

GRYPHON GOLD CORP  
Form 10-Q  
August 14, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Q** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2009**

**OR**

**£** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 333-127635**

**GRYPHON GOLD CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Nevada**

(State of other jurisdiction of incorporation or organization)

**92-0185596**

(I.R.S. Employer Identification No.)

**675 West Hastings Street, Suite 711**

**Vancouver, British Columbia**

(Address of Principal Executive Offices)

**V6B 1N2**

(Zip Code)

**(604) 261-2229**

(Registrant's Telephone Number, including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Q Yes £ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer £

Non-accelerated filer £

Accelerated filer £

Smaller reporting company Q

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)  
Yes £ No Q

Number of common shares outstanding at August 14, 2009: 62,069,565

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## GRYPHON GOLD CORPORATION

June 30, 2009

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**Gryphon Gold Corporation**  
(an exploration stage company)

**CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. dollars)  
(Unaudited)

|  | As at<br>June 30,<br>2009<br>\$ | As at<br>March 31,<br>2009<br>\$ |
|--|---------------------------------|----------------------------------|
| <b>ASSETS</b>                                    |                                 |                                  |
| <b>Current</b>                                   |                                 |                                  |
| Cash   | 627,815                         | 799,517                          |
| Held for trading securities                      | 129,427                         | 80,015                           |
| Accounts receivable                              | 3,886                           | 23,943                           |
| Current portion of note receivable [note 3]      | 10,250                          | -                                |
| Prepaid expenses                                 | 26,675                          | 48,278                           |
| <b>Total Current Assets</b>                      | <b>798,053</b>                  | <b>951,753</b>                   |
| Equipment [note 5]                               | 100,904                         | 117,967                          |
| Mineral properties [note 4, 6 & 9]               | 6,339,590                       | 6,401,929                        |
| Other assets [note 8]                            | 446,679                         | 446,679                          |
| Note receivable [note 3]                         | 10,730                          | -                                |
|  | <b>7,695,956</b>                | <b>7,918,328</b>                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>       |                                 |                                  |
| <b>Current</b>                                   |                                 |                                  |
| Accounts payable and accrued liabilities         | 535,932                         | 451,159                          |
| Canadian dollar warrants [note 2]                | 980                             | -                                |
| Convertible promissory note [note 9]             | 4,907,712                       | 4,782,285                        |
| <b>Total current liabilities</b>                 | <b>5,444,624</b>                | <b>5,233,444</b>                 |
| Commitments & contingencies [note 12]            |                                 |                                  |
| <b>Stockholders' equity</b>                      |                                 |                                  |
| Common stock                                     | 62,070                          | 61,957                           |
| Addition paid-in capital                         | 35,471,666                      | 38,397,746                       |
| Deficit accumulated during the exploration stage | (33,282,404)                    | (35,774,819)                     |
| <b>Total stockholders' equity</b>                | <b>2,251,332</b>                | <b>2,684,884</b>                 |
|  | <b>7,695,956</b>                | <b>7,918,328</b>                 |

*See accompanying notes*

*See Note 1 Nature of Operations and Going Concern Uncertainty*

**Gryphon Gold Corporation**  
**(an exploration stage company)**

**CONSOLIDATED STATEMENT OF OPERATIONS**

(Stated in US dollars)

(Unaudited)

|  | Three<br>months<br>ended<br>June 30,<br>2009<br>\$ | Three<br>months<br>ended<br>June 30,<br>2008<br>\$ | Period from<br>April 24,<br>2003<br>(inception) to<br>June 30, 2009<br>\$ |
|--|--|--|---|
| Exploration [note 7]   | 277,453  | 686,668  | 15,524,713  |
| Management salaries and consulting fees [note 10[c] & 11]              | 95,764   | 328,026  | 8,776,319   |
| General and administrative   | 56,342   | 149,072  | 3,296,081   |
| Legal and audit  | 23,107   | 89,090   | 1,704,936   |
| Travel and accommodation   | 4,914  | 27,935   | 1,030,573   |
| Depreciation & amortization  | 11,153   | 16,882   | 219,955   |
| Loss (gain) on disposal of equipment                                   | (18,928)   | (820)  | 5,624   |
| Loss (gain) on disposal of mineral properties                          | (42,761)   | -  | 259,515   |
| Foreign exchange (gain) loss   | (1,475)  | (5,513)  | 21,891  |
| Change in liability of warrants  | (86,220)   | -  | (2,974,351)   |
| Lease revenue  | -  | -  | (23,598)  |
| Interest income  | (114)  | (16,042)   | (739,561)   |
| Interest expense   | 135,843  | 130,169  | 982,582   |
| Impairment of carrying value of exploration properties [note 4]        | -  | -  | 5,100,000   |
| Loss for the period before the undernoted items                        | 455,078  | 1,405,467  | 33,184,679  |
| Unrealized (gain) loss on securities                                   | (72,846)   | 33,439   | (53,830)  |
| Realized loss on sale of securities                                    | 13,484   | -  | 151,555   |
| <b>Net loss for the period</b>   | <b>(395,716)</b>                                   | <b>(1,438,906)</b>                                 | <b>(33,282,404)</b>   |
| Basic and diluted loss per share                                       | (0.01)   | (0.02)   |   |
| Basic and diluted weighted average number of common shares outstanding | 62,070,815   | 61,759,206   |   |

See accompanying notes

**Gryphon Gold Corporation**  
(an exploration stage company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
(Stated in US dollars)  
(Unaudited)

|  | Common stock      |               | Additional<br>paid-in<br>capital | Deficit<br>accumulated<br>during the<br>exploration<br>stage | Total             |
|--|-------------------|---------------|----------------------------------|--|-------------------|
|  | Shares<br>#       | Amount<br>\$  | \$                               | \$   | \$                |
| <b>Balance, inception April 24, 2003</b>                                 |                   |               |                                  |  |                   |
| Shares issued:   |                   |               |                                  |  |                   |
| For private placements   | 47,812,870        | 47,813        | 28,078,256                       |  | 28,126,069        |
| Share issue costs  |                   |               | (1,263,841)                      |  | (1,263,841)       |
| For mineral properties   | 4,500,000         | 4,500         | 3,444,918                        |  | 3,449,418         |
| Initial Public Offering (IPO)  | 6,900,000         | 6,900         | 5,029,597                        |  | 5,036,497         |
| Share issue costs (IPO)  |                   |               | (2,241,940)                      |  | (2,241,940)       |
| Compensation component of shares issued                                  |                   |               | 226,000                          |  | 226,000           |
| Fair value of agents' warrants issued on private placements [note 10[b]] |                   |               | 222,627                          |  | 222,627           |
| Fair value of options granted to consultants [note 10[c]]                |                   |               | 49,558                           |  | 49,558            |
| Fair value of underwriters' compensation warrants on IPO [note 10[b]]    |                   |               | 135,100                          |  | 135,100           |
| Fair value of options granted [note 10[c]]                               |                   |               | 1,774,480                        |  | 1,774,480         |
| Fair value of vested stock grants  | 429,250           | 428           | 520,379                          |  | 520,807           |
| Exercise of warrants   | 1,985,775         | 1,986         | 1,827,349                        |  | 1,829,335         |
| Exercise of options  | 107,500           | 108           | 83,066                           |  | 83,174            |
| Net loss since inception   |                   |               |                                  | (25,831,588)   | (25,831,588)      |
| <b>Balance, March 31, 2008</b>   | <b>61,735,395</b> | <b>61,735</b> | <b>37,885,549</b>                | <b>(25,831,588)</b>  | <b>12,115,696</b> |
| Shares issued:   |                   |               |                                  |  |                   |
| Share issue costs  |                   |               | (9,246)                          |  | (9,246)           |
| Fair value of options granted [note 10[c]]                               |                   |               | 500,028                          |  | 500,028           |
| Fair value of vested stock grants [notes 10 [a] & [d]]                   | 221,670           | 222           | 21,415                           |  | 21,637            |
| Net loss for the period  |                   |               |                                  | (9,943,231)  | (9,943,231)       |
| <b>Balance, March 31, 2009</b>   | <b>61,957,065</b> | <b>61,957</b> | <b>38,397,746</b>                | <b>(35,774,819)</b>  | <b>2,684,884</b>  |
| Shares issued:   |                   |               |                                  |  |                   |
| Share issue cost   |                   |               |                                  |  |                   |
| Fair value of options granted [note 10[c]]                               |                   |               | 49,250                           |  | 49,250            |
| Fair value of vested stock grants [notes 10 [a] & [d]]                   | 112,500           | 113           |                                  |  | 113               |
| Reclass of warrants to liability under EITF 07-5 [note 2]                |                   |               | (2,975,330)                      | 2,888,131  | (87,199)          |
| Net loss for the period  |                   |               |                                  | (395,716)  | (395,716)         |
| <b>Balance, June 30, 2009</b>  | <b>62,069,565</b> | <b>62,070</b> | <b>35,471,666</b>                | <b>(33,282,404)</b>  | <b>2,251,332</b>  |
| <i>See accompanying notes</i>  |                   |               |                                  |  |                   |

