

GRYPHON GOLD CORP  
Form 10-K  
June 28, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended **March 31, 2010**  
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.)

**611 N. Nevada Street**

**Carson City, Nevada**

(Address of Principal Executive Offices)

**89511**

(Zip Code)

**(604) 261-2229**

(Registrant's Telephone Number, including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: **None**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **Common Stock, \$0.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by checkmark whether the registrant (1) 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 such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [X]

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$35,034,549

The number of shares of the Registrant's Common Stock outstanding as of June 22, 2010 was 89,399,561

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## FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K and the exhibits attached hereto contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concern the Company's anticipated results and developments in the Company's operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends") and statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are forward-looking statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- the timing and possible outcome of pending regulatory and permitting matters;
- the timing and outcome of our possible feasibility study;
- the parameters and design of any potential mining facilities on the Borealis Property;
- future financial or operating performances of Gryphon Gold, its subsidiaries, and its projects;
- the estimation of mineralization and the realization of mineral reserves, if any, based on mineralization estimates;
- the timing of exploration, development, and production activities and estimated future production, if any;
- estimates related to costs of production, capital, operating and exploration expenditures;
- requirements for additional capital and our ability to raise additional capital;
- government regulation of mining operations, environmental risks, reclamation and rehabilitation expenses;
- title disputes or claims;
- limitations of insurance coverage; and
- the future price of gold, silver, or other minerals.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled "Risk Factors and Uncertainties", "Description of the Business" and "Management's Discussion and Analysis" of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

We qualify all the forward-looking statements contained in this annual report by the foregoing cautionary statements.

## PART I

*Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates: Certain of the technical reports, the preliminary assessment and the pre-feasibility study referenced in this annual report use 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 the SEC's Industry Guide 7 ( Guide 7 ) and are normally not permitted to be used in reports and registration statements filed with the SEC. As a reporting issuer in Canada we are required to prepare reports on our mineral properties in accordance with NI 43-101. We reference those reports in this annual report for informational purposes only. Investors are cautioned not to assume that any part or all of mineral deposits in the above categories will ever be converted into Guide 7 compliant 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.*

### ITEM 1. BUSINESS

#### **Name and Incorporation**

Gryphon Gold Corporation was formed under the laws of the State of Nevada on April 24, 2003.

Our principal business office, which also serves as our administration and financing office, is located in the United States at 611 N. Nevada Street, Carson City, Nevada, 89703 and our telephone number there is 604-261-2229.

We own 100% of the issued and outstanding shares of our operating subsidiaries, Borealis Mining Company (which we refer to as Borealis Mining) and Gryphon Nevada Eagle Holding Company. Gryphon Nevada Eagle Holding Company owned 100% of the membership interests in Nevada Eagle Resources LLC until it was sold in its entirety on April 23, 2010. We have no other subsidiaries. Borealis Mining was formed under the laws of the State of Nevada on June 5, 2003, Gryphon Nevada Eagle Holding Company was formed under the laws of the State of Nevada on July 27, 2007, and Nevada Eagle Resources LLC was organized under the laws of the State of Nevada on April 28, 2005.

#### **History and Background of Company**

We were established as a private company in April 2003 to acquire and develop gold properties in the United States. Our objective is to establish a producing gold company through the development and extraction of gold deposits.

In July 2003, through our wholly-owned subsidiary Borealis Mining, we acquired from Golden Phoenix Minerals, Inc. ( Golden Phoenix ) an option to earn up to a 70% joint venture interest in the mining lease for the Borealis Property (July 2003 Option and Joint Venture Agreement) by making qualified development expenditures on that property.

In October 2003, we engaged a mining consultant to develop a preliminary scoping study for the redevelopment of the Borealis Property.

During 2004, we completed drilling, technical and engineering work necessary to prepare a Plan of Operation in respect of the development of an open pit, heap leach mine on the Borealis Property. We submitted the Plan of Operation to the U.S. Forest Service on August 27, 2004, and we continue to work on satisfying all the requirements of the various approval agencies and completing all necessary reviews, including the approval of the Nevada Division

of Environmental Protection. The principal mine operating permits were granted in 2006. A further discussion of operating permits and other governmental regulation concerns is described under the caption Permitting, below.

