices and demand are expected to recover to pre-recession levels.

Very significant new vanadium demand in the vanadium flow battery industry continues to develop with several new large installations for renewable energy storage commissioned and operating successfully. VanSpar has developed relationships with battery manufacturers with the objective of securing off-take agreements for high purity vanadium products necessary for manufacturing these types of batteries, and believes that the unique properties of the Xiushui area deposits make them ideal for low cost and high quality vanadium product production. Company management has continued to seek investment partners to acquire and develop the Xiushui deposits. It has developing relationships with organizations in the vanadium related energy storage industry as battery manufacturers that could be end product users for its vanadium product production. The recently announced transaction for the financing of VanSpar for its acquisition of JDH is the culmination of these efforts. See the section entitled “Events after the Reporting Period” below.

## **Vanadium Flow Battery Commissioning Program**

The opportunity for VanSpar to enter into a contract to fund the commissioning one of the world’s largest vanadium redox flow batteries (“VRB”) arose through a past relationship with the battery manufacturer as a possible client for vanadium product sales from the Xiushui deposits. This battery is located in Hebei Province, China, approximately 180 km north of downtown Beijing, where the battery was installed for the PRC North State Grid Company (“SG” or “State Grid”) as part of the Zhangbei renewable energy and storage program. The Zhangbei Project is in proximity to the site of the Beijing 2022 Winter Olympics, near Zhangjiakou, in Hebei Province, China. It is the world’s largest renewable energy utilization platform, integrating wind power, solar power, energy storage, and smart grid transmission technologies. Clean power generated by this project will be integrated into north China’s energy grid operated by State Grid.

As China's largest wind and solar energy electricity generation and storage installation, it supports the storage and release of clean electricity into the power grid in an efficient and controlled manner. The project was jointly launched in May 2010 by the Ministry of Finance, the Ministry of Science and Technology, the National Energy Bureau, and State Grid. It is a key component of China's Golden Sun Photo Voltaic Solar Pilot Project. It currently includes 500 megawatts of wind power and 100 megawatts of solar power, with 110 megawatts of energy storage capacity, and covers a total land area of 200 square kilometers. Expansion plans for both electricity generation from wind and solar sources and additional energy storage capacity have been recently announced. With a total investment of 12 billion RMB (approximately US\$1.8 billion), upon completion, it will be China's largest grid integration photo voltaic solar power generation station and its largest land-based wind farm in unit capacity, as well as the world's largest chemical energy storage station.

The project represents state of art installations for all its various components and will integrate the world's largest number of different operational technologies in a single new energy project. JJ Sparton has the commissioning contract with the builder of the battery.

On August 28, 2015, the Company's subsidiary, JJ Sparton (owned 90% by VanSpar), executed an agreement for services with a PRC-based private company relating to the commissioning of the Zhangbei Project's 8 megawatt hour vanadium flow battery. Pursuant to the agreement, JJ Sparton was to provide funding to complete all of the work specified in the agreement. Funds raised by VanSpar had been advanced to JJ Sparton.

Prior to December 31, 2015, JJ Sparton incurred \$307,144 (RMB1,510,047) in commissioning costs. In the period in 2016, \$176,542 in additional costs were incurred. In 2015, the commissioning work was completed. The test protocol was then successfully carried out. Test reports were submitted in early 2016, and the owner of the battery, SG, accepted and acknowledged that the battery met design criteria. A payment, RMB15.265 million (\$3,022,000), was paid in June 2016 by SG to JJ Sparton's client. After certain deductions relating to pre-existing client liabilities were approved under a court supervised process and paid, the balance of RMB 2,734,700 (\$556,238) was paid by the client to JJ Sparton in the second quarter of 2016. The agreement for services also provides for 3 additional maintenance payments of up to RMB5.48 million (\$1,116,788) each, on each anniversary after the completion of the battery commissioning.

## **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. This is part of the Scotia Offshore Energy Project ("SOEP")

These include SDL 2286, part of the Chebucto gas 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.

There were no other new developments with Chebucto during the year 2015 and the period in 2016. In 2013, the Company has re-assessed the value of the oil and gas properties and concluded an impairment of \$553,914 and written down the value of the properties to \$1 due to the continuing low price of natural gas.

## **Financial Highlights, Expenditures**

Total expenditures of \$nil (2015 - \$nil) were incurred in the period ended September 30, 2016 on the Company's exploration and evaluation assets.

As at September 30, 2016, active projects were the VanSpar vanadium resource development program in Jiangxi China and the SGCC Battery maintenance subcontract. The Company evaluated several base and precious metal project opportunities during the Quarter.

On successful completion of the VanSpar funding and acquisition of a minority interest in JDH, the Company anticipates having a substantially improved working capital position to enable it to continue to pursue its mineral exploration activities.

## **Results of Operations**

### **For the nine months ended September 30, 2016 and 2015**

For the nine-month period ended September 30, 2016, the Company's investing activities had a cash out-flow of \$39,176 (2015 - \$nil).

Cash flow from operating activities showed a net cash out-flow totalling \$12,997 (2015 – in-flow of \$14,346) in the period ended September 30, 2016. The net loss for the period in 2016 was \$157,359 compared to a loss of \$343,067 for the comparable period in 2015. The decreased net loss reported in the period was mainly due to the amount received from the battery commissioning project. The Company's contract drilling subsidiary, EDCOR, recorded revenue of \$nil in the period in 2016 (2015 - \$91,875 and a cost of drilling of \$75,986). Operating expenses net of other income totalled \$157,359 in the period in 2016 (2015 - \$358,960). Main operating expenses include \$226,379 (2015 - \$106,620) for general and administrative expenses, \$176,542 (2015 - \$nil) for battery commissioning costs, \$205,700 (2015 - \$163,982) for management and consulting fees, \$48,927 (2015 - \$29,206) for professional fees, \$17,254 (2015 - \$11,813) interest, financing costs, bank charges, and other expenses of \$44,862 (2015 - \$38,430). In the period, the Company's subsidiary, JJ Sparton, received \$556,238 (RMB2,734,700) from the battery commissioning project, of which \$483,685 was recorded as expenses recovery and the balance of \$72,553 recorded as other income.