**Gryphon Gold Corporation**  
(an exploration stage company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Stated in US dollars)  
(Unaudited)

|  | Three<br>months<br>ended<br>June 30,<br>2009<br>\$ | Three<br>months<br>ended<br>June 30,<br>2008<br>\$ | Period from<br>April 24,<br>2003<br>(inception) to<br>June 30, 2009<br>\$ |
|--|--|--|---|
| <b>OPERATING ACTIVITIES</b>  |  |  |   |
| Net loss for the period  | (395,716)  | (1,438,906)  | (33,282,404)  |
| Items not involving cash:  |  |  |   |
| Depreciation   | 11,153   | 16,882   | 219,955   |
| (Gain) loss on disposal of equipment   | (18,928)   | (820)  | 5,624   |
| Fair value of options, warrants and other non-cash compensation [note 10[a] and [d]] | 49,364   | 103,051  | 3,220,249   |
| Non-cash interest expense [note 9]   | 125,427  | 67,203   | 635,353   |
| Loss on securities   | 13,484   | -  | 151,555   |
| Unrealized (gain) loss on sale of securities   | (72,846)   | 33,439   | (53,830)  |
| Held for trading securities included in lease revenue                                | -  | -  | (9,598)   |
| Impairment of carrying value of exploration properties [note 4]                      | -  | -  | 5,100,000   |
| Loss (gain) on disposal of mineral properties  | (42,761)   | -  | 259,515   |
| Change in liability of options and warrants  | (86,220)   | -  | (2,974,351)   |
| Changes in non-cash working capital items:   |  |  |   |
| Accounts receivable  | 21,077   | (6,012)  | (2,866)   |
| Accounts payable and accrued liabilities   | 84,773   | (335,709)  | 535,932   |
| Prepaid expenses   | 21,603   | 30,111   | (26,672)  |
| <b>Cash used in operating activities</b>   | <b>(289,590)</b>                                   | <b>(1,530,761)</b>                                 | <b>(26,221,538)</b>   |
| <b>INVESTING ACTIVITIES</b>  |  |  |   |
| Reclamation deposit  | -  | (13,801)   | (160,777)   |
| Purchase of equipment  | (734)  | (33,139)   | (297,574)   |
| Nevada Eagle acquisition and related non-compete agreement [note 4]                  | -  | -  | (3,068,340)   |
| Mineral property expenditures [note 6]   | -  | (36,002)   | (1,964,642)   |
| Option payment to amend royalty  | -  | -  | (285,902)   |
| Mineral property lease payments received   | 55,100   | 68,000   | 661,605   |
| Proceeds from sale of mineral properties   | 50,000   | -  | 100,000   |
| Proceeds from sales of held for trading securities                                   | 9,951  | -  | 60,703  |
| Proceeds from note receivable  | 2,000  | -  | 2,000   |
| Proceeds from sale of equipment  | 1,571  | -  | 16,403  |
| <b>Cash provided by investing activities</b>   | <b>117,888</b>                                     | <b>(14,942)</b>                                    | <b>(4,936,524)</b>  |
| <b>FINANCING ACTIVITIES</b>  |  |  |   |
| Capital lease principal payments   | -  | (3,454)  | (53,523)  |
| Cash received for shares   | -  | -  | 34,607,555  |
| Share issue costs  | -  | (9,246)  | (3,157,280)   |
| Subscription receivables collected   | -  | -  | 389,125   |
| <b>Cash provided by financing activities</b>   | <b>-</b>   | <b>(12,700)</b>                                    | <b>31,785,877</b>   |

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|  |                |                  |                |
|--|----------------|------------------|----------------|
| <b>Increase (decrease) in cash during the period</b> | (171,702)      | (1,558,403)      | 627,815        |
| Cash, beginning of period                            | 799,517        | 4,196,394        | -              |
| <b>Cash, end of period</b>                           | <b>627,815</b> | <b>2,637,991</b> | <b>627,815</b> |
| <i>See accompanying notes</i>                        |                |                  |                |



**Gryphon Gold Corporation**  
**(an exploration stage company)**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

1.

**NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

Gryphon Gold Corporation was incorporated in the State of Nevada in 2003 and wholly owns its subsidiaries, Borealis Mining Company, Gryphon Nevada Eagle Holding Company and Nevada Eagle Resources LLC (collectively, the Company ). The Company is an exploration stage company in the process of exploring its mineral properties, and has not yet determined whether these properties contain reserves that are economically recoverable.

The Company s current liabilities significantly exceed its current assets. In addition, the recoverability of amounts shown for mineral property interests in the Company s consolidated balance sheets are dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of its properties, the receipt of necessary permitting and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable. As a result, the Company s ability to continue as a going concern is in substantial doubt.

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary, such as the sale of certain mineral properties. However, no assurance can be given that the Company will be successful in raising additional capital. Further, even if the company raises additional capital, there can be no assurance that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and possible future revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to suspend or cease operations. The Company has a accumulated deficit of \$33,282,404 and at June 30, 2009 has cash on hand of \$627,815. The cash on hand is expected to last the Company approximately six months based on current expenditure levels, scheduled payments and expected collections of property lease payments for Nevada Eagle properties.

The accompanying financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

2.

**BASIS OF PRESENTATION**

These interim unaudited consolidated financial statements were prepared by the Company in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial statements applied on a consistent basis. These interim financial statements follow the same significant accounting policies and methods of application as those disclosed in Note 2 to the Company s audited consolidated financial statements as at and for the year ended March 31, 2009 (the Annual Financial Statements ), except as disclosed below under New Policies Adopted. Accordingly, they do not include all disclosures required for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Annual Financial Statements.

The preparation of these interim unaudited consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

2.

**BASIS OF PRESENTATION (cont d)****NEW POLICIES ADOPTED**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material effect on the

Company's financial statements.

The Company measures its held for trading securities at fair value in accordance with SFAS 157. SFAS 157 specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets;
- Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value. The fair value of the held for trading securities using the following inputs at March 31, 2009 is:

**Fair Value Measurements at Reporting Date Using**

|       | Quoted Prices<br>in<br>Active Markets<br>for Identical<br>Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |
|-------|--|--|---------------------------------------|
|       | (Level 1)  | (Level 2)                                    | (Level 3)                             |
| Total | \$ 129,427   | \$ 128,977                                   | 450 \$                                |

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( FAS 159 ). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of FAS 159 are effective for the Company's fiscal year beginning April 1, 2008. Effective April 1, 2008, the Company adopted FAS 159, which did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for our fiscal year commencing April 1, 2009, including interim periods within that fiscal year. The adoption of SFAS 160 did not have a material impact on its financial position or results of operations.

2.

**BASIS OF PRESENTATION (cont d)**

**NEW POLICIES ADOPTED (cont d)**

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, which amends SFAS No. 141, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively. SFAS 141® may have an impact on the Company's consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisition the Company may consummate after the effective date.

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities ( FAS 161 )*. FAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. FAS 161 is effective for fiscal years beginning after November 15, 2008. The provisions of FAS 161 are only related to disclosure of derivative and hedging activities, and the adoption of FAS 161 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, the EITF reached consensus on Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ( EITF 07-5 )*. EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of EITF 00-19,

*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock*. EITF 07-5 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair market value each reporting period. At April 1, 2009, a reclassification of \$2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), retained deficit was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded. During the three months ended June 30, 2009, the liability was reduced by \$86,220, and the value of the warrants was \$980 at the end of the reporting period.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1 (FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*.

FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP APB 14-1 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In May 2009, the Financial Accounting Standards Board ( FASB ) issued FASB Statement No. 165 Subsequent Events ( FAS 165 ) which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. FAS165 is effective for our fiscal year commencing April 1, 2009. The adoption of FAS 165 had no impact on the Company's consolidated financial position, results of operations or cash flows.

2.

## **BASIS OF PRESENTATION (cont d)**

### **NEW POLICIES ADOPTED (cont d)**

During the second quarter of 2009, the FASB issued FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP:

- Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.
- Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active
- Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. The FSP instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence
- Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.
- Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of the FSP and to quantify its effects, if practicable
- Applies to all fair value measurements when appropriate

FSP FAS 157-4 must be applied prospectively and retrospective application is not permitted. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The adoption of FAS157-4 had no impact on the company's consolidated operating results, financial position, or cash flows.

During the second quarter of 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP:

- Changes existing guidance for determining whether an impairment is other than temporary to debt securities.
- Replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis.
- Incorporates examples of factors from existing literature that should be considered in determining whether a debt security is other-than-temporarily impaired.
- Requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are additional credit losses.
- Requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income.
- When adopting FSP FAS 115-2 and FAS 124-2, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other- temporary impairment from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery.

FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. The adoption of FAS 115-2 and FAS 124-2 had no impact on the Company's consolidated operating results, financial position, or cash flows.



2.

## **BASIS OF PRESENTATION (cont d)**

### **NEW POLICIES ADOPTED (cont d)**

During the second quarter of 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement 107. FSP 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. However, an entity may early adopt these interim fair value disclosure requirements only if it also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. The adoption of FAS 107-1 and APB 28-1 had no impact on the Company's consolidated operating results, financial position, or cash flows.

## **RECLASSIFICATION**

Certain comparative figures have been reclassified to conform to the current year presentation

3.

## **NOTE RECEIVABLE**

During the quarter ended June 30, 2009, the Company sold an asset by signing a 24-month lease agreement with an individual. In accordance with FAS 13, the Company accounted for the transaction as a sales type lease. The net present value at the time of the sale was \$22,794 and was reported on the balance sheet as a note receivable. Interest income to be recognized over the two-year life is \$1,206. Each payment received will be allocated by reduction of the face value of the note receivable and the recognition of interest income. Two lease payments were received during the quarter ended June 30, 2009. The current portion of the note receivable totals \$10,250 and the remaining due is \$10,730.

4.

## **NEVADA EAGLE RESOURCES LLC**

On August 21, 2007 Gryphon Gold Corporation closed the acquisition of Nevada Eagle Resources LLC, a privately held Nevada limited liability company ( Nevada Eagle ). Under the Purchase Agreement, the Company acquired all of the outstanding limited liability company interests of Nevada Eagle for the following consideration:

- (a) \$2,500,000 in cash;
- (b) 4,500,000 shares of common stock of the Company valued at \$3,449,418; and
  - a 5% convertible note in the principal amount of \$5,000,000 (the Convertible Note ) with an issue date of August 21, 2007 and a fair value of \$4,272,359 [note 9].
- (c)

Allocation of Purchase Price

|                           |                      |
|---------------------------|----------------------|
| Mineral properties        | \$ 10,719,209        |
| Non-competition agreement | 70,908               |
|                           | <u>\$ 10,790,117</u> |

Subsequent to the purchase of NER, the value for exploration properties declined as evidenced by lower publically quoted stock values for gold exploration companies. As the decline in value is an indicator of impairment, an impairment test was performed for the quarter ended September 30, 2008. The Company also determined that undiscounted cash flows were not likely to recover the carrying values of the properties.

The original purchase price allocation for the acquisition of the NER properties was based on a valuation model. The model was driven by three parameters, 1- the value of an exploration property, 2- the value of an acre of exploration property, and 3 the value of an identified mineral resource on the property. The value of each parameter was determined from recent similar acquisition transactions in the marketplace and the market values of a sample of publicly traded gold exploration companies.

4.