Following the course established by the recommendations in the preliminary scoping study, and based on additional geologic field work that was completed in 2004, we retained a consulting resource modeling engineering firm, to complete an updated mineralization estimate model in accordance with National Instrument 43-101 of the Canadian Securities Administrators ( NI 43-101 ). In May 2005, the engineering firm delivered the report titled *Technical*

*Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada*. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

On January 10, 2005, Borealis Mining entered into a purchase agreement with Golden Phoenix which gave Borealis Mining the right to purchase the interest of Golden Phoenix in the Borealis Property for \$1,400,000. Golden Phoenix transferred its interest in the Borealis Property to Borealis Mining on January 28, 2005. Borealis Mining paid \$400,000 of the purchase price to Golden Phoenix upon closing of the purchase, and four additional quarterly payments of \$250,000 were made to Golden Phoenix. With the final payment of \$250,000 on January 24, 2006, Borealis Mining completed all the required payments under the purchase agreement and now has 100% control of the Borealis Property. A portion of the Borealis Property is subject to mining leases, as described under the caption Borealis Property, below.

As sole shareholder of Borealis Mining, we control all of the lease rights to a portion of the Borealis Property, subject to advance royalty, production royalty, and other payment obligations imposed by the lease. Our acquisition of the interest of Golden Phoenix in the Borealis Property terminated the July 2003 Option and Joint Venture Agreement.

In addition to our leasehold interest to a portion of the Borealis Property, we also own through Borealis Mining numerous unpatented mining claims that make up the balance of the Borealis Property, and all of the documentation and samples from years of exploration and development programs carried out by the previous operators of the Borealis Property.

On July 11, 2005, we accepted a joint proposal for a feasibility study from the firms of Samuel Engineering, Inc. and Knight Piesold and Company. Samuel Engineering provides services including metallurgical process development and design, and Knight Piesold provides mining, metallurgical and environmental engineering services.

During the period from our inception on April 24, 2003 through June 30, 2005, we funded our capital needs by raising \$6,513,965 in private placements, issuing 20,906,408 shares of common stock at prices ranging from \$0.10 per share to \$0.65 per share.

On August 11, 2005, our board of directors authorized an increase in our authorized capital to consist of 150,000,000 shares of common stock, par \$0.001, and 15,000,000 shares of preferred stock, par \$0.001. The increase was approved by shareholders.

On December 22, 2005, we completed our initial public offering of 6.9 million units for gross proceeds of approximately \$5,036,497 with net proceeds of \$2,794,557 after deducting costs of \$2,241,940. The units were sold at a price of \$0.73 (Cdn\$0.85) each and consisted of one common share and one Class A warrant. Each Class A warrant was exercisable for a period of 12 months at a price of Cdn\$1.15. The common shares are listed on the Toronto Stock Exchange under the symbol GGN. The offering was underwritten by a syndicate of Canadian underwriters which included Desjardins Securities, CIBC World Markets, Bolder Investment Partners and Orion Securities. The units were offered for sale pursuant to a prospectus filed in four Canadian provinces (British Columbia, Alberta, Manitoba and Ontario). The units were also registered in a registration statement filed with the United States Securities and Exchange Commission. The proceeds of the offering were used principally for the completion of the Company's



feasibility study for our Borealis Property and our exploration program on the Borealis Property, as well as for working capital.

On March 24, 2006, we closed a private placement of 5,475,000 units for sale at a purchase price of Cdn\$1.25 to a limited number of accredited investors in Canada and the United States. Each unit consisted of one common share and one half of one Series B purchase warrant. The Series B warrants were exercisable until March 23, 2007 at a price of Cdn\$1.65. The private offering raised gross proceeds of Cdn\$6.8 million. We paid qualified registered dealers a 7% cash commission and issued compensation options to acquire 280,500 common shares at price of Cdn\$1.40 until March 23, 2007 on a portion of the private placement. The shares, warrants and underlying shares were not qualified by prospectus and were not registered under U.S. securities laws. We granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were used to fund the continuation of our exploration and development program on the Borealis Property.