During the period in 2016, the Company reported a total cash from financing activities of \$99,010 (2015 – \$30,000). Of those financing activities, \$30,000 (2015 - \$nil) was raised from the issuance of convertible debentures by VanSpar, \$59,010 (RMB300,000) (2015 - \$nil) was subscriptions received for convertible debentures of VanSpar to be issued, and \$10,000 (2015 - \$nil) was a loan from a director of the Company. In the period in 2016 \$nil was paid for the short term loan (2015 - \$48,000).

During the first nine months in 2016, the Company purchased equipment at a cost of \$39,176 (2015 - \$nil).

### **For the three months ended September 30, 2016 and 2015**

The net loss for the three months ended September 30, 2016 was \$268,942 compared to a loss of \$68,720 in the comparable period in 2015. The net loss reported in the period was mainly due to the increased administration expenses. Operating expenses totalled \$268,942 in the three-month period ended September 30, 2016 (2015 - \$68,720). Main operating expenses include \$163,366 (2015 - \$28,774) for general and administrative expenses, \$68,390 (2015 - \$27,182) for management and consulting fees, \$20,774 for professional fees, and interest, financing costs and bank charges of \$5,862 (2015 - \$6,303), and other expenses.

## Quarterly Information

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

	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	September 30, 2015	Mar. 31, 2015	Dec. 31, 2014
Operating Revenue (\$)	-	-	-	-	-	-	91,875	33,600
Total Net Loss (income)	268,942	(289,733)	178,150	364,914	68,720	163,983	110,364	(260,424)
Basic and Diluted Loss Per Share (\$)	0.00	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00

## Liquidity and Financial Condition

As at September 30, 2016, Sparton had a liquidity concern. It had current assets of \$97,527 (December 31, 2015 - \$48,871), and a working capital deficit of \$1,638,527 (December 31, 2015 - \$1,388,058). Cash and marketable securities totalled \$86,245 (December 31, 2015 - \$40,841). Trade and other receivables were \$10,286 (December 31, 2015 - \$8,030). Property, plant and equipment assets were \$67,072 at September 30, 2016 (December 31, 2015 - \$51,605). Oil and gas properties were written down to \$1. Exploration and evaluation assets were valued at \$nil. Current liabilities totalled \$1,736,054 at September 30, 2016 (December 31, 2015 - \$1,436,929). Included in the current liability were \$369,418 (December 31, 2015 - \$374,709) in accounts payable and accrued liabilities, \$609,010 (December 31, 2015 - \$520,000) of short-term debts, and \$757,626 (December 31, 2015 - \$542,220) due to related parties.

In the nine-month period ended September 30, 2016, the Company's subsidiary, VanSpar, issued \$30,000 in convertible debentures (2015 - \$78,000) that have a term of 12 months, bear interest at an annual rate of 10% and are convertible into common shares of VanSpar at US\$0.17 per share at the option of the debenture holders. The convertible feature does not qualify as an equity and, as such, would be classified as a liability; however the fair value of the conversion feature has been valued at a nominal amount and has therefore not been separated from the debenture. The Black Scholes model was used to assess the value of the convertible feature using a range of inputs to assess the sensitivity; all outcomes were nominal.

During the reporting period in 2016, JJ Sparton received \$59,010 (RMB300,000) as a loan from an investor to support the SGCC1 battery commissioning program. This may be converted into debentures of VanSpar, depending on closing of the transaction described below in 'Events After the Reporting Period'.

Minority interests representing carrying value of the share interest held by minority shareholders in Sparton's subsidiary companies was a deficit of \$87,016 as at September 30, 2016 (December 31, 2015 - \$87,016).

## Capital Management:

The Company is not subject to any capital requirements by a lending institution or regulatory body, other than the TSX Venture Exchange ("TSX-V") which requires adequate working capital or financial resources of the greater of a) \$50,000 and b) the amount required to maintain operations and cover general and administrative expenses for a period of 6 months. As of August 29, 2016, the Company may not be

compliant with the policies of the TSX-V. The impact of this violation is not known and is ultimately dependent upon the discretion of the TSX-V.

## Outstanding Share Data

Sparton's authorized capital consists of an unlimited number of common shares without par value. As at November 29, 2016 and the date of this MD&A, there were 111,375,460 common shares issued and outstanding.

As of November 29, 2016, there are no share options outstanding for the Company or its subsidiaries.

## Related Party Transactions

The Company's related parties consist of the following:

Related parties	Relationship
A. Lee Barker	CEO and President; minority shareholder of VanSpar
Qiming Ge	Former director; minority shareholder of VanSpar
Richard D. Williams	Director; minority shareholder of VanSpar
David Brian Long	Director, minority shareholder of VanSpar
Oriental Sources Inc.	A company controlled by the Company's CFO

	September 30, 2016	December 31, 2015
Due to related parties	\$	\$
Advances from Lee Barker (i)	6,099	6,837
Promissory notes and interests payable to directors (ii)	27,557	16,114
Due to Qiming Ge (iii)	117,352	49,816
Consulting fees payable to Oriental Sources Inc. (iii)	197,850	152,650
Consulting fees and rent payable to Lee Barker (iii)	408,768	316,803
Total	757,626	542,220

- (i) Mr. Barker the President of the Company made advances to the Company that bear no interest, are unsecured and due on demand. As at September 30, 2016 the balance was \$6,099 (December 31, 2015 - \$6,837).
- (ii) In September 2013, former directors, Edward Thompson and Wesley Roberts, and current director, Richard Williams, each provided a \$4,300 loan to the Company in the form of promissory notes for a total of \$12,900, which bear interest at an annual rate of 10%, are unsecured, and are due on demand. In the nine-month period under review, Richard Williams provided an additional \$10,000 loan to the Company at the same terms. A total of \$4,657 in interest was accrued as at September 30, 2016 (December 31, 2015 - \$3,214).
- (iii) Senior management and directors have not been paid for the past 2 years, except as disclosed herein. During the nine-month period ended September 30, 2016, billings for management and consulting fees of \$76,500 (2015 - \$76,500) were received by the Company from a director who is also the President of the Company. \$13,500 (2015 - \$13,500), rent expenses were accrued for property owned by the President. Such management and consulting fees and rent were accrued but no cash was paid in the periods. \$408,768 was payable to the President as at September 30, 2016 (December 31, 2014 - \$316,803). \$45,510 (2015 - \$45,000) in management and consultant fees were billed to the Company by Charles Ge. \$117,352 was payable as at September 30, 2016 (December 31, 2015 - \$49,816) to Charles Ge. The Company was also billed \$45,000 plus HST (2015 - \$45,000) by a company controlled by the CFO of the Company for consulting fees which were recorded as management and consulting fees on the unaudited condensed interim

consolidated income statement. \$197,850 was payable as at September 30, 2016 (December 31, 2015 - \$152,650) to the company controlled by the CFO of the Company.