**NEVADA EAGLE RESOURCES LLC (cont d)**

To measure for impairment, the Company updated the valuation parameters that were utilized for the purchase price allocation. The updated parameters were input into the valuation model. It was determined that the Nevada Eagle exploration properties [note 6] and the non-competition agreement were impaired by \$5,044,883 and \$55,117, respectively, for a total of \$5,100,000 effective September 30, 2008.

On June 30, 2009 the same parameters based on June 30, 2009 parameters, were inputted into the valuation model and it was determined that the values were not lower than the September 30, 2008 impairment; therefore, no additional impairment was recorded at June 30, 2009.

5.

**EQUIPMENT**

|                          | <b>Cost</b>    | <b>June 30, 2009<br/>Accumulated<br/>Depreciation</b> | <b>Net Book<br/>Value</b> |
|--------------------------|----------------|---|---------------------------|
|                          | \$             | \$  | \$                        |
| Office and lab equipment | 187,453        | 116,192   | 71,261                    |
| Trucks                   | 64,097         | 34,454  | 29,643                    |
| <b>Total</b>             | <b>251,550</b> | <b>150,646</b>  | <b>100,904</b>            |

|                          | <b>Cost</b>    | <b>March 31, 2009<br/>Accumulated<br/>Depreciation</b> | <b>Net Book<br/>Value</b> |
|--------------------------|----------------|--|---------------------------|
|                          | \$             | \$   | \$                        |
| Office and lab equipment | 197,730        | 111,799  | 85,931                    |
| Trucks                   | 64,097         | 32,061   | 32,036                    |
| <b>Total</b>             | <b>261,827</b> | <b>143,860</b>   | <b>117,967</b>            |

6.

**MINERAL PROPERTIES**

|   | <b>Total</b>      |
|---|-------------------|
|   | \$                |
| <b>Mineral property costs, March 31, 2006</b> | <b>1,898,207</b>  |
| Expenditures during the year                  | 22,164            |
| <b>Mineral property costs, March 31, 2007</b> | <b>1,920,371</b>  |
| Nevada Eagle acquisition [note 3]             | 10,719,209        |
| Lease payments received (cash)                | (245,805)         |
| Lease payments received (shares & warrants)   | (193,030)         |
| Expenditures during the period                | 9,119             |
| <b>Mineral property costs, March 31, 2008</b> | <b>12,209,864</b> |
| Lease payments received (cash)                | (386,700)         |

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|  |                  |
|--|------------------|
| Lease payments received (shares)                                       | (13,130)         |
| Disposal of exploration properties                                     | (424,374)        |
| Expenditures during the period   | 61,151           |
| Impairment of carrying value of exploration properties <i>[note 3]</i> | (5,044,883)      |
| <b>Mineral property costs, March 31, 2009</b>                          | <b>6,401,929</b> |
| Lease payments received (cash)   | (55,100)         |
| Disposal of exploration properties                                     | (7,239)          |
| <b>Mineral property costs, June 30, 2009</b>                           | <b>6,339,950</b> |

The Company initially entered into a property option agreement dated July 21, 2003 to acquire up to a 70% interest in the Borealis property in Nevada, USA from Golden Phoenix Minerals, Inc. for cash consideration of \$125,000 and the obligation to make qualifying expenditures over several years. On January 28, 2005, the Company purchased outright the rights to a full 100% interest in the property for \$1,400,000. A cash payment of \$400,000 was made on closing. The Company paid the full outstanding consideration of \$1,000,000, in four quarterly payments of \$250,000 during the year ended March 31, 2006.

6.

**MINERAL PROPERTIES (cont d)**

On August 22, 2008, the Company entered into a 12 month option agreement, at a cost of \$250,000 and an additional \$35,903 to cover legal costs, to amend the Borealis Property mining lease. If exercised, the net smelter return royalty rate will be fixed at 5%, versus the current uncapped variable rate. Payment upon exercise of the option is \$1,750,000 in cash, 7,726,250 common shares of the Company and a three year, \$1,909,500 5% note payable. The option period can be extended for an additional six months for a payment of \$125,000. Effective August 21, 2007, the Company purchased all the rights and interests of Nevada Eagle, as described in note 4. \$10,719,209 of the purchase price was allocated to the value of the exploration properties acquired.

7.

**EXPLORATION**

|                            | Three months ended<br>June 30, 2009 | Three months ended<br>June 30, 2008 | Period from<br>April 24,<br>2003<br>(inception) to<br>June 30, 2009 |
|----------------------------|-------------------------------------|-------------------------------------|---|
|                            | \$                                  | \$                                  | \$  |
| <b>NEVADA, USA</b>         |                                     |                                     |   |
| <b>Borealis property</b>   |                                     |                                     |   |
| <b>Exploration:</b>        |                                     |                                     |   |
| Drilling                   | 458                                 | 285,500                             | 7,132,111   |
| Property maintenance       | 120,576                             | 137,246                             | 3,120,290   |
| Geologic and assay         | 910                                 | 35,036                              | 2,034,020   |
| Project management         | -                                   | 68,101                              | 1,607,228   |
| Engineering                | 154,759                             | 130,492                             | 1,268,547   |
| Metallurgy                 | -                                   | 17,990                              | 331,210   |
| Subtotal Borealis property | 276,703                             | 674,365                             | 15,493,406  |
| Other exploration          | 750                                 | 12,303                              | 31,306  |
| <b>Total exploration</b>   | <b>277,453</b>                      | <b>686,668</b>                      | <b>15,524,712</b>   |

8.

**OTHER ASSETS**

|  | June 30,<br>2009 | March 31,<br>2009 |
|--|------------------|-------------------|
|  | \$               | \$                |
| Reclamation bond & deposits                    | 160,777          | 160,777           |
| Option to amend Borealis Property mining lease | 285,902          | 285,902           |
|  | 446,679          | 446,679           |

On June 30, 2009 the Company had \$133,600 (March 31, 2009 - \$133,600) on deposit to support a performance bond with the United States Forest Service. The Company also has a deposit with the Bureau of Land Management ( BLM ) for \$27,177 (March 31, 2009 - \$27,177), which supports its potential future obligations for reclamation during the Company's exploration activities within the BLM area. At June 30, 2009 the Company has recorded an estimated reclamation liability of \$5,600 (March 31, 2008 - \$5,600) representing future obligations related to its general property activities completed to June 30, 2009.

During the year ended March 31, 2009 three payments totalling \$285,902 were made to enter into an option to amend the royalty terms of the Borealis Property mining lease from a floating rate to a fixed rate. The option expires August 22, 2009 and can be extended for six months for a payment of \$125,000. On August 7, 2009, an amendment to the option agreement was entered into by the Company and the Borealis partners. The amendment allows for a portion of the \$125,000 extension payment to be made in common shares of the Company at the Company's option.

9.

**CONVERTIBLE PROMISSORY NOTE**

|   | <b>June 30,<br/>2009</b> | <b>March 31,<br/>2009</b> |
|---|--------------------------|---------------------------|
|   | \$                       | \$                        |
| Convertible promissory note, with a face value of \$5,000,000 due March 30, 2010, unsecured, bearing interest at 5%. Interest is payable each January 1 <sup>st</sup> and June 1 <sup>st</sup> . Discount accretion for the period from August 21, 2007 (date of issue) to June 30, 2009, totalled \$509,152. | 4,907,712                | 4,782,285                 |

Gryphon Gold issued a Convertible Promissory Note to the former owner of Nevada Eagle with a face amount of \$5,000,000, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note is convertible at the holder's option into shares for the first 12 months after closing at a conversion price of \$1 per common share; for the next 12 months at \$1.25 per common share; for the period 24 months from closing to March 29, 2010 at \$1.50 per common share and on March 30, 2010 at \$1.75 per common share. The conversion rate is subject to certain anti-dilution adjustments and is subject to adjustment on payment of cash dividends by Gryphon Gold. Upon an event of default, which includes amongst other things a change in control of Gryphon Gold, the holder may demand repayment of the principal amount of the debenture or exercise the conversion feature for a fixed number of shares. After an event of default, the interest rate on the convertible debenture increases to 9%. The change in control event of default acceleration feature is considered an embedded derivative however its issue date fair value is not considered to be significant, nor is it considered to be significant at March 31, 2009 or June 30, 2009. The conversion feature does not require bifurcation in the financial statements because it is not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion are never successfully registered. The Convertible Promissory Note, including the conversion feature and change in control event of default acceleration feature embedded derivative, was recorded at its estimated issue date fair value of \$4,272,359 at date of issue. Interest and discount accretion of \$63,242 and \$72,511, for the three months ended June 30, 2009, has been recorded as interest expense in the unaudited consolidated income statement. The former owner of Nevada Eagle is also an employee of the Company [note 4].

Effective August 5, 2008, the Company entered into an option agreement with Gerald W. Baughman and Fabiola Baughman to amend the \$5 million face value note payable to them at a cost of \$35,000. The option period is twelve months and extendable for another six months for an additional \$35,000. At the time the option is exercised, the note payable will be reduced by \$2.5 million by a payment of \$500,000 in cash and 4,000,000 common shares of the Company. Upon exercise of the option, the conversion rate of the remaining \$2.5 million note payable would be amended to \$0.70 per common share until March 30, 2009, \$0.80 per common share until March 30, 2010, and the maturity date would be extended from March 30, 2010 to March 30, 2012 and secured by certain exploration properties. The Company may exercise the option if the royalty on the Borealis property has been fixed at 5% or lower, and there is an arrangement to merge the Company or the financing of a mine on the Borealis property has been completed.

On November 10, 2008, the 5% convertible promissory note was amended so that cash interest payments shall be \$73,288 and \$51,713 each January 1 and June 1, respectively, or one half of the previous amounts. The unpaid interest will be added to the principal balance of the note, compounded monthly at 5% and become due and payable at the due date of the note, March 30, 2010.

10.

**CAPITAL STOCK**

Authorized capital stock consists of 150,000,000 common shares with a par value of \$0.001 per share and [a] 15,000,000 preferred shares with a par value of \$0.001 per share.

On April 1, 2009, the Company issued 112,500 common shares to a former director (retired April 8, 2009). The issuance was provided under a transition agreement.



10.