In June 2006, we closed a private placement with our newly appointed Chief Financial Officer and our Corporate Controller. Mr. Longinotti was appointed as new Chief Financial Officer, effective May 15, 2006, and we entered into a formal employment agreement with him in due course. Mr. Longinotti received through a private placement as compensation: 100,000 units at a price of Cdn\$1.35; each unit consisted of one (1) share of common stock with a par value of \$0.001 and one-half (1/2) of one (1) share purchase Series D Warrant. The common stock was issued May 26, 2006, and the Series D warrants were issued June 10, 2006. Mr. Longinotti's employment commenced April 18, 2006. Mr. Rajwant Kang was appointed Corporate Controller. In June of that year, as part of a private placement, Mr. Kang was issued 29,000 units at a price of Cdn\$1.35; each unit consisted of one (1) share of common stock with a par value of \$0.001 and one-half (1/2) of one (1) share purchase Series D Warrant. The common stock was issued June 2, 2006, and the Series D warrants were issued June 10, 2006.

On November 30, 2006, our board of directors concluded that we would not proceed with near term construction and production financing of the Borealis heap leach mine. The feed for the proposed mine was remnants from the previously mined open pits, and heap and dump material associated with the historical mining operations. The decision not to proceed was made due to the impact of certain technical corrections to the previously announced Feasibility Study and related NI 43-101 Technical Report, dated August 15, 2006. The technical corrections reduced the anticipated quantity of recoverable gold and silver over the project life, and resulted in a marginal projected return on investment. In light of the decision not to proceed with development of a mine, in December 2006, we closed our Denver office and terminated operations and engineering staff, including our Chief Operating Officer, Mr. Allen Gordon and Mr. Matt Bender, our Vice President of Borealis Project Development. Mr. Steven Craig, our Vice President of Exploration, was relocated to Nevada. As of December 1, 2006, our Chief Financial Officer, Mr. Michael Longinotti commenced working on a part-time basis. Under this agreement, his time spent in the office was reduced by 50% along with his salary. Mr. Longinotti resumed full time employment in mid-2007. In December 2006, we completed the geophysical survey, which commenced in September 2006. The positive geophysical results obtained from induced polarization (IP) surveys identified multiple chargeability and resistivity anomalies coincident with aeromagnetic lows which extended several kilometers (km) to the north and northwest of the Graben sulphide deposit. The IP surveys identified two new mineralized exploration targets located under the pediments 3.0 km (Central Pediments) and 5.3 km (Western Pediment) northwest of the Graben sulphide deposit. On January 11, 2007, we announced the results of the revised Canadian Institute of Mining ( CIM ) compliant mineralization estimate in accordance with NI 43-101 which had been compiled by a consulting and resource modeling engineering firm, entitled *Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, August 15, 2006 Revised January 11, 2007*. The results of the report were independently reviewed by AMEC to insure the methodology and assumptions used in the calculations were consistent with industry standards. The mineralization estimate included the results of exploration drilling through November 5, 2006. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

In January 2007 we started the process of completing a mineralization estimate covering the entire property that included all drilling results obtained during calendar year 2007. The mineral mineralization estimate was completed April 28, 2008 and is available for review on the System for Electronic Document Analysis and Retrieval (SEDAR) at website: [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.gryphongold.com](http://www.gryphongold.com). The report is entitled *Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA*, (the the Technical Report ) and was compiled by Dr. Roger Steininger, Ph.D., CPG. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.