- (iv) The President of the Company, who is also a director, subscribed for \$8,000 VanSpar convertible debentures in 2015 as described in Note 7(b).

The compensation expense associated with key management and directors for employment services or similar during the nine-month periods in 2016 and 2015 are as the follows:

	2016	2015
Salaries, consultant fees and other benefits	\$ 166,500	\$ 166,500
Directors' fees	-	-
	\$ 166,500	\$ 166,500

### **New accounting policies:**

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures were amended by the IASB in September 2014 to eliminate an inconsistency between IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Subsequent to the amendments, a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company's consolidated financial statements.

IFRS 11 Joint Arrangements was amended by the IASB in May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company's consolidated financial statements.

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company's consolidated financial statements.

### **Standards issued but not yet effective:**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory at certain dates or later. Management is still assessing the effects of the pronouncements on the Company. The standards impacted that may be applicable to the Company are the following:

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element

arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The new standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

### **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.

Please refer to Note 3 to the December 31, 2015 audited consolidated financial statements for the critical accounting estimates and judgements used by management for the financial statements.

### **Financial instruments and risk factors**

The Company's current major projects are the Chebucto, offshore Nova Scotia, natural gas license, the nearby North Triumph license, and the VanSpar vanadium deposit development and battery commissioning projects in China. Unless the Company acquires or develops additional project, the Company will be mainly dependent upon these projects. The Company subsidiary VanSpar's vanadium program in China may lead to acquisitions of vanadium related resource licenses there. If no additional major mineral related assets are acquired by the Company, any adverse development affecting these assets would have a material adverse effect on the Company's financial condition and results of operations.

The Company's current focus on the vanadium project development and battery commissioning project indicates if there is adverse development on this projects it may adversely affect the future operation of the Company and its ability to meet its obligations and liabilities. Other risk factors and the impact on the Company's financial instruments are summarized in the Note 4 to the December 31, 2015 audited consolidated financial statements. There have been no changes in the risks, objectives, policies and

procedures from the previous year. Please refer to the Note 4 to the December 31, 2015 audited consolidated financial statements of the Company for the 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 that 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 consolidated financial statements and related MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, two of whom are independent of management.

The unaudited condensed interim 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).

### **Outlook**

The opportunities by VanSpar 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 develop mining operations and become a profitable specialty metal producer, thereby bringing new value to its shareholders through its direct operations and those of its subsidiaries. At the present time, however, this opportunity is difficult to move forward with the weakness in commodity markets and availability of risk capital for this sector. Connections with end product users of vanadium products in the flow battery manufacturing industry have, however, provided the opportunity to become involved in activities which are vertically integrated with the Company's mining objectives - namely through the battery commissioning project with a vanadium redox battery manufacturer and potential acquisition of an interest in the manufacturer.

One of the challenges for clean electricity (wind and solar) is storage. The energy storage industry has become a significant growth business with installations of clean electricity generation systems around the world. China has been particularly aggressive in this program with its movement to reduce pollution from its fossil fuel power plants. The best solution for power storage and grid distribution on a large scale appears to be the vanadium redox battery. Through Sparton's ongoing interest in vanadium, the Company's subsidiaries have been provided with the opportunity to be a participant in this exciting nascent global market. Various initiatives in this sector are being studied by management. The opportunity to commission the large Vanadium flow battery owned by the State Grid North China ("SG") at the Zhangbei project has

been a significant development and has led to additional new transaction opportunities vertically integrated with the mining objectives of the Company and its subsidiaries.

These opportunities arose out of the Company's activities in pursuing vanadium exploration and mining opportunities in China. Mineral exploration and mining objectives continue to be the focus of the Company's long-term plans as well as the ongoing search for other resource opportunities.

New financing initiatives to support all of these activities are being pursued by Company management on an ongoing basis. In a depressed market for junior resource companies, Sparton has instituted significant cost cutting measures and is actively seeking new clients for its drilling subsidiary, Edcor, as a source of revenue. New project opportunities are becoming available as competitors struggle to raise financing and these are also being evaluated.

### **Events after the Reporting Period**

- The Company recently announced that on August 8, 2016, its 89.8% owned subsidiary, VanSpar, signed a Share Purchase Agreement (the "**SPA**") dated as of May 18, 2016, to acquire all of the shares of JD Holding Inc. ("**JDH**"), a Cayman Islands corporation, for US\$ 3.3 million. JDH is the parent company for a group of currently inactive companies engaged in the manufacturing of vanadium redox battery ("VRB") systems.

On August 8, 2016, Sparton's 100% owned subsidiary, Sparton International Holdings Inc. ("**SIH**"), which currently owns 89.8% of VanSpar, and VanSpar also signed a Share Acquisition and Subscription Agreement (the "**Financing Agreement**") with a private investment corporation for the financing of the JDH acquisition, which will result in the private investment corporation coming to own approximately 82% of VanSpar.

On September 27, 2016, the Company announced that the above transaction to for the financing of the JDH acquisition had been restructured.

Under the terms of a new Share Acquisition Agreement (the "**SAA**") between a private investment corporation and VanSpar, the private investment corporation will directly fund the acquisition of the shares of JDH for US\$ 3.3 million (the "**Funding Transaction**"), pursuant to an existing share purchase agreement between VanSpar and JDH and its security holders.