**CAPITAL STOCK (cont d)**

[b] Warrants:

The following table contains information with respect to all warrants:

|   | Number of<br>Warrants<br># | Fair Value of<br>Warrants<br>\$ |
|---|----------------------------|---------------------------------|
| <b>Warrants outstanding, March 31, 2004</b>       |                            |                                 |
| Issued for:                                       |                            |                                 |
| Private placements                                | 3,407,981                  |                                 |
| Agents compensation                               | 141,008                    | 45,100                          |
| Exercised   |                            |                                 |
| <b>Warrants outstanding, March 31, 2005</b>       | <b>3,548,989</b>           | <b>45,100</b>                   |
| Issued for:                                       |                            |                                 |
| Private placements                                | 3,015,204                  |                                 |
| Agents compensation on private placement          | 130,000                    | 35,100                          |
| Initial Public Offering (IPO) Series A            | 6,900,000                  |                                 |
| Underwriters compensation on IPO                  | 690,000                    | 135,100                         |
| Private placements Series B                       | 2,737,500                  |                                 |
| Agents compensation on private placement Series C | 280,500                    | 76,540                          |
| Exercised   | (197,500)                  |                                 |
| <b>Warrants outstanding, March 31, 2006</b>       | <b>17,104,693</b>          | <b>291,840</b>                  |
| Issued for:                                       |                            |                                 |
| Private placements Series D                       | 64,500                     |                                 |
| Private placements Series E                       | 5,000,000                  |                                 |
| Agents compensation on private placement Series F | 85,050                     | 11,397                          |
| Exercised   | (1,658,275)                |                                 |
| Expired   | (15,175,410)               |                                 |
| <b>Warrants outstanding, March 31, 2007</b>       | <b>5,420,558</b>           | <b>303,237</b>                  |
| Issued for:                                       |                            |                                 |
| Private placements Series G                       | 5,000,000                  |                                 |
| Private placements Series I                       | 4,486,500                  |                                 |
| Agents compensation on private placement Series H | 265,050                    | 44,040                          |
| Agents compensation on private placement Series J | 89,530                     | 10,450                          |
| Exercised   | (130,000)                  |                                 |
| Expired   | (290,558)                  |                                 |
| Forfeited   | (14,000)                   |                                 |
| <b>Warrants outstanding, March 31, 2008</b>       | <b>14,827,080</b>          | <b>357,727</b>                  |
| Expired   | (5,340,580)                |                                 |
| <b>Warrants outstanding, March 31, 2009</b>       | <b>9,486,500</b>           | <b>357,727</b>                  |
| <b>Warrants outstanding, June 30, 2009</b>        | <b>9,486,500</b>           | <b>357,727</b>                  |

10.

**CAPITAL STOCK (cont d)**

The following table summarizes information about warrants outstanding and exercisable as at June 30, 2009:

**Warrants Outstanding and Exercisable**

| Warrants<br># | Average Remaining Life | Exercise Price | Expiry date         |
|---------------|------------------------|----------------|---------------------|
|               | Years<br>#             |                |                     |
| 5,000,000     | 0.1                    | Cdn\$1.25      | August 3, 2009**    |
| 3,254,000     | 0.4                    | Cdn\$1.25      | November 22, 2009** |
| 1,050,000     | 0.4                    | Cdn\$1.25      | November 27, 2009** |
| 182,500       | 0.5                    | Cdn\$1.25      | December 14, 2009** |
| 9,486,500     | 0.7                    | \$1.07*        |                     |

\* Based on the June 30, 2009 exchange rate of Cdn\$1 equals US\$08598.

\*\*See note 13

The fair value of agents and underwriters warrants issued during 2008, 2007 and 2006 has been estimated using the Black-Scholes Option Pricing Model based on the following assumptions: a risk-free interest rate of 3.38% to 5.21% as of the date of transaction; expected life of 1 to 3 years depending on their terms; an expected volatility of 51% to 70% (based on the average volatility of companies in the industry at date of issuance for period equivalent to the expected life); and no expectation for the payment of dividends.

**[c] Stock Options**

The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 5%. Estimate of forfeitures is reviewed on a quarterly basis. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

The Company recorded total stock-based compensation expense related to stock options and restricted stock units as follows:

|  | Three months<br>ended<br>June 30, 2009 | Three months<br>ended<br>June 30, 2008 |
|--|--|--|
|  | \$                                     | \$                                     |
| Management salaries, exploration expense & consulting fees | 49,364                                 | 103,051                                |

**Stock option activity**

The following table summarizes the Company's stock option activity for the year ended June 30, 2009:

|                                    | Number of<br>Stock<br>Options | Weighted<br>Average<br>exercise<br>price |
|------------------------------------|-------------------------------|--|
| Outstanding, April 1, 2009         | 4,642,000                     | \$ 0.52*                                 |
| Total outstanding at June 30, 2009 | 4,642,000                     | \$ 0.52*                                 |

|   |           |    |       |
|---|-----------|----|-------|
| Vested and exercisable at June 30, 2009 | 4,095,750 | \$ | 0.54* |
|---|-----------|----|-------|

*\* Based on the June 30, 2009 exchange rate of Cdn\$1 equals US\$08598.*

10.

**CAPITAL STOCK (cont d)**

The following table summarizes information about stock options outstanding as at June 30, 2009:

| <b>Stock Options Outstanding and Exercisable</b> |   |                                      |  |                       |
|--|---|--------------------------------------|--|-----------------------|
| <b>Stock Options<br/>Outstanding</b>             | <b>Average Remaining<br/>Life<br/>(Years)</b> | <b>Stock Options<br/>Exercisable</b> | <b>Average Remaining<br/>Life<br/>of Exercisable<br/>(Years)</b> | <b>Exercise price</b> |
| 825,000  | 0.7   | 825,000                              | 0.7  | \$0.75                |
| 95,000   | 1.4   | 95,000                               | 1.4  | Cdn\$0.85             |
| 20,000   | 1.7   | 20,000                               | 1.7  | Cdn\$1.37             |
| 395,000  | 1.8   | 395,000                              | 1.8  | Cdn\$1.37             |
| 20,000   | 1.8   | 20,000                               | 1.8  | Cdn\$1.37             |
| 30,000   | 1.9   | 30,000                               | 1.9  | Cdn\$1.60             |
| 50,000   | 2.1   | 50,000                               | 2.1  | Cdn\$1.29             |
| 50,000   | 2.3   | 50,000                               | 2.3  | Cdn\$1.34             |
| 90,000   | 2.5   | 90,000                               | 2.5  | Cdn\$0.81             |
| 20,000   | 2.6   | 20,000                               | 2.6  | Cdn\$0.88             |
| 125,000  | 2.7   | 125,000                              | 2.7  | Cdn\$0.80             |
| 20,000   | 2.9   | 20,000                               | 2.9  | Cdn\$0.95             |
| 85,000   | 3.2   | 63,750                               | 3.2  | Cdn\$0.90             |
| 47,000   | 3.3   | 47,000                               | 3.3  | Cdn\$0.88             |
| 150,000  | 3.6   | 75,000                               | 3.6  | Cdn\$0.62             |
| 20,000   | 3.8   | 20,000                               | 3.8  | Cdn\$0.43             |
| 300,000  | 3.8   | 300,000                              | 3.8  | Cdn\$0.41             |
| 62,500   | 4.0   | 62,500                               | 4.0  | Cdn\$0.40             |
| 362,500  | 4.0   | 362,500                              | 4.0  | Cdn\$0.38             |
| 750,000  | 4.1   | 337,500                              | 4.1  | Cdn\$0.41             |
| 200,000  | 4.2   | 200,000                              | 4.2  | Cdn\$0.28             |
| 150,000  | 4.2   | 150,000                              | 2.2  | Cdn\$0.26             |
| 150,000  | 4.4   | 112,500                              | 4.4  | Cdn\$0.07             |
| 275,000  | 4.4   | 275,000                              | 4.4  | Cdn\$0.07             |
| 250,000  | 4.4   | 250,000                              | 4.4  | Cdn\$0.26             |
| 100,000  | 4.7   | 100,000                              | 4.7  | Cdn\$0.28             |
| <b>4,642,000</b>                                 |   | <b>4,095,750</b>                     |  |                       |

*Valuation assumptions*

Compensation expense recorded in the financial statements has been estimated using the Black-Scholes option pricing model. The assumptions used in the pricing model include:

|                         | <b>2009</b>          | <b>2008</b>          |
|-------------------------|----------------------|----------------------|
| Dividend yield          | <b>0%</b>            | <b>0%</b>            |
| Expected volatility     | <b>51% - 80%</b>     | <b>49% - 55%</b>     |
| Risk free interest rate | <b>1.31% - 2.06%</b> | <b>1.79% - 4.63%</b> |
| Expected lives          | <b>3 years</b>       | <b>3 years</b>       |

The risk-free interest rate is determined based on the rate at the time of grant for US government zero-coupon bonds for a 3 year term, which is a term equal to the estimated life of the option. Dividend yield is based on the stock option's exercise price and expected annual dividend rate at the time of grant. Volatility is derived by measuring the average share price fluctuation of the Company. The period of historical volatility is the same period as the expected life of the option being 3 years.

The Black-Scholes option-pricing model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. Options pricing models require the input of highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's equity instruments.

**10.****CAPITAL STOCK (cont d)**

[d] Restricted stock units:

The RSU stock grant entitles the recipient to receive shares of common stock of the Company upon vesting. The RSU grants can vest immediately or over a period for up to five years.

On April 1, 2009, 112,500 RSU s vested for a former director.

The Company recognizes stock-based compensation expense based on the grant date fair value of the award on a straight-line basis over the requisite service period of the individual grants, which generally equals the service period. The grant date fair value of the restricted stock unit is calculated using the closing price of the Company s common stock on the date of the grant.