On February 9, 2007 we completed a private placement of 5.0 million units at a price of Cdn\$0.90 per unit for gross proceeds of Cdn\$4.5 million. Each unit consisted of one common share and one full purchase warrant. The two year warrants were exercisable at a price of Cdn\$1.10 if exercised within twelve months of the closing and at a price of Cdn\$1.35 if exercised after the first anniversary but prior to expiry. We paid qualified registered dealers a 7% cash commission in the amount of Cdn\$77,175 and issued compensation options to acquire 85,050 common shares (at a price of Cdn\$0.90 per share for a period of 12 months from closing) in respect of the 1.225 million units placed by them. The shares, warrants and underlying shares were not qualified by prospectus and were not registered under U.S. securities laws. We granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were applied to fund the continuation of our exploration and development program on the Borealis Property.

On July 4, 2007, we entered into a membership interest purchase agreement with Gerald W. Baughman and Fabiola Baughman ( Baughmans ), as sellers, and Nevada Eagle, under which we agreed to purchase all of the outstanding limited liability company interests of Nevada Eagle. Upon closing of the membership interest purchase agreement on August 21, 2007, we acquired Nevada Eagle from the sellers for the following consideration:

- (a) 2,500,000 in cash;
- (b) four million five hundred thousand (4,500,000) shares of our common stock; and
- (c) a 5% convertible note in the principal amount of \$5,000,000 (the Convertible Note ).

The convertible note, due March 30, 2010, bears interest at the annual rate of 5% and was convertible at the option of the holder into common shares at an initial conversion price of \$1.00 per share during first the twelve month period following the closing date, \$1.25 per share during the second twelve month period following the closing date, \$1.50 per share thereafter and \$1.75 per share if converted on March 30, 2010. The interest payments are due on a semi-annual basis beginning on January 1, 2008. In addition to the purchase consideration, the Baughmans were entitled to all revenues of Nevada Eagle (payable in cash, stock, or other consideration) calculated to be received and received on the assets and properties of Nevada Eagle from January 1, 2007 through midnight on December 31, 2007.

In addition, we granted the sellers registration rights to file a registration statement for the resale of the common shares issued at closing and issuable upon exercise of the convertible note under the Securities Act of 1933, as amended. We subsequently filed a registration statement to register the securities.

We executed the following agreements at closing:

- (a) A Lock-up Agreement, dated August 21, 2007, under which the Sellers agreed that for a period of three months following the Closing Date not to sell Common Shares issued or issuable under the Purchase Agreement and Convertible Note and, thereafter, to limit the sale of such Common Shares to 20% of the aggregate Common Shares issued under the Purchase Agreement and Convertible Note each quarter (with unsold Common Shares aggregating each quarter thereafter);
- (b) An Employment Agreement between us and Mr. Baughman for a term of one year, renewable by the parties, to serve as our Vice President of Business Development; and
- (c) A Non-Competition Agreement under which the Sellers have agreed not to compete with the Registrant for the latter of (i) twelve (12) months following the Closing Date (the Restricted Period ), or (ii) twelve (12) months following the termination of the Company's employment of Gerald Baughman. The scope of the non-competition obligation relates to the business of acquiring and/or holding base metal and precious metal mineral assets located in the state of Nevada within the Area of Interest and to properties that have been examined by the Registrant or Mr. Baughman during the course of his employment by the Registrant, in any manner or capacity. Area of Interest is defined as any property owned by the Registrant, Nevada

Eagle, or any affiliate of the Registrant or Nevada Eagle on the latter of (i) Closing Date or (ii) the termination date of Gerald Baughman's employment by the Registrant, if any, together with any adjacent areas within one kilometer of the exterior boundary of such properties.