In consideration for the private investment corporation funding the acquisition cost together with a further US\$2,000,000 for working capital and US\$605,000 to be paid to VanSpar, VanSpar will cause 82% of the JDH shares to be transferred to the private investment corporation, with the remaining 18% being retained by VanSpar (the "**JDH Transaction**"). The Share Acquisition and Subscription Agreement announced on August 8th, 2016 have been terminated.

The restructured transaction was subject to regulatory, board and shareholder approvals, and as well as other conditions common in transactions of this nature. Those approvals have now been received and the JDH Transaction and the Funding Transaction are expected to be closed by the end of November, 2016.

The JDH Transaction will be fully financed by the private investment corporation, which will provide the purchase price funding of US\$ 3.3 million payable to the current security holders of JDH, with payment of at least US\$1,650,000 on closing. The balance of the purchase price may be reduced by up to US\$300,000 for financial obligations or liabilities of the JDH subsidiaries within six months after closing. The net balance of the purchase price will be paid to the current JDH security holders six months after closing.

The JDH Transaction also requires a minimum US\$2.0 million investment within 20 business days after closing, to provide working capital to reactivate the JDH subsidiaries' operations. These funds will also be subsequently invested by the private investment corporation.

The private investment corporation will also assume full managerial and administrative responsibility for JDH and its subsidiaries' battery manufacturing and marketing operations.

VanSpar's role going forward will be the exploration, assessment and possible development of any vanadium related resources identified as possible sources of raw material for the manufacturing of VRB battery systems by JDH.

In addition, under the terms of the restructured transaction, in the event that JDH or its affiliates acquire certain vanadium assets in China within 5 years after closing, VanSpar will receive a finder's fee equal to 5% of the value of the acquired assets, up to a maximum of US\$250,000.

### Special Shareholder Meeting

The TSX Venture Exchange requested that the Company hold a Special Meeting of Shareholders to obtain Shareholder approval for 1) the Company entering into the SGCC1 battery commissioning project, 2) the transactions involving the JDH financing, the acquisition of a minority investment interest in JDH, and 3) the Company to continue as a mineral exploration and development company.

The Special Meeting of Shareholders was held on November 3<sup>rd</sup> 2016 and 99.9 percent of the shares voted were in favour of these three resolutions tabled.

### New Director

At a Company Board of Directors Meeting held after the Special Meeting of Shareholders, Mr. George Wesley Roberts was appointed as a director of the Company.

Sparton welcomes Wes Roberts back onto its Board of Directors and looks forward to his input in the Company affairs going forward.

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**SPARTON RESOURCES INC.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian dollars)**

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**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

**SPARTON RESOURCES INC.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the nine months ended September 30, 2016 and 2015**  
**(Expressed in Canadian dollars)**

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# SPARTON RESOURCES INC.

## Unaudited Condensed Interim Consolidated Statements of Financial Position

As at

(Expressed in Canadian dollars)

	Notes	September 30, 2016	December 31, 2015
<b>Assets</b>			
Current assets			
Cash		83,020	36,183
Amounts receivable		10,286	8,030
Marketable securities		3,225	4,658
Prepaid expenses and other current assets		996	-
Total current assets		97,527	48,871
Property, plant and equipment		67,072	51,605
Oil and gas properties		1	1
Total assets		164,600	100,477

# SPARTON RESOURCES INC.

## Unaudited Condensed Interim Consolidated Statements of Financial Position As at

(Expressed in Canadian dollars)

	Notes	September 30, 2016	December 31, 2015
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		369,418	374,709
Due to related parties	9	757,626	542,220
Short term debts	7	609,010	520,000
<b>Total liabilities</b>		<b>1,736,054</b>	<b>1,436,929</b>
<b>Equity</b>			
Common shares	8(a)	17,416,183	17,416,183
Share-based payment reserve	8 (b)	-	102,000
Accumulated other comprehensive income (loss)		(73,663)	3,980
Deficit		(18,826,958)	(18,771,599)
Equity attributable to shareholders		(1,484,438)	(1,249,436)
Non-controlling interests		(87,016)	(87,016)
<b>Total equity</b>		<b>(1,571,454)</b>	<b>(1,336,452)</b>
<b>Total liabilities and equity</b>		<b>164,600</b>	<b>100,477</b>

Going concern (Note 1)

Commitments and contingencies (Note 10)

Events after the reporting period (Note 13)

Signed: "Richard Williams", Director

Signed: "A. Lee Barker", Director

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# SPARTON RESOURCES INC.

## Unaudited Condensed Interim Consolidated Statement of Income (Loss) For the three and nine months ended September 30, 2016 and 2015

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

	Notes	3 months ended Septembr 30, 2016	3 months ended Septembr 30, 2015	9 months ended Septembr 30, 2016	9 months ended Septembr 30, 2015
		\$	\$	\$	\$
Drilling revenue		-	-	-	91,875
Drilling costs		-	-	-	(75,982)
Gross margin		-	-	-	15,893
<b>Expenses</b>					
General and administrative expenses	9	163,366	28,774	226,379	106,620
Investor relations		2,724	4,136	11,178	13,116
Management and consultant fees	9	68,390	27,182	205,700	163,982
Professional fees		20,774	(6,768)	48,927	29,206
Occupancy costs		4,500	4,500	13,500	13,500
Transfer agent, filing and listing fees		2,718	1,605	20,184	11,814
Interest expense and financing costs		5,862	6,303	17,254	18,920
Battery commission costs	5	-	-	176,542	-
Foreign exchange loss		-	3,028	-	1,625
Battery commission costs recovery	5	-	-	(483,685)	-
Other income	5	-	-	(72,553)	-
Gain on disposal of assets		-	-	(5,000)	-
Investment (gain) loss		608	(40)	(1,067)	177
		268,942	68,720	157,359	358,960
<b>Net income (loss)</b>		<b>(268,942)</b>	<b>(68,720)</b>	<b>(157,359)</b>	<b>(343,067)</b>
Basic and diluted loss per share		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of shares outstanding					
Basic and diluted		111,375,460	111,375,460	111,375,460	111,375,460
Net income (Loss) attributed to					
Non-controlling interests		-	-	-	(2,447)
Shareholders of the Company		(268,942)	(68,720)	(157,359)	(340,620)
		(268,942)	(68,720)	(157,359)	(343,067)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# SPARTON RESOURCES INC.

## Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

Notes	3 months ended Septembr 30, 2016	3 months ended Septembr 30, 2015	9 months ended Septembr 30, 2016	9 months ended Septembr 30, 2015
	\$	\$	\$	\$
Net income (loss) for the period	(268,942)	(68,720)	(157,359)	(343,067)
Other comprehensive income (loss)				
Gain (loss) on translation of foreign operations	(65,281)	3,551	(77,643)	11,890
	<u>(334,223)</u>	<u>(65,169)</u>	<u>(235,002)</u>	<u>(331,177)</u>
Comprehensive income (loss) attributed to				
Non-controlling interests	-	(776)	-	(3,223)
Shareholders of the Company	<u>(334,223)</u>	<u>(64,393)</u>	<u>(235,002)</u>	<u>(327,954)</u>
	<u>(334,223)</u>	<u>(65,169)</u>	<u>(235,002)</u>	<u>(331,177)</u>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# SPARTON RESOURCES INC.

## Unaudited Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars, except shares)

	Shares	Common shares Amount	Share-based payment reserve	Accumulated other comprehensive (loss)	Deficit	Subtotal shareholders' equity	Non-controlling interests	Total equity
		\$	\$	\$	\$	\$	\$	\$
<b>Balance at January 1, 2015</b>	<b>111,375,460</b>	<b>17,398,858</b>	<b>287,999</b>	<b>9,301</b>	<b>(18,280,415)</b>	<b>(584,257)</b>	<b>(56,218)</b>	<b>(640,475)</b>
Net loss for the period	-	-	-	-	(340,620)	(340,620)	(2,447)	(343,067)
Expiry of options	-	-	(153,564)	-	153,564	-	-	-
Translation of foreign operations	-	-	-	11,890	-	11,890	-	11,890
<b>Balance at September 30, 2015</b>	<b>111,375,460</b>	<b>17,398,858</b>	<b>134,435</b>	<b>21,191</b>	<b>(18,467,471)</b>	<b>(912,987)</b>	<b>(58,665)</b>	<b>(971,652)</b>
Net loss for the period	-	-	-	-	(336,563)	(336,563)	(28,351)	(364,914)
Expiry of options	-	-	(32,435)	-	32,435	-	-	-
Translation of foreign operations	-	-	-	(17,211)	-	(17,211)	-	(17,211)
Legal settlement	-	17,325	-	-	-	17,325	-	17,325
<b>Balance at December 31, 2015</b>	<b>111,375,460</b>	<b>17,416,183</b>	<b>102,000</b>	<b>3,980</b>	<b>(18,771,599)</b>	<b>(1,249,436)</b>	<b>(87,016)</b>	<b>(1,336,452)</b>
Net loss for the period	-	-	-	-	(157,359)	(157,359)	-	(157,359)
Expiry of options	-	-	(102,000)	-	102,000	-	-	-
Translation of foreign operations	-	-	-	(77,643)	-	(77,643)	-	(77,643)
<b>Balance at September 30, 2016</b>	<b>111,375,460</b>	<b>17,416,183</b>	<b>-</b>	<b>(73,663)</b>	<b>(18,826,958)</b>	<b>(1,484,438)</b>	<b>(87,016)</b>	<b>(1,571,454)</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Unaudited Condensed Interim Consolidated Statements of Cash Flows  
For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

Notes	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
<b>Operating activities</b>		
Net income (loss)	(157,359)	(343,067)
Items not involving cash		
Amortization of property, plant and equipment	10,491	13,131
Accrued interest expense	17,254	12,000
Foreign exchange (gain) loss	-	1,625
(Gain) loss on investment	(1,967)	177
	(131,581)	(316,134)
Changes in non-cash working capital	118,584	330,498
	(12,997)	14,364
<b>Investing activities</b>		
Purchase of property, plant and equipment	(39,176)	-
	(39,176)	-
<b>Financing activities</b>		
Proceeds from related party	9	10,000
Proceeds from short term loans	7	89,010
Payment of short term loan	-	(48,000)
	99,010	30,000
(Decrease) in cash	46,837	44,364
Cash, beginning of period	36,183	15,406
<b>Cash, end of period</b>	<b>83,020</b>	<b>59,770</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Sparton Resources Inc. (the "Company" or "Sparton") was incorporated in Ontario, Canada, pursuant to the Business Corporation Act (Ontario). Its common shares are listed on the TSX Venture Exchange ("TSX-V"). The Company's registered head office address is 81A Front Street East, Unit 216, Toronto, Ontario, M5E 1Z7. It is an exploration and development stage company, and has interests in exploration and evaluation properties in Canada and China.

In 2015 and the period in 2016, the Company pursued an agreement to fund the commissioning of vanadium redox flow batteries. The majority of the Company's efforts were devoted to financing exploration for a number of resource projects, seeking new business for the drilling operation and fulfilling the obligations under the vanadium redox flow battery commissioning agreement.

Currently the Company has limited activity on its exploration projects. The Company continues to evaluate and seek new domestic and international exploration opportunities.

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

Management is pursuing initiatives intended to address the current working capital deficiency. As at September 30, 2016, the Company had a working capital deficiency of \$1,638,527 (December 31, 2015 - \$1,388,058) and a deficit of \$18,826,958 (December 31, 2015 - \$18,771,599). Due to the continuing operating losses, the Company's ability to continue as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Management believes it will be successful in obtaining the necessary funding to continue operations in the normal course of operations; however, there is no assurance that these funds will be available on terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt on the company's ability to continue as a going concern.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance:**

These unaudited condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB"), and the IFRS Interpretations Committee (formerly "IFRIC"). They were also prepared in accordance with IAS34, Interim Financial Reporting. These accounting policies are based on the IFRS standards and IFRIC interpretations that are expected to be applicable at December 31, 2016. These unaudited condensed interim consolidated financial statements were approved by the board of directors of the Company on November 29, 2016.