The following table summarizes information about restricted stock units outstanding as at June 30, 2009:

|                                     | RSU s<br>Granted | RSU s<br>Vested | RSU s<br>Forfeited | RSU s<br>Outstanding | Weighted<br>Average Fair<br>Value at<br>Grant<br>Date |
|-------------------------------------|------------------|-----------------|--------------------|----------------------|---|
| Outstanding at April 1, 2006        |                  |                 |                    |                      |   |
| Issued April 18, 2006               | 8,000            | 8,000           |                    |                      | Cdn\$1.63   |
| Issued December 12, 2006            | 29,000           | 15,000          | 14,000             |                      | Cdn\$0.84   |
| Issued January 10, 2007             | 607,500          | 488,750         | 118,750            |                      | Cdn\$0.82   |
| Issued May 1, 2007                  | 10,000           |                 | 10,000             |                      |   |
| Issued September 6, 2007            | 154,170          | 154,170         |                    |                      | Cdn\$0.77   |
| <b>Outstanding at June 30, 2009</b> | <b>808,670</b>   | <b>665,920</b>  | <b>142,750</b>     |                      |   |

**11.****RELATED PARTY TRANSACTIONS**

All transactions with related parties have occurred in the normal course of operations and are measured at their exchange amount as determined by management. All material transactions and balances with related parties not disclosed elsewhere are described below: In November 2008, the Company entered into two Consulting Agreements with two former employees for certain financial services and geological consulting services. During the quarter ended June, 2009 the consultants were paid \$4,900 and \$10,110.

**12.****COMMITMENTS & CONTINGENCIES**

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make monthly lease payments of \$9,590, adjusted annually based on the Consumer Price Index, for the duration of the lease term. In addition, production of precious metals from the Borealis Property will be subject to the payment of a royalty under the terms of the mining lease. The mining lease expired on January 24, 2009, but is automatically renewed thereafter, so long as mining related activity, including exploration drilling, continues on the Borealis Property.

[b] The Company rents office space in Vancouver, BC for a 5 year term, commencing Sept 2008, and office space in

Hawthorne, Nevada for a one year term. The following are the remaining rental lease commitments in relation to the office lease:

|      | \$     |
|------|--------|
| 2010 | 46,872 |
| 2011 | 52,596 |
| 2012 | 53,981 |
| 2013 | 53,981 |
| 2014 | 22,492 |

12.

**COMMITMENTS & CONTINGENCIES (cont d)**

The Vancouver office has been sub-leased commencing Feb 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn\$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised during October, 2010. If the option to terminate Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. \$61,815, the difference between the required lease payments and the estimated future sub-lease receipts, has been accrued as a loss at quarter ended June 30, 2009.

13.

**SUBSEQUENT EVENTS**

On July 22, 2009, the Company extended and repriced 9,486,500 outstanding warrants. The table below summarizes information on the extension and repricing:

| Original issue date | Amended expiry date | Amended exercise price (CDN\$)  |
|---------------------|---------------------|---|
| August 3, 2007      | December 31, 2009   | \$0.18 until September 20, 2009 and \$0.40 from September 21, 2009 to December 31, 2009 |
| November 22, 2007   | December 31, 2009   | \$0.18 until September 20, 2009 and \$0.40 from September 21, 2009 to December 31, 2009 |
| November 27, 2007   | December 31, 2009   | \$0.18 until September 20, 2009 and \$0.40 from September 21, 2009 to December 31, 2009 |
| December 14, 2007   | December 31, 2009   | \$0.18 until September 20, 2009 and \$0.40 from September 21, 2009 to December 31, 2009 |

On August 1, 2009 the Board appointed Terence J. Cryan to the Board of Directors.

On August 7, 2009, the Company entered into an amendment to the option agreement to amend the terms of the Borealis Lease. The option expires on August 22, 2009 and may be extended by six months by the Company in consideration of \$125,000, all of which may be paid in common stock of the Company at its option.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Forward-Looking Statements**

The information in this quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of metals, commodities and precious metals, availability of funds, government regulations, common share prices, operating costs, capital costs, outcomes of ore reserve exploration and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expect*, *plan*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential* or *continue* terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports we file with the Securities and Exchange Commission (SEC), including, but not limited to our annual report on Form 10KSB as filed on July 8, 2008. These factors may cause our actual results to differ materially from any forward-looking statement. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

### **Cautionary Note Regarding Management's Discussion and Analysis**

This discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and related notes. The discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis, the company reviews its estimates and assumptions. The estimates were based on historical experience and other assumptions that the company believes to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but the company does not believe such differences will materially affect our financial position or results of operations. Critical accounting policies, the policies the company believes are most important to the presentation of its financial statements and require the most difficult, subjective and complex judgments, are outlined below in *Critical Accounting Policies*, and have not changed significantly.

### **Overview:**

In May 2005 we initiated a drilling program. As of June 30, 2009, approximately 203 holes and 142,220 feet of RC drilling have been completed. A majority of the holes were in the area of existing mineralization in order to allow us to start a feasibility study with the aim of identifying gold reserves and, if economically feasible, building a mine.

In April of 2008, we completed a CIM compliant, NI 43-101 report that included all drilling results to date, which was furnished to the SEC as Exhibit 99.1 to the Company's Form 8-K filed on May 12, 2008. The Technical Report details mineralization on the Borealis Property. The Technical Report states that the recommended course of action for Gryphon Gold is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralization on the Borealis Property. The Report uses the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of "contained pounds" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures.

During September 2008, we released the independent Preliminary Assessment ( PA ) on the development of an oxide heap leach mine. The PA was furnished to the SEC as Exhibit 99.1 to our Form 8-K as filed on October 7, 2008. The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The PA is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

There was no exploration drilling completed during the three months ended June 30, 2009. A water well necessary for the construction of an oxide heap leach mine was installed during the quarter ended June 30, 2008. As of June 30, 2009, approximately 203 holes and 142,220 feet of RC drilling had been completed. A majority of the holes were in the area of existing mineralization in order to allow us to complete the PA with the aim of identifying gold reserves and, if economically feasible, building a mine. During fiscal 2008, the majority of the holes drilled were to attempt to expand the Graben mineralization or complete exploration in the Pediment areas of the Borealis property.

Two water monitoring wells were installed during the quarter ended September 30, 2008. Under our permits, a water-monitoring program must be active for at least six months prior to the placement of material on a leach pad, and these wells were therefore necessary prior to the start of any leaching operation.

On July 15, 2009, we announced the completion and results of our Pre-Feasibility Study for the development of the Borealis property. The full technical report is expected to be posted on SEDAR and submitted to the SEC on Form 8K within 45 days of the announcement.

In July 2008, we announced the appointment of John L. Key as President and CEO, replacing Mr. Tony Ker. Mr. Key is a mining engineer with over 40 years experience and has run, in succession, the Magmont, Polaris and Red Dog mines in the Teck Cominco organization. Mr. Key had been acting as our Chief Operating Officer for the previous six months, and his primary focus has been overseeing the completion the Preliminary Assessment on the Borealis heap leach mine and advancing the project towards production.

Mr. Key's employment contract provides for the granting of 350,000 stock options, which were granted August 1, 2008.



Mr. Ker entered into a Transition Agreement (TA) with us in August 2008, under which, Mr. Ker ceased to be an employee effective August 31, 2008 and ceased to be a director of the Company upon the election of directors at our Annual General Meeting September 5, 2008. Mr. Ker will receive monthly payments of \$12,500 and certain incidental expenses for 12 months beginning September 2008. The Company recorded a charge to expense during the quarter ended September 30, 2008 to accrue the cost of the agreement. Mr. Ker entered into a consulting agreement with the Company that became effective in September 2008. Under the agreement, he was eligible to receive 200,000 stock options and a success fee of 0.67% of any financing initiated during the term of the agreement. The consulting agreement was terminated effective September 28, 2008. The TA was amended on December 12, 2008 terminating the monthly payments of \$12,500. A consulting agreement was entered into on December 12, 2008 and Mr. Ker received Cdn\$50,000 on January 1, 2009 for full settlement on consulting agreement.

Effective August 5, 2008, we entered into an option agreement with Gerald W. Baughman and Fabiola Baughman to amend the \$5 million face value note payable to them at a cost of \$35,000. The option period is twelve months and extendable for another six months for an additional \$35,000, which was paid on August 12, 2009. At the time the option is exercised, the note payable will be reduced by \$2.5 million by a payment of \$500,000 in cash and 4,000,000 common shares. Upon exercise of the option, the conversion rate of the remaining \$2.5 million note payable would be amended to \$0.70 per common share until March 30, 2009, \$0.80 per common share until March 30, 2010, and the maturity date would be extended from March 30, 2010 to March 30, 2012 and secured by certain exploration properties. We may exercise the option if the royalty on the Borealis property has been fixed at 5% or lower, and there is an arrangement to merge the Company or the financing of a mine on the Borealis property has been completed.

On August 22, 2008, the Company entered into a 12 month option agreement, at a cost of \$250,000, to amend the Borealis Property mining lease. If exercised, the net smelter return royalty rate will be fixed at 5%, versus the current uncapped variable rate. Payment upon exercise is \$1,750,000 in cash, 7,726,250 common shares of the Company and a three year, \$1,909,500 5% note payable. On August 7, 2009 the Company entered into an amendment to the option agreement, which permits the Company to extend the term by six months in consideration for \$125,000 payable in part by issuing common stock.

### **Fiscal 2010 Plan of Operations**

Our long-term plan is to focus on moving the Borealis property into production through the development of an oxide heap leach mine, produce a Scoping Study on the Graben sulphide deposit, and continue exploration in the pediment areas of the Borealis property.

During September 2008, we released an independent Preliminary Assessment ( PA ) on the development of an oxide heap leach mine. We may perform more drilling to expand the oxide base and take other steps as necessary to advance the potential oxide heap leach mine. We will also consider extension drilling, focused on the expansion of the Graben deposit and exploration drilling for new gold deposits within the two newly identified potentially gold-bearing hydrothermal systems in the pediments.

We recognize that additional resources are required to enable us continue operations. Our objective is to raise additional funds through debt and/or equity financing, selling certain exploration properties, and continue leasing exploration properties held by Nevada Eagle Resources or through other means that we deem necessary. However, no assurance can be given that we will be successful in raising additional capital. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If we are unable to raise additional capital and expected significant revenues do not result in positive cash flow, we will not be able to meet its obligations and may have to suspend or cease operations.

Effective November 2008, the CEO, VP Business Development became part time, and we terminated the CFO, VP Exploration, administrative assistant and Field Supervisor for the Borealis property. The CFO and VP Exploration have entered into consulting agreements with us.