On August 7, 2007, we closed a private placement of 5.0 million units at a price of Cdn\$0.80 per unit for gross proceeds of Cdn\$4.0 million. Each unit consisted of one common share and one full purchase warrant. The two year warrants were exercisable at a price of Cdn\$1.00 if exercised within twelve months of the closing and at a price Cdn\$1.25 if exercised after the first anniversary but prior to expiry. We paid qualified registered dealers cash commissions in the amount of Cdn\$152,040 and issued warrants to acquire 265,050 common shares (at a price of Cdn\$0.83 for a period of up to 9 months from closing). The shares, warrants and underlying shares were not qualified by prospectus, were not registered under U.S. securities laws and were subject to resale restrictions. The Company granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On December 14, 2007 we completed a private placement of 4,486,500 units at Cdn\$0.80 for gross proceeds of approximately Cdn\$3,589,200. The private placement closed in three tranches on November 22, November 27 and December 14, 2007. Each unit consisted of one common share and one series I warrant. Each series I warrant entitled the holder to purchase a common share at a price of Cdn\$1.00 per share during the first 12 months after closing and Cdn\$1.25 per share during the second 12 months after closing and until expiry. We paid qualified registered dealers a 7% cash commission in the amount of Cdn\$71,624 and issued compensation warrants (series J) to acquire 89,530 common shares (at a price of Cdn\$0.80 per share for a period of 9 months from closing) in respect of the 1,204,000 units placed by them (14,000 of the compensation warrants were later rejected and cancelled by one of the registered dealers). We have a right to force warrant holders to exercise warrants, if the price of our common stock remains equal to or greater than, Cdn\$1.85 per common share, for a period of twenty consecutive days. The shares, warrants and underlying shares were not qualified by prospectus, have not been registered under U.S. securities laws, and are subject to resale restrictions. We granted registration rights to the investors in this private placement and will use commercially reasonable efforts to prepare and file with the SEC a registration statement under the Securities Act and to cause such statement to be declared effective if requested to do so. The proceeds of this offering were applied to fund the continuation of our exploration and development program on the Borealis Property.

In the calendar year 2007, we continued extension drilling, focused on the expansion of the Graben deposit and exploration drilling for a new gold deposit within the two newly identified potentially gold-bearing hydrothermal systems in the pediments. This drilling program consisted of a series of Graben deposit expansion drilling and extension drilling north and west of the successful G3 - G13 fence of holes. The drilling of the Graben deposit alternated with follow up exploration drilling in the Central and Western Pediments where 10 holes have intersected two distinct hydrothermal systems hidden beneath the pediments.

In April of 2008, we completed the Technical Report that included all drilling results to date. We have analyzed those results and incorporated them in a Preliminary Assessment report ( PA ) examining the engineering and economic feasibility of placing the oxide mineralization into production.

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 30 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 prior six months, and Mr. Key's primary focus has been overseeing the completion the PA on the Borealis heap leach mine and advancing the project toward production as further described below.

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 on 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 has entered into a consulting agreement with the Company that became effective September 2008. Under the agreement, Mr. Ker is eligible for 200,000 common stock options and a success fee of 0.67% of any financing initiated during the term of this agreement. The consulting agreement was terminated effective September 28, 2008. The TA was amended on December 12, 2008 terminating the monthly \$12,500 payments. A consulting agreement was entered into on December 12, 2008 and Mr. Ker was entitled to receive Cdn\$50,000 on January 1, 2009 and may be terminated any time and requires 90 days notice.

Effective August 5, 2008, we entered into an option agreement with the Baughmans to amend the \$5 million face value note payable and pay them a \$35,000 fee. The option period is twelve months and extendable for another six months for an additional \$35,000 payment. 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 of our 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 there is an option agreement to amend the Borealis Property mining lease to fix the royalty on the Borealis property 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. The option period can be extended for an additional six months for a payment of \$125,000.

During September 2008, we released the independent 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. Cautionary Note to U.S. Investors: The PA 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

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.

No exploration drilling was completed during the year ended March 31, 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 March 31, 2008, approximately 203 holes and 142,220 feet of reverse circulation ( RC ) drilling had been completed. A majority of the holes are 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.

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

During September 2009, we released the independent Pre-Feasibility Study on the development of an oxide heap leach mine. The Pre-Feasibility Study was furnished to the SEC as Exhibit 99.2 to our Form 8-K as filed on September 22, 2009. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that



occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. Gryphon Gold is undertaking a bankable evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The Pre-Feasibility Study is not a bankable feasibility study. Cautionary Note to U.S. Investors: The Pre-Feasibility Study 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

On December 31, 2009 we terminated the consulting agreement with our former CFO and on January 6, 2010 we appointed R. William Wilson as our interim CFO.