The policies used for preparation of these unaudited interim condensed consolidated financial statements were the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2015 and were consistently applied to all the periods presented unless otherwise noted below. They do not include all of the information and disclosures required for annual financial statements. For further information, see the Company's audited consolidated financial statements for the year ended December 31, 2015.

These unaudited condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Consolidation:**

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

Entity	Incorporation	Ownership	
		September 30, 2016	December 31, 2015
EDCOR Drilling Services Inc.	Canada	100.00%	100.00%
Sparton International Holdings Inc.	BVI	100.00%	100.00%
VanSpar Mining Inc.	BVI	89.80%	90.42%
Jiujiang Sparton Vanadium Tech & Trading Co., Ltd.	PRC	80.82%	81.38%
China VanSpar Limited	Hong Kong	89.80%	90.42%

As at September 30, 2016 and December 31, 2015, the Company wholly owned EDCOR Drilling Services Inc. (“EDCOR”) and Sparton International Holdings Inc. (“SIH”). SIH owned an 89.8% (December 31, 2015 – 90.42%) interest in VanSpar Mining Inc. (“VanSpar”); Jiujiang Sparton Vanadium Tech & Trade Co., Ltd. (“JJ Sparton”) is 90% owned by VanSpar and China VanSpar Limited registered in Hong Kong is wholly owned by VanSpar.

Subsidiaries are entities over which the Company has control, where control is determined based on whether the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully Unaudited Condensed Interim Consolidated when control is transferred to the Company, and become Unaudited Condensed Interim Consolidated when control ceases.

Intercompany transactions and balances between subsidiaries are eliminated upon consolidation.

The Company has assessed the nature of its joint arrangement and determined it to be classified as a joint operation. The Company’s subsidiary EDCOR has a joint operation with a joint operation partner.

IFRS 11 “Joint Arrangements” requires an entity to consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the parties are entitled to the net assets of the joint arrangement (a “joint venture”) or to a share of the assets and liabilities of the joint arrangement (a “joint operation”). Joint ventures are accounted for using the equity method, whereas joint operations are accounted for by recognizing the parties’ right to the assets and obligations for the liabilities.

**New Accounting Policies**

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures were amended by the IASB in September 2014 to eliminate an inconsistency between IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Subsequent to the amendments, a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company’s consolidated financial statements.

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Accounting Policies (continued)**

IFRS 11 Joint Arrangements was amended by the IASB in May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company's consolidated financial statements.

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The new standard is effective for annual periods beginning on or after January 1, 2016. The application of the standard has no impact on the Company's consolidated financial statements.

**Standards Issued But Not Yet Effective:**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory at certain dates or later. Management is still assessing the effects of the pronouncements on the Company. The standards impacted that may be applicable to the Company are the following:

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The new standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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.

The critical accounting estimates and judgements used for preparation of these unaudited interim condensed consolidated financial statements were the same as the audited consolidated financial statements of the Company for the year ended December 31, 2015.

**4. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT**

**Financial Instruments**

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The carrying amounts of financial assets and liabilities as of September 30, 2016 and December 31, 2015 were as follows:

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

**4. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (Continued)**

September 30, 2016	Loans and receivables	Assets (liabilities) at fair value through earnings	Other financial liabilities	Total
	\$	\$	\$	\$
Cash	83,020	-	-	83,020
Trade and other receivables	10,286	-	-	10,286
Marketable securities (level 1)	-	3,225	-	3,225
Accounts payable and accrued liabilities	-	-	(369,418)	(369,418)
Short term debts	-	-	(609,010)	(609,010)
Due to related parties	-	-	(757,626)	(757,626)
	93,306	3,225	(1,736,054)	(1,639,523)

December 31, 2015	Loans and receivables	Assets (liabilities) at fair value through earnings	Other financial liabilities	Total
	\$	\$	\$	\$
Cash	36,183	-	-	36,183
Trade and other receivables	8,030	-	-	8,030
Marketable securities (level 1)	-	4,658	-	4,658
Accounts payable and accrued liabilities	-	-	(374,709)	(374,709)
Short term debts	-	-	(520,000)	(520,000)
Due to related parties	-	-	(555,817)	(555,817)
	44,213	4,658	(1,450,526)	(1,401,655)

There was no reclassification of financial assets in 2016 or 2015.

The fair value of cash, trade and other receivables, accounts payable and accrued liabilities, and due to related parties approximate their carrying value because of the short term maturity of these instruments. The fair value of the marketable securities is based on the market-quoted fair value of the instruments.

The short term debts and the due to related parties are interest-bearing loans and borrowings valued at amortized cost using the effective interest rates of the loans. Due to the short-term nature of these loans, fair value is equal to the amortized costs.

Please refer to note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2015 for risk factors and the impact on the Company's financial instruments. There have been no changes in the risks, objectives, policies and procedures from the previous period.

**SPARTON RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the periods ended September 30, 2016 and 2015**  
**(Unless otherwise stated, all amounts are in Canadian dollars)**

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**5. FLOW BATTERY COMMISSION EXPENDITURES**

On August 28, 2015 the Company's subsidiary JJ Sparton signed and executed an agreement for services ("AFS") with a PRC based private company (the Client) relating to the commissioning of a vanadium redox flow battery. Pursuant to the Agreement, JJ Sparton was to provide funding to complete all work specified in the agreement. The commissioning work was completed and the owner of the battery, the State Grid North China Company Ltd. ("SG") accepted the battery on February 22, 2016, and paid in June 2016 RMB15.265 million (\$3,022,000) to JJ Sparton's Client. After certain payments were deducted by a court for the Client's liabilities, \$556,238 (RMB2,734,700) was paid to JJ Sparton in the period in 2016.

JJ Sparton had incurred \$307,144 (RMB1,510,047) before December 31, 2015 in commissioning costs, and \$176,542 (RMB867,953) in the period in 2016. The \$556,238 (RMB 2,734,700) received by JJ Sparton in June 2016 was recorded as \$483,685 expenses recovery and \$72,553 other income in the consolidated statement of Income.

In 2015 as the exact amount of the client's liability deductions were unknown, and the amounts payable at each step of the process were undetermined, and therefore the recoverability of the expenditures was uncertain, all the incurred costs were written off. These deductions will be credited back to the Company should it complete the acquisition of the client at a future date.