On November 10, 2008, we amended our 5% convertible note and ongoing cash interest payments will be \$73,288 and \$51,713 each January 1 and June 1, respectively, or one half of their previous amounts. The unpaid interest will be added to the principal balance of the note, compound monthly at 5% and become due and payable at the due date of the note, March 30, 2010.

We intend to continue to take all steps necessary to preserve our rights to the Borealis property under the existing terms of the property lease. We also expect to work with the United States Forest Service with the objectives of maintaining our permits under the Plan of Operations and obtaining necessary permits for the construction of the leach pad.

It is our intention to continue to lease and joint venture out the exploration properties held by Nevada Eagle Resources. We will continue to actively manage the portfolio of leases with the objective of obtaining cash flow from them.

On April 2, 2009 we sold an exploration property held by Nevada Eagle Resources for \$50,000. We anticipate that we will sell certain other properties. The ability to sell as well as the payment terms and amount of proceeds we may receive is likely to be impacted by the general condition of the gold exploration industry.

The following activities are currently planned for the duration of fiscal 2010:

- Obtain financing necessary to begin the Borealis Oxide Heap Leach mine project.
- Begin construction and bring the Borealis resource into production with-in six months of receiving financing and board approval to proceed..
- Execute a drill program to expand the oxide resource within the permitted footprint of the Borealis project.
- Execute a drill program on the three anomalies defined in the pediments of the Borealis property for the purpose of potentially discovering additional oxide and sulphide resources.
- Raise additional capital as required to fund our exploration, development and working capital requirements.
- Continue to stake and lease or joint venture out Nevada Eagle properties

## **Results of Operations**

We are in an exploration stage and currently have no producing mineral properties and thus we had no sales revenue during all reporting periods. Property payments we received under lease or joint venture arrangements were recorded as a reduction in the carrying value of the property unless the carrying value of the property was at or near zero, in which case the payments were recognized as lease revenue in the Statement of Operations.

### ***Three months ended June 30, 2009 compared to three months ended June 30, 2008***

For the three months ended June 30, 2009, we had a net loss of \$395,716 or \$0.01 per share compared to a net loss of \$1,438,906 or \$0.02 per share in the same period in the prior year. Cash spending on all areas of our operations decreased as a result of our efforts to conserve cash.

Exploration expenses during the quarter ended June 30, 2009 were \$277,453 or 63% of our total expenses compared to \$686,668 or 47% of total expenses in the prior year. Most of the exploration costs recognized in the current quarter were for completing all ongoing property lease payments and costs for the pre-feasibility study being performed by Telesto Nevada Inc. No exploration drilling was completed during the quarter ended June 30, 2009 nor in the prior year's comparable quarter.

Management salaries and consulting fees in the quarter ended June 30, 2009 were \$95,764, compared to \$328,026 incurred in the quarter ended June 30, 2008. Total non-cash compensation expense due to the recognition of costs related to stock options, was \$49,364 in the quarter ended June 30, 2009 compared to the prior year's fiscal first quarter of \$103,051. Management salaries and consulting fees during the quarter decreased due to the reduction in the number of staff to one full-time and two part-time employees, and the majority of all consulting contracts being cancelled. General and administrative costs decreased to \$56,342 compared to \$149,072 the prior year's quarter as a result of our efforts to reduce spending. These efforts included subleasing or releasing excess office space in Reno and Vancouver. Legal and audit fees for the period were \$23,107, a decrease from the prior year's quarter of \$89,090. These costs

decreased due to reduced activity. Travel and accommodation costs during the quarter ended June 30, 2009 were \$4,914, compared to \$27,935 expended on travel in the prior year's comparable quarter. The decrease in travel and entertainment cost is due to a significant reduction of travel during the quarter.

Interest income earned on cash deposits was \$114 for the quarter ended June 30, 2009, compared to \$16,042 in the prior year quarter and the decrease was due to reduced cash balances held on average through the current quarter versus the prior year's comparable quarter and the lower interest rates received on deposits during the current year's first fiscal quarter. Interest expense on the 5% note payable incurred to purchase Nevada Eagle Resources totaled \$135,843 of which \$75,512 was non-cash accreted interest.

We hold certain securities for trading. We receive these securities as partial payment of lease obligations for Nevada Eagle exploration properties. When we receive these shares, they have trading restrictions and we cannot sell them for approximately four to six months from the date of receipt. During the quarter ended June 30, 2009, we sold a number of these securities and received \$9,951 in proceeds and recorded a realized loss of \$13,484. This realized loss was partially offset by unrealized losses recorded in prior reporting periods as we reduced the carrying value of the securities to their quoted market value.

### **Liquidity and Capital Resources**

Our principal source of liquidity is cash that is raised by way of sale of common stock from treasury and other equity securities. Our secondary source of liquidity is cash received through lease payments and sales of exploration properties, and the sale of shares received as lease payments on exploration properties.

Effective November 2008, our CEO, VP Business Development went to a part time basis, and we terminated the CFO, VP Exploration, administrative assistant and Field Supervisor for the Borealis property. The CFO and VP Exploration have entered into consulting agreements with us.

On November 10, 2008, we amended our 5% convertible note and ongoing cash interest payments will be \$73,288 and \$51,713 each January 1 and June 1, respectively, or one half of their previous amounts. The unpaid interest will be added to the principal balance of the note, compound monthly at 5% and become due and payable at the due date of the note, March 30, 2010.

Our objective is to preserve our rights to the Borealis property under the existing terms of the property lease. We will also work with the USFS to maintain our permits under the Plan of Operations. These steps are intended to preserve the existing value of the Borealis property for our shareholders.

We intend to continue to lease and joint venture out the exploration properties held by Nevada Eagle Resources. The leased properties provide a cash and liquidity for us, and therefore we intend to continue to actively manage the portfolio of leases. Certain of these non-core properties may be sold outright. During the quarter ended June 30, 2009 we sold an unleased mineral property held by Nevada Eagle Resources for \$50,000.

In the event we make the decision to construct and operate a gold heap leach mine on the Borealis property, we will need to raise capital and will consider debt, equity or forms of joint venture to raise the required capital.

At June 30, 2009, we had working capital of negative \$4,646,571, and excluding our note payable, positive working capital of \$261,141 with an average cash expenditure rate of \$72,000 per month in a typical month based on our current level of business activity. This level of activity is subject to change based upon future events. Current assets consisted of \$627,815 in cash, \$129,427 in securities held for trading, \$3,886 in accounts receivable, and \$10,250 in the note receivable and \$26,675 in prepaid expenses. We had \$535,932 in accounts payable and accrued liabilities at June 30, 2009, a note payable of \$4,907,712, and \$980 in a reclass of warrants to liability under EITF 07-5.

During 2008 and early 2009 there was severe deterioration in global credit and equity markets. This has resulted in the need for government intervention in major banks, financial institutions and insurers and has resulted in greater volatility in the equity markets, increased credit losses and tighter credit conditions. These disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited



access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

We expect our reliance on equity financings to continue into the future, and therefore a continuation of these conditions could make it difficult or impossible for us to raise necessary funds to meet our capital requirements. If we are unable to obtain financing through equity investments, we will seek multiple solutions including, but not limited to, credit facilities or debenture issuances.

Our market value and the market values for companies similar to us have declined considerably over the past twelve months due the market conditions as discussed above. To preserve as much cash as possible and to ensure liquidity for the longest period possible, we have taken steps to reduce our rate of cash expenditure. These steps included reducing the number of personnel to three at reduced compensation rates, terminating other employees and temporarily suspending certain development work on the Borealis property, including engineering work. We have also reduced discretionary spending, including sub-leasing our Vancouver, British Columbia office and reducing the size of our rented office in Reno.

We recognize that additional resources are required to enable us continue operations. Our objective is to raise additional funds through debt and/or equity financing, selling certain exploration properties, and continue leasing exploration properties held by Nevada Eagle Resources or through other means that we deem necessary. However, no assurance can be given that we will be successful in raising additional capital. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If we are unable to raise additional capital and expected significant revenues do not result in positive cash flow, we will not be able to meet its obligations and may have to suspend or cease operations.

Our current working capital is \$261,141, excluding the note payable of \$4,907,712 due on March 30, 2010, with an average cash expenditure rate of \$72,000 per month in a typical month based on the current number of employees we have. We do not have sufficient working capital for the next twelve months. We will attempt to raise capital in one or more financings, which may include equity offerings, joint ventures, sales of exploration properties or other asset sales. This expenditure rate is subject to change based upon future events. The average burn rate does not include all anticipated costs, including annual claim maintenance fees, or the exercise of the option to fix the royalty rate on the Borealis property at 5% or the cost to exercise the option to reduce the balance of the note payable to the Baughman s. The average burn rate does not include expected lease payments from third parties for Nevada Eagle properties.

During the quarter ended June 30, 2009, we used cash in operating activities of \$289,590 which included our net loss during the quarter of \$395,716 off-set by depreciation of \$11,153, non-cash compensation of \$49,364, non-cash interest expense of \$125,427, unrealized gain of \$72,846 and a \$13,484 realized loss on the valuation of marketable securities, gain on disposal of equipment \$18,928, a gain on sale of mineral property of \$42,761, a change in the liability of options of warrants of \$86,220 and changes in non-cash working capital of a \$21,077 decrease in accounts receivable, a \$84,773 increase in accounts payable and a \$21,602 decrease in prepaid expenses.

We generated cash from investing activities of \$117,888 including \$55,100 in cash payments from the leasing of exploration properties, \$1,571 from sale of equipment, \$9,951 from the sale of securities, \$2,000 from the payments on the note receivable, \$50,000 from the sale of a mineral property and \$734 in purchase of equipment. We did not use or receive any cash from financing activities in the quarter ended June 30, 2009. Cash decreased during the period by \$171,702 to \$627,815 as at June 30, 2009.

Updated share capital as of August 14, 2009:

|  |            |
|--|------------|
| Basic Common Stock Issued and Outstanding          | 62,069,565 |
| Warrants, Options and other Convertible Securities | 14,278,500 |
| Fully Diluted Common Stock                         | 76,348,065 |

On July 22, 2009, we extended and repriced 9,486,500 outstanding warrants to amend the exercise price to \$0.18 through September 20, 2009 and to \$0.40 from September 21, 2009 through December 31, 2009. We cannot assure you that any of these warrants will be exercised.

### Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements is in accordance with accounting principles generally accepted in the United States. The following are critical accounting policies and estimates, which we believe are important to understanding our financial results.



### *Use of estimates*

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the revenues and expenses for the period reported. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Actual results will likely differ from these estimates.

### *Revenue recognition*

Mineral lease rentals or option payments are treated as reductions of the cost of the property as the payer is accumulating an interest in the mineral property; payments in excess of capitalized costs are recognized in income. Some agreements provide for payments in the form of stock and other equity instruments as well as cash payments. Stock and other equity instruments are recognized based on their fair market value at the time of receipt. Fluctuations incurred during the holding period are accounted for as gains or losses from held for trading securities. Privately held stock, or stock that is not currently trading is valued at zero. The leases provide for the receipt of royalty payments upon production of the property. Royalty payments will be recognized in the period in which production occurs. There are no properties in the production stage at this time.

### *Exploration of mineral property interests*

We expense exploration costs as they are incurred. When we determine that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, development costs incurred after such determination will be capitalized. The establishment of proven and probable reserves is based on results of final feasibility studies, which indicate whether a property is economically feasible. Upon commencement of commercial production, we will transfer capitalized costs to the appropriate asset category and amortize them over their estimated useful lives and/or ounces produced, as appropriate. We capitalize the cost of acquiring mineral property interests (including claims establishment) until we have determined the viability of the property. We expense capitalized acquisition costs if we determine that the property has no future economic value. We will also write down capitalized amounts if estimated future cash flows, including potential sales proceeds, related to the mineral property are estimated to be less than the carrying value of the property.

### *Stock-based compensation*

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 123R, Share-Based Payment, ( SFAS 123 (R) ) a revision to SFAS 123. SFAS 123(R) requires all share-based payments to be recognized in the financial statements based on their values using either a modified-prospective or modified-retrospective transition method.

Prior to March 31, 2006, the Company's stock-based employee compensation plans were accounted for under the recognition and measurement provisions of Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees ( APB 25 ) and related interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ). The Company did not recognize employee stock-based compensation costs in its statement of operations for the periods prior to March 31, 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective-transition method. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 5%. Estimation of forfeitures is reviewed on a quarterly basis.

*Asset retirement obligations*

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development or normal use of the assets with a corresponding increase in the carrying amount of the related long-lived asset. This amount is then depreciated over the estimated useful life of the asset. Over time, the liability is increased to reflect an interest element considered in its initial measurement at fair value. The amount of the liability will be subject to re-measurement at each reporting period. Currently, the Company has a reclamation liability of \$5,600, which is disclosed further in Note 8 of the financial statements.

***Tax valuation allowance***

We have recorded a valuation allowance that fully reserves for our deferred tax assets because at this time we cannot establish that we will be able to utilize the tax loss carryforwards in the future. If in the future we determine that we will be able to use all or a portion of our deferred tax assets in the future, based on our projections of future taxable income, we will reduce the valuation allowance, thereby increasing income in that period.

***Foreign currency translation***

The United States dollar is our functional currency. Transactions involving foreign currencies for items included in operations are translated into U.S. dollars using average exchange rates; monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date and all other balance sheet items are translated at the historical rates applicable to the transactions that comprise those amounts. Translation gains and losses are included in our determination of net income.

***Recent Accounting Pronouncements***

The Financial Accounting Standards Board ratified the consensus of the Emerging Issues Task Force that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. This consensus is effective for the first reporting period in fiscal years beginning after December 15, 2005, with early adoption permitted. To date the Company has not incurred any stripping costs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for our fiscal year commencing April 1, 2009, including interim periods within that fiscal year. The adoption of SFAS 160 did not have a material impact on its financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, which amends SFAS No. 141, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively. SFAS 141® may have an impact on the Company's consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisition the Company may consummate after the effective date.

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities ( FAS 161 )*. FAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. FAS 161 is effective for fiscal years beginning after November 15, 2008. The provisions of FAS 161 are only related to disclosure of derivative and hedging activities, and the adoption of FAS 161 did not have a material impact on our consolidated operating results, financial

position, or cash flows.

In June 2008, the EITF reached consensus on Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ( EITF 07-5 ). EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of EITF 00-19,

*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock*. EITF 07-5 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair market value each reporting period. At April 1, 2009, a reclassification of \$2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), retained deficit was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded. During the three months ended June 30, 2009, the liability was reduced by \$86,220, and the value of the warrants was \$980 at the end of the reporting period.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1 (FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*.

FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP APB 14-1 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In May 2009, the Financial Accounting Standards Board ( FASB ) issued FASB Statement No. 165 *Subsequent Events* ( FAS 165 ) which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. FAS 165 is effective for our fiscal year commencing April 1, 2009. The adoption of FAS 165 had no impact on the Company's consolidated financial position, results of operations or cash flows.

During the second quarter of 2009, the FASB issued FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP:

- Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.
- Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active
- Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. The FSP instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence
- Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.



- Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of the FSP and to quantify its effects, if practicable
- Applies to all fair value measurements when appropriate

FSP FAS 157-4 must be applied prospectively and retrospective application is not permitted. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The adoption of FAS157-4 had no impact on the company's consolidated operating results, financial position, or cash flows.

During the second quarter of 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP:

- Changes existing guidance for determining whether an impairment is other than temporary to debt securities.
- Replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis.
- Incorporates examples of factors from existing literature that should be considered in determining whether a debt security is other-than-temporarily impaired.
- Requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are additional credit losses.
- Requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income.
- When adopting FSP FAS 115-2 and FAS 124-2, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other- temporary impairment from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery.

FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. The adoption of FAS 115-2 and FAS 124-2 had no impact on the Company's consolidated operating results, financial position, or cash flows. During the second quarter of 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement 107. FSP 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. However, an entity may early adopt these interim fair value disclosure requirements only if it also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. The adoption of FAS 107-1 and APB 28-1 had no impact on the Company's consolidated operating results, financial position, or cash flows. Certain comparative figures have been reclassified to conform to the current year presentation.

**Summary of any product research and development that the company will perform for the term of the plan.**

We do not anticipate performing any product research and development under our plan of operation.

**Expected purchase or sale of plant and significant equipment.**

We do not anticipate any significant equipment purchases or sales.

**Significant changes in number of employees.**

We currently have three employees. We do not expect significant changes in this number.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### Contractual Obligations

We make advance royalty payments of \$9,590 per month to certain lease holders while exploration is proceeding on the Borealis Property. In addition, to maintain its existing claims on the Borealis property, we make payments totaling approximately \$101,000 annually. These payments are contingent upon us maintaining an interest in the property. Through Nevada Eagle, we also make claim payments of approximately \$43,000 annually. The definitive amount depends on the exact number of claims and the number of unleased properties.

Under the terms of the acquisition agreement for Nevada Eagle Resources LLC, we have a note payable outstanding for \$4,907,712 due March 10, 2010. Refer to the section *Liquidity and Capital Resources* under this document for a full description of the acquisition and commitment.

As of June 30, 2009, we had the following non-cancelable contractual obligations:

#### Payments Due by Period

|   | Total   | Less than 1 |              | More than 5  |       |
|---|---------|-------------|--------------|--------------|-------|
|   |         | Year        | 2-3<br>Years | 4-5<br>Years | Years |
| Operating Lease Obligation <sup>(1)</sup> | 220,922 | 51,696      | 106,248      | 62,978       | -     |
| Operating Lease Obligation <sup>(2)</sup> | 9,000   | 9,000       | -            | -            | -     |

<sup>(1)</sup> Obligation for the rental of office space in Vancouver, BC, 5-year term, terminating August 2013 and payments of approximately \$5,010 per month for the first 3 years and \$5,232 per month for the remaining two years.

The Vancouver office has been sub-leased commencing February 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn\$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised during October, 2010. If the option to terminate Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. \$65,587, the difference between the required lease payments and the estimated future sub-lease receipts, has been accrued as a loss at year ended March 31, 2009.

<sup>(2)</sup> Obligation for rental of office space in Hawthorne, Nevada, one-year term, terminating April 30, 2010 and payments of \$900 per month.

Certain information contained in this *Management Discussion and Analysis* constitutes forward looking information and actual results could differ from estimates, expectations or beliefs contained in such statements.

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not Applicable.

### Item 4. Controls and Procedures

#### *Disclosure Controls and Procedures*

At the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of the Company's management, including its Chief Executive Officer ( CEO ), John L. Key, and Chief Financial Officer ( CFO ), Michael Longinotti, of the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13(a)-15(f) or 15(d)-15(f)) that occurred during the period covered by this yearly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

Except as provided below, neither we nor any of our properties, including the Borealis Property, are currently subject to any material legal proceedings or other regulatory proceedings and to our knowledge no such proceedings are contemplated.

On September 16, 2005, our subsidiary, Borealis Mining Company, was named as a co-defendant in an ongoing civil action pending in the United States District Court for the District of Nevada, entitled *United States v. Walker River Irrigation District* (Court Doc. No. In Equity C-125, Subfile C-125-B). The action seeks to determine the existence and extent of water rights held by the federal government in the Walker River drainage area for use on federally reserved lands such as Indian reservations, National Forests, military reservations, and the like. The suit does not dispute nor seek to invalidate any existing water rights (including ours); rather, it seeks to determine the extent and priority of the federal government's water rights. On May 27, 2003, the Court stayed all proceedings to allow the United States, the State of Nevada, the State of California, the Walker River Paiute Tribe, the Walker River Irrigation District, Mono County, California, Lyon County, Nevada, Mineral County, Nevada and the Walker Lake Working Group to attempt to mediate a settlement. No settlement has yet been reached. Borealis Mining Company was named as one of several hundred co-defendants in this action because it owns water rights within a portion of the Walker River drainage area in Nevada, which were granted under a permit on September 16, 2005. We, like most private water right owners, intend to have only minimal involvement in the merits of the lawsuit. We do not believe that this civil action, which will determine the extent and priority of federally reserved water rights in the area, will have any effect on our potential business operations.

### **ITEM 1A. RISK FACTORS AND UNCERTAINTIES**

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of our common stock.

Our failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common stock may decline and investors may lose all or part of their investment. There is no assurance that we will successfully address these risks or other unknown risks that may affect our business.