On February 5, 2010, the Company and the Baughmans ( Debt holders ) entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 ( Amendment No. 1 ) pursuant to which, among other items, the Company obtained the right (i) in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated private placement or February 19, 2010 (the Amended Note ); (ii) to delete certain unmet conditions required to be satisfied by the Company in connection with the exercise of the Option; and (iii) to update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement ) pursuant to which the Company agreed to (i) issue the Debt holders 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration ), which Amendment Consideration is subject to obtaining Company shareholder and Toronto Stock Exchange approval (the Approvals ). The conversion price of the Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company s shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note.

On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 common shares and a promissory note in the principal amount of \$500,000 to the Debt holders, and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

On February 12, 2010 the Company and Richard J. Cavell TTTEE F/T Richard J. Cavell Trust dated 02/23/1994, Hardrock Mining Company and John W. Whitney (collectively, the Lessors ) entered into Amendment No. 2 to the Option Agreement Amendment to Mining Lease dated August 22, 2008 (the Option Agreement ). Pursuant to Amendment No. 2, the Option Agreement was amended to provide for the extension of the Option Term from February 22, 2010 until August 22, 2010 and the extension of the Condemnation Period from August 22, 2010 to August 22, 2011. As consideration for entering into Amendment No. 2, the Company agreed to pay the Lessors \$150,000 comprised of cash in the amount of \$25,000 and shares of the Company s common stock equal to \$125,000, calculated based on eighty percent of the average five day closing price immediately prior to the payment date.

On February 18, 2010, the Company closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn\$0.17 per unit for gross proceeds of \$1,762,701 (Cdn\$1,852,550). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.25. The units were offered for sale directly by the Company. In connection with the private placement, the Company has paid qualified registered dealers cash commissions in the aggregate amount of \$162,003 (Cdn\$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of common stock of the Registrant, exercisable at a price of US\$0.21 for a period of up to twelve months from the date of closing of the private placement. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, the Company relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On March 5, 2010, the Company and Sage Gold, Inc. ( Sage ) entered into an Option Agreement (the Option Agreement ) pursuant to which the Company granted Sage the option (the Option ) to enter into a Joint Venture Agreement (the Joint Venture Agreement ) and earn a 50% joint venture interest (the Joint Venture ) in the Company s wholly owned subsidiary Borealis Mining Company . The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. Under the terms of the Option Agreement, Sage has the right to exercise the Option and enter into the Joint Venture Agreement with the Company upon the satisfaction of the following conditions:

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the Option Period ) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).
- (c) Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.
- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units by April 16, 2010. Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date, but not less than Cdn\$0.18 per unit and not more than Cdn.\$0.25, subject to TSX approval.
- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.
- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

On March 7, 2010, Gerald W. Baughman resigned from his positions as an employee, officer and director of the Company in order to pursue other business opportunities. The Company and Mr. Baughman entered into a Separation Agreement for the purpose of facilitating a transition of Mr. Baughman's duties as an employee, officer and director of the Company. Under the terms of the Separation Agreement, Mr. Baughman's Employment Agreement was terminated and the Company agreed to pay Mr. Baughman \$50,000 to assist the Company during the transition period following his resignation.

On March 26, 2010, the Company and Sage entered into Amendment No. 1 to Option Agreement and Amendment No. 1 to Subscription Agreement ("Amendment No. 1"). Amendment No. 1 amends the Option Agreement, dated March 5, 2010 by extending the Due Diligence period to April 19, 2010, and amends the Subscription Agreement, dated March 5, 2010, by extending the closing of the Private Placement to on or before May 11, 2010.

On April 19, 2010, Gryphon Gold and Sage entered into Amendment No. 2 to Option Agreement and Amendment No. 2 to Subscription Agreement (the Amendment 2 ). Pursuant to the Amendment 2, the Option Agreement and Subscription Agreement were amended to extend the termination date of the due diligence period from April 19, 2010 to April 30, 2010.

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho.