The AFS also provides for continued maintenance of the battery for three years and three additional payments of up to RMB5.48 million (\$1,117,000) each, on every anniversary after the completion of the commissioning.,.

**6. CONTINGENT ASSETS**

**Jiangxi, China**

During the period ended June 30, 2011, VanSpar executed an exclusive option agreement for acquisition of 80% interest in Jiangxi Rentian Mining Co., Ltd. ("Rentian") for \$4.67 million (RMB28.67 million). In 2011, VanSpar paid RMB 3,000,000 as an advance payment towards the acquisition that was recorded as \$484,800 in 2011, as prepayments for the acquisition of assets. As at September 30, 2016 and December 31, 2015, the acquisition of the above mentioned Rentian vanadium project was not completed. In 2012, the Company took action against Rentian to recover the prepayments and has provided a provision and written down the balance to \$nil in 2013. The action resulted in VanSpar being awarded a court ordered judgment of RMB3 million (\$594,000).

**Mineral Claims, Canada**

In late 2015 and early 2016 the Company, jointly with an independent consultant (as to 50% ownership each) staked a number of mineral claims (29) totalling 1388 hectares in the Wemindji diamond exploration area of Northern Quebec. Due to intense competition in the online staking of a number of these claims a random draw was held by the Quebec Ministry of Natural Resources to establish which competitor in the staking would be awarded the claims. The Company and consultant were awarded all of the disputed claims. On May 19, 2016 the Company executed an agreement with Honey Badger Exploration Inc. where under it sold its 50 % interest in these claims for a total consideration of \$5,000 cash and 1,000,000 common shares of Honey Badger (with a market value of \$25,000). The Company and the Consultant will each retain a 1% Net Smelter Return Royalty on any mineral production from these claims. These royalties can be purchased at any time for a total of \$1,000, 000 each. Honey Badger has received all necessary regulatory, and other required approvals and final closing of the transaction has taken place. The Honey Badger shares have been received by the Company.

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**7. SHORT-TERM DEBTS**

- (a) As at September 30, 2016 there was a short term loan of \$352,000 (December 31, 2015 - \$352,000) bearing an annual interest of 6% payable on a quarterly basis in arrears, unsecured, and due on demand. Included in accounts payable and accrued liabilities is \$79,996 (December 31, 2015 - \$64,185) interest payable accrued for this loan.
- (b) In 2015 the Company's subsidiary VanSpar issued convertible debentures in a total of \$168,000 to 8 investors. In the nine months in 2016 VanSpar issued \$30,000 additional convertible debentures to 3 investors. The debentures have a term of 12 months from date of issuance, bear an annual interest of 10%, are unsecured, and the unpaid principal and interest may be converted into common shares of VanSpar at a price of US\$0.17 per share. The convertible feature does not qualify for classification as equity and as such would be classified as a liability, however the fair value of the conversion feature has been valued at a nominal amount has therefore not been separated from the debenture. The Black Scholes model was used to assess the value of the convertible feature using a range of inputs to assess the sensitivity, all outcomes were nominal.

A director and president of the Company subscribed for \$8,000 of the convertible debentures in 2015.

- (c) In the period in 2016 an investor advanced to the Company \$59,010 (RMB300,000) for possible subscription of the debentures of VanSpar that has not been closed. The advance is interest free, unsecured, and due on demand.

**8. CAPITAL STOCK**

**(a) Common Shares**

Authorized:

Unlimited common shares

Issued:

111,375,460 common shares

**(b) Share-based payment reserve**

The Company, under its shareholder approved stock-option plan, has granted options for the purchase of common shares to employees, directors, officers and other service providers. The aggregate number of common shares reserved for issuance under this plan is limited to 10% of the aggregate number of common shares outstanding. The plan provides that the exercise price of an option granted under the plan shall not be less than the market price at the time of granting the option. Options have a maximum term of 5 years, vest immediately upon issue, unless otherwise stated, and terminate on the 90th day after the optionee ceases to be any of an employee, director or consultant of the Company.

A summary of the stock option activity for the periods are as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, January 1, 2015	5,205,000	0.10
Expired	(5,205,000)	0.10
Outstanding, December 31, 2015 and September 30, 2016	-	-

As at September 30, 2016, the Company had no stock options outstanding

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\*As at December 31, 2015 the Company's subsidiary VanSpar had 550,000 options outstanding, with an exercise price of US\$0.25 and were also recorded in the share-based payment reserve as \$102,000. These options expired unexercised March 22, 2016.

Total share-based payment reserve as at September 30, 2016 was \$nil (December 31, 2015 - \$102,000).

**9. RELATED PARTY TRANSACTIONS**

The Company's related parties consist of the following:

Related parties	Relationship
A. Lee Barker	CEO and President; minority shareholder of VanSpar
Qiming Ge	Former director; minority shareholder of VanSpar
Richard D. Williams	Director; minority shareholder of VanSpar
David Brian Long	Director, minority shareholder of VanSpar
Oriental Sources Inc.	A company controlled by the Company's CFO

	September 30, 2016	December 31, 2015
Due to related parties	\$	\$
Advances from Lee Barker (i)	6,099	6,837
Promissory notes and interests payable to directors (ii)	27,557	16,114
Due to Qiming Ge (iii)	117,352	49,816
Consulting fees payable to Oriental Sources Inc. (iii)	197,850	152,650
Consulting fees and rent payable to Lee Barker (iii)	408,768	316,803
<b>Total</b>	<b>757,626</b>	<b>542,220</b>