Estimates of mineralized material are forward-looking statements inherently subject to error. Although mineralization estimates require a high degree of assurance in the underlying data when the estimates are made, unforeseen events and uncontrollable factors can have significant adverse or positive impacts on the estimates. Actual results will inherently differ from estimates. The unforeseen events and uncontrollable factors include: geologic uncertainties including inherent sample variability, metal price fluctuations, variations in mining and processing parameters, and adverse changes in environmental or mining laws and regulations. The timing and effects of variances from estimated values cannot be accurately predicted.

This includes the Borealis Property, as our lease, which includes claims covering the principal deposits, states that after January 24, 2009 (twelve years from the effective date of the lease) we must be engaged in active mining, development or processing to automatically extend the term of the lease. If 365 consecutive days elapses during which no mining or development or processing is conducted, we are subject to not having the term of the lease extended. Development is defined to mean work or construction in preparation for mining or processing a proven or possible reserve, including further exploration of development drilling of such a reserve. We currently are in the process of completing a pre-feasibility study, which is part of the development process. If we do not perform any qualifying development activities within a 365-day period, we are subject to losing our lease rights in the Borealis Property. Without additional financing in the future, we may not be able to continue our development process and we may lose

the lease to the Borealis Property. We cannot be certain that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable or acceptable to us. Future financings may cause dilution to our shareholders.



**Recent market events and conditions, including disruptions in the U.S. and international credit markets and other financial systems and the deterioration of the U.S. and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on our ability to fund our working capital and other capital requirements.**

In the past year, there has been severe deterioration in global credit and equity markets. This has resulted in the need for government intervention in major banks, financial institutions and insurers and has resulted in greater volatility, increased credit losses and tighter credit conditions.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

We recognize that additional resources are required to enable us continue operations. We intend to raise additional funds through debt and/or equity financing, selling certain exploration properties, and continue leasing exploration properties held by Nevada Eagle Resources or through other means that we deem necessary. However, no assurance can be given that we will be successful in raising additional capital. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If we are unable to raise additional capital and expected significant revenues do not result in positive cash flow, we will not be able to meet its obligations and may have to suspend or cease operations.

At June 30, 2009, we had working capital of negative \$4,646,571, and excluding our note payable, positive working capital of \$261,141 with an average cash expenditure rate of \$72,000 per month in a typical month based on the one full time and two part time employees we have. This level of activity is subject to change based upon future events. Current assets consisted of \$627,815 in cash, \$129,427 in securities held for trading, \$3,886 in accounts receivable, and \$10,250 in the note receivable and \$26,675 in prepaid expenses. We had \$535,932 in accounts payable and accrued liabilities at June 30, 1009, a note payable of \$4,907,712, and \$980 in a reclass of warrants to liability under EITF 07-5.

***Risks related to the Borealis Property.***

Our primary mineral exploration property is the Borealis Property. Even though the Borealis Property encompasses several areas with known gold mineralization, unless we discover additional deposits at the Borealis Property, future development of the property may be uneconomic. We cannot provide any assurance that we will establish any reserves or successfully commence mining operations on the Borealis Property.

***Risks related to Nevada Eagle properties***

We acquired approximately 54 exploration properties with the acquisition of Nevada Eagle Resources LLC. Approximately 25 of these properties are leased out to other exploration companies. We cannot provide any assurance that any reserves or successful mining operations will be established on any of these properties. We cannot give assurance that the existing parties currently performing exploration on the leased properties will continue with their exploration efforts. In addition, management's expectations of the significance of the Nevada Eagle properties; the Nevada Eagle prospects, including mineralization estimates, projections, exploration and value; our planned exploration and drilling programs; or our expectations with respect to future property acquisition, diversification of our property base and Mr. Baughman's addition to the Gryphon Gold management team will prove accurate or increase shareholder value.

We cannot assure you that we will successfully integrate the Nevada Eagle properties into our portfolio or operations or that we will have sufficient capital or resources to successfully implement our diversification strategy.

**Recent market events and current economic conditions may negatively impact the expected cash flow to Nevada Eagle for the lease of its exploration properties.**

The rapid decline in the financial markets, much greater volatility in equity valuations and generally weaker economic conditions experienced during 2008 and into 2009, has made it more difficult for companies, including junior exploration companies, to raise capital. Nevada Eagle Resources leases many of its exploration properties to junior exploration companies. Many of these companies may experience difficulties raising money to complete their planned exploration programs and this may negatively impact the expected cash flow to Nevada Eagle Resources for the lease of the exploration properties, and may result in the renegotiation of terms or cancellation of some of the leases by the exploration companies.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the three months ended June 30, 2009 we did not offer or sell unregistered securities pursuant to exemptions under the Securities Act of 1933, as amended, and no securities repurchases occurred during the three months ended June 30, 2009.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

**Number Description**

- 3.1\* Articles of Incorporation of Gryphon Gold Corporation, filed April 24, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.1)
- 3.2\* Certificate of Amendment to Articles of Incorporation of Gryphon Gold Corporation, filed August 9, 2005 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.2)
- 3.3\* Bylaws of Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.3)
- 3.4\* Articles of Incorporation of Borealis Mining Company, filed June 5, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.4)
- 3.5\* Bylaws of Borealis Mining Company (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.5)
- 4.1\* Specimen Common Stock certificate (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 4.1)
- 4.2\* Convertible Debenture between the Gryphon Gold Corporation and Gerald W. Baughman and Fabiola Baughman
- 10.1\* Assignment of Borealis Mining Lease, dated January 10, 2005, between Golden Phoenix Mineral Company and Borealis Mining Company (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.2)
- 10.2\* Agreement and Consent to Assignment of Borealis Mining Lease, entered into as of January 26, 2005, between Richard J. Cavell, Hardrock Mining Company, John W. Whitney, Golden Phoenix Minerals, Inc., Borealis Mining Company and Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.3)
- 10.3\* Escrow Agreement, dated January 10, 2005, between Borealis Mining Company, Gryphon Gold Company and Lawyers Title Agency of Arizona (Regarding Purchase Agreement dated January 10, 2005)(Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.4)
- 10.4\* Purchase Agreement dated January 10, 2005, as amended, Seller: Golden Phoenix Minerals, Inc., Buyer: Borealis Mining Company and Guarantor: Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.5)
- 10.5\* Agreement between Golden Phoenix Minerals, Inc. and Borealis Mining Company (Borealis Property, Mineral County, Nevada), dated July 21, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.6)
- 10.6\* Membership Interest Purchase Agreement for Nevada Eagle Resources LLC Properties (Previously filed on Form 8-K on July 6, 2007)
- 10.7\* Transition Agreement dated effective September 30, 2007 between Gryphon Gold Corporation and Albert Matter (Previously filed on Form 10-QSB on November 14, 2007 as exhibit 10.22)
- 10.8\* 2006 Omnibus Incentive Plan (Incorporated by reference to Appendix E of the Registrant's Definitive Schedule 14A proxy statement filed on August 9, 2006)(Previously filed as Exhibit 4.1 to Form S-8 filed on October 11, 2006)
- 10.9\* Financial and Advisory Services Agreement between Gryphon Gold Corporation and Matter & Associates (Vancouver, British Columbia) date March 20, 2008 (Previously filed as Exhibit 10.18 to Form 10-KSB filed on June 26, 2008)
- 10.10\* Employment Agreement between Gryphon Gold Corporation and Michael Longinotti dated April 18, 2006 (Previously filed as Exhibit 10.19 to Form 10-KSB filed on June 26, 2008) 10.11\* Employment Agreement between Gryphon Gold Corporation and Gerald Baughman dated August 21, 2007 (Previously filed as Exhibit 10.20 to Form 10-KSB filed on June 26, 2008) 10.12\* Professional Services Agreement between Gryphon Gold Corporation and John L. Key, February 4, 2008 (Previously filed as Exhibit 10.21 to Form 10-KSB filed on June 26, 2008) 10.13\* Employment Agreement between the Registrant and John L. Key, dated July 21, 2008 (Previously filed as Exhibit 10.1 to Form 8-K filed on July 21, 2008)

- 10.14\* Financial Services Agreement between the Registrant and Tony Ker, dated September 1, 2008 (Previously filed as Exhibit 10.2 to Form 8-K filed on July 21, 2008)
- 10.15\* Transition Agreement between the Registrant and Tony Ker, dated July 21, 2008 (Previously filed as Exhibit 10.3 to Form 8-K filed on July 21, 2008)
- 10.16\* Option to Restructure Debt Agreement between the Registrant and Nevada Eagle Resources, dated August 5, 2008 (Previously filed as Exhibit 10.8 to Form 10-Q filed on August 13, 2008)
- 10.17\* Financial and Advisory Services Agreement between the Registrant and Matter & Associates, dated October 1, 2008 (Previously filed as Exhibit 99.1 to Form 8-K filed on October 23, 2008)
- 10.18\* Option to Amend the Mining Lease on the Borealis Property, dated effective August 22, 2008
- 10.19\* Termination of Financial Services Agreement between the Registrant and Tony Ker, dated effective September 28, 2008
- 10.20\* Consulting Agreement between the Registrant and Steven Craig, dated November 1, 2008 (Previously filed as Exhibit 10.8 to Form 10-Q filed on November 14, 2008)
- 10.21\* Consulting Agreement between the Registrant and Michael Longinotti, dated November 12, 2008 (Previously filed as Exhibit 10.9 to Form 10-Q filed on November 14, 2008)
- 14.1\* Code of Business Conduct and Ethics (Previously filed on Form SB-2 on October 6, 2005 as Exhibit 14.1)
- 21.1\* Table of Subsidiaries
- 23.1\* Consent of Ernst & Young LLP
- 23.2 Consent of Dr. Roger Steininger, Ph.D., CPG, of Reno, NV
- 23.3 Consent of John Danio, PE, of Denver, CO
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \* Previously filed and incorporated by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GRYPHON GOLD CORPORATION**

By: /s/ John L. Key  
John L. Key  
Chief Executive Officer  
(On behalf of the registrant and as  
Principal executive officer)

Date: August 14, 2009

By: /s/ Michael K. Longinotti  
Michael K. Longinotti  
Chief Financial Officer  
(On behalf of the registrant and as  
Principal financial and accounting officer)

Date: August 14, 2009