On April 28, 2010, Gryphon Gold and Sage entered into Amendment No. 3 to Option Agreement and Amendment No. 2 to Subscription Agreement (the "Amendment"). Pursuant to the Amendment, the Option Agreement and Subscription Agreement were amended to extend the Option Expiry Date, as defined in the Option Agreement, until June 30, 2011 and to permit Sage to satisfy its commitment to invest US\$400,000 in the Private Placement through a subscription in the amount of US\$200,000 by June 16, 2010 and a further subscription in the amount of US\$200,000 by August 16, 2010, based on a subscription price equal to the greater of (i) the maximum discounted price permitted by the TSX Company Manual, and (ii) a 5% premium to the 30-day volume weighted average trading price of common stock of the Registrant on the day immediately preceding the subscription date.

On June 15, 2010 Gryphon Gold and Sage entered into Amendment No. 4 to Option Agreement and Amendment No. 4 to Subscription Agreement (the Amendment No.4). Pursuant to the Amendment 4, the Option Agreement and Subscription Agreement were amended to extend the JV Agreement Condition, as defined in the Options Agreement, until July 15, 2010.

On June 16, 2010, the Company closed the private placement with Sage and issued 1,464,429 units at a purchase price of Cdn\$0.14 per unit for gross proceeds of \$200,000 (Cdn\$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.20. The units were offered for sale directly by the Company. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, the Company relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

### **Business Objectives**

We are in the business of acquiring, exploring, and developing gold properties in the United States, emphasizing the state of Nevada. Our objective is to increase value of our shares through the exploration, development and extraction of gold deposits, beginning with our Borealis Property. The development and extraction may be performed by us or by potential partners. We will also consider the acquisition and exploration of other potential gold bearing properties within Nevada or areas that have a similar political risk profile. The Plan of Operations for the Borealis property that has been approved by the U.S. Forest Service does not present an economic analysis, and we have not placed any information in the Plan of Operations regarding capital expenditures, operating costs, ore grade, anticipated revenues, or projected cash flows. The Plan of Operation was based on the general economic concepts as presented in the Preliminary scoping study.

### **Corporate Strengths**

We believe that we have the following business strengths that will enable us to achieve our objectives:

- Our management team has significant exploration experience in Nevada and our CEO has 30 years of experience in mining operations;
- As the Borealis Property was the site of surface mining operations from 1981 to 1990, we believe the process to receive permits and start operations on previously mined operations is less difficult than getting permits for a previously undisturbed area. The USDA Forest Service and the Nevada Bureau of Mining Regulation and Reclamation have both approved the Plan of Operations and Reclamation Plan, allowing us to proceed with the development of a heap leach mine assuming sufficient oxide reserves are found and additional financing is available. We have also received approvals for surface exploration and water wells and have successfully progressed through the required agency and public review process for those permits.
- Our land position is extensive, controlled by 751 unpatented mining claims covering approximately 15,020 acres and one 5 acre millsite claim. We believe many surface showings of gold mineralization on the property may provide opportunities for discovery of gold deposits. Our property has multiple types of gold deposits including oxidized material, partial oxidized material, and predominantly sulfide material; which we believe may allow us flexibility in our future plans for mine development and expansion, assuming additional financing is available.

We cannot be certain that any mineral deposits will be discovered in sufficient quantities and grade to justify commercial operations. Proven and probable reserves as defined in *NI 43-101 Pre-Feasibility Study of the Mineral*

*Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA* dated September 17, 2009 are 283,017 oz Au Proven and 94,339 oz Au Probable. Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit; metal prices, which are volatile too highly cyclical; the cost to extract and process the mineralized material; and government regulations and permitting requirements. We may be unable to further upgrade additional mineralized material to proven and probable reserves in sufficient quantities to justify commercial operations and we may not be able to raise sufficient capital to develop the Borealis Property.