- (i) Mr. Barker the President of the Company made advances to the Company that bear no interest, are unsecured and due on demand. As at September 30, 2016 the balance was \$6,099 (December 31, 2015 - \$6,837).
- (ii) In September 2013 former directors Edward Thompson and Wesley Roberts and current director Richard Williams each provided a \$4,300 loan to the Company in the form of promissory notes for a total of \$12,900, that bears an annual interest of 10%, is unsecured, and due on demand. During the Nine months under review in 2016 Richard Williams provided additional \$10,000 loan to the Company at the same terms. A total of \$4,657 in interest was accrued as at September 30, 2016 (December 31, 2015 - \$3,214).
- (iii) Senior management and directors have not been paid for the past 2 years, except as disclosed herein. During the Nine months period in 2016, billings for management and consulting fees of \$76,500 (2015 - \$76,500) were received by the Company from a director who is also the President of the Company. \$13,500 (2015 - \$13,500) rent expenses was accrued for property owned by the President. Such management and consulting fees and rent were accrued but no cash was paid in the periods. \$408,768 was payable to the President as at September 30, 2016 (December 31, 2014 - \$316,803). \$45,510 (2015 - \$45,000) in management and consultant fees were billed to the Company by Charles Ge. \$117,352 was payable as at September 30, 2016 (December 31, 2015 - \$49,816) to Charles Ge. The Company was also billed \$45,000 plus HST (2015 - \$45,000) by a company controlled by the CFO of the Company for consulting fees which were recorded as management and consulting fees on the unaudited condensed interim consolidated income statement. \$187,850 was payable as at September 30, 2016 (December 31, 2015 - \$152,650) to the company controlled by the CFO of the Company.

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**9. RELATED PARTY TRANSACTIONS (Continued)**

(iv) A director and president of the Company subscribed for \$8,000 VanSpar convertible debentures in 2015 as described in Note 7(b).

The compensation expense associated with key management and directors for employment services or similar during the period in 2016 and 2015 are as the follows:

	2016	2015
Salaries, consultant fees and other benefits	\$ 166,500	\$ 166,500
Directors' fees	-	-
	<u>\$ 166,500</u>	<u>\$ 166,500</u>

**10. COMMITMENTS AND CONTINGENCIES**

(a) See Note 6 the Company's potential recovery on the incomplete acquisition of Rentian vanadium project.

(b) The Company's 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.

(c) See Note 5 the Company's commitment on the battery commissioning project.

**11. SEGMENTED INFORMATION**

	September 30, 2016	December 31, 2015
<b>PROPERTY, PLANT AND EQUIPMENT AND OIL AND GAS PROPERTIES</b>		
Canada	\$ 1	\$ 1
China	67,072	51,605
	<u>\$ 67,073</u>	<u>\$ 51,606</u>

**REVENUES**

	9 months ended 2016	September 30, 2015
Canada, drilling service income	\$ -	\$ 91,875

All drilling revenues during the period in 2015 were from one client in Canada.

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**12. CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of common shares, share-based payment reserve, and short-term debts. 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, debentures and debts, and the exercise of stock options, and revenues provided by the drilling business.

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

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

**13. EVENTS AFTER THE REPORTING PERIOD**

- a) On August 16, 2016 the Company announced that on August 8, 2016, its 89.8% owned subsidiary, VanSpar Mining Inc. ("**VanSpar**"), signed a Share Purchase Agreement (the "**SPA**") dated as of May 18, 2016 and effective as of August 8, 2016, to acquire all of the shares of JD Holding Inc. ("**JDH**"), a Cayman Islands corporation, for US\$ 3.3 million. JDH is the parent company for a group of currently inactive companies engaged in the manufacturing of Vanadium Redox Battery ("VRB") systems.

VanSpar and Sparton's 100% owned subsidiary, Sparton International Holdings Inc. ("**SIH**"), have also signed on August 8, 2016, a Share Acquisition and Subscription Agreement (the "**Financing Agreement**") with a private investment corporation for the financing of the JDH acquisition, which will result in the private investment corporation coming to own 82% of VanSpar.

On September 27, 2016, the Company announced that the above announced transaction to acquire JDH had been restructured.

Under the terms of a new Share Acquisition Agreement (the "SAA") between a private investment corporation and VanSpar the Company's 89.8% owned subsidiary, the private investment corporation will directly fund the acquisition of the shares of JDH for US\$ 3.3 million (the "Funding Transaction"), pursuant to an existing share purchase agreement between VanSpar and JDH and its security holders.

In consideration for the private investment corporation funding the acquisition cost together with a further US\$2,000,000 for working capital and US\$605,000 to be paid to VanSpar, VanSpar will cause 82% of the JDH shares to be transferred to the private investment corporation, with the remaining 18% being retained by VanSpar (the "JDH Transaction"). The Share Acquisition and Subscription Agreement announced on August 12, 2016 has been terminated.

The restructured transaction was subject to any necessary regulatory, board and shareholder approvals, and as well as other conditions common in transactions of this nature. These approvals have now been received. The JDH Transaction and the Funding Transaction are expected to be closed by the end of November, 2016.

The JDH Transaction will be fully financed by the private investment corporation, which will provide the purchase price funding of US\$ 3.3 million payable to the current security holders of JDH, with payment of at least US\$1,650,000 on closing. The balance of the purchase price may be reduced by up to US\$300,000 for

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financial obligations or liabilities of the JDH subsidiaries within six months after closing. The net balance of the purchase price will be paid to the current JDH security holders six months after closing.

The JDH Transaction also requires a minimum US\$2.0 million investment within 20 business days after closing, to provide working capital to reactivate the JDH subsidiaries' operations. These funds will also be invested by the private investment corporation.

The private investment corporation will also assume full managerial and administrative responsibility for JDH and its subsidiaries' battery manufacturing and marketing operations.

VanSpar's role going forward will be the exploration, assessment and possible development of any vanadium related resources identified as possible sources of raw material for the manufacturing of VRB battery systems by JDH.

In addition, under the terms of the restructured transaction, in the event that JDH or its affiliates acquire certain vanadium assets in China within 5 years after closing, VanSpar will receive a finder's fee equal to 5% of the value of the acquired assets up to a maximum of US\$250,000.

#### Promissory Note

On October 6 2016 VanSpar executed a 'Grid Promissory Note' ("the Note") in the sum of USD \$75,000 given by the same private investment corporation involved in the JDH and Funding Transactions. These funds are being used to maintain ongoing activities related to the AFS (see 5 above) and other vanadium related activities being conducted by JJSP.

Under the terms of the note the funds are repayable on demand and bear interest at the rate of 8 percent per annum.