We have specifically focused our activities on Nevada. Mining is an integral part of Nevada's economy. Nevada ranks fourth in the world in gold production, after South Africa, Australia, and China. Located in the State of Nevada are well known geological trends such as the Carlin Trend, Battle Mountain, Getchell Trend and the Walker Lane Trend. The Borealis Property is also located along the Aurora-Bodie trend which crosses the principal Walker Lane Trend as shown in the illustration below. Borealis, Bodie, Aurora, and other historical producing districts, are aligned along this northeast-southwest belt of significant gold deposits. Nevada Eagle's principal properties have a cumulative 900,000 historical ounces of gold (the historical estimates are based on internal reports prepared by prior owners prior to February 2001 and were not been prepared in accordance with NI 43-101 standards and thus their reliability has not been verified).

(Source: Gryphon Gold, 2005)

### **Gold Industry**

**Gold Uses.** Gold has two main categories of use: fabrication and investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors buy gold bullion, official coins and jewelry.

**Gold Supply.** The supply of gold consists of a combination of production from mining and the draw-down of existing stocks of gold held by governments, financial institutions, industrial organizations and private individuals. In recent years, mine production has accounted for 60% to 70% of the annual supply of gold.

### **Gold Prices and Market Statistics**

The following table presents the annual high, low and average afternoon fixing prices for gold over the past ten years, expressed in U.S. dollars per ounce on the London Bullion Market.

<b>Year</b>	<b>High</b>		<b>Low</b>		<b>Average</b>	
2000	\$	313	\$	264	\$	279
2001	\$	293	\$	256	\$	271
2002	\$	349	\$	278	\$	310
2003	\$	416	\$	320	\$	363
2004	\$	454	\$	375	\$	410
2005	\$	536	\$	411	\$	444
2006	\$	726	\$	521	\$	604



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2007	\$	841	\$	608	\$	681
2008	\$	1,011	\$	713	\$	872
2009	\$	1,213	\$	810	\$	972

Source: Kitco and Reuters

The price of gold has risen steadily for the last few years. In 2007, gold traded between approximately \$600 and \$840 per ounce, based on the London PM Fix Price. In 2008, gold traded between approximately \$700 and \$1,010 per ounce, based on the London PM Fix Price. In 2009, gold traded between approximately \$810 and \$1,213 per ounce based on the London PM Fix Price. The price of gold closed at \$1,236 per ounce on June 22, 2010, based on the London PM Fix Price. In 2007, silver traded between approximately \$11.70 and \$15.80 per ounce, based on the London Fix Price. In 2008, silver traded between approximately \$8.90 and \$20.90 per ounce, based on the London Fix Price. In 2009, silver traded between approximately \$10.51 and \$19.18 per ounce, based on the London Fix Price. The price of silver closed at \$18.63 on June 22, 2010, based on the London Fix Price.

### **Competition**

We compete with other mining companies in connection with the acquisition, exploration, financing and development of gold properties. There is competition for the limited number of gold acquisition and exploration opportunities, some of which is with other companies having substantially greater financial resources than we have. As a result, we may have difficulty acquiring attractive gold projects at reasonable prices. We also compete with other mining companies for mining engineers, geologists and other skilled personnel in the mining industry and for exploration and development equipment.

We believe no single company has sufficient market power to affect the price or supply of gold in the world market.

### **Employees**

As of March 31, 2010, we had 2 full-time employees 1 employed at our office in Vancouver, British Columbia and 1 employed at our office in Reno, Nevada. As of March 31, 2010 Borealis Mining Company, our wholly-owned subsidiary, had no full-time employees or part-time employees. We use consultants with specific skills to assist with various aspects of our project evaluation, due diligence, corporate governance and property management.

### **Environmental Regulation**

Our gold projects are subject to various federal, state and local laws and regulations governing protection of the environment. These laws are continually changing and, in general, are becoming more restrictive. Our policy is to conduct business in a way that safeguards public health and the environment. We believe that our operations are conducted in material compliance with applicable laws and regulations.

Changes to current local, state or federal laws and regulations in the jurisdictions where we operate could require additional capital expenditures and increased operating and/or reclamation costs. Although we are unable to predict what additional legislation, if any, might be proposed or enacted, additional regulatory requirements could impact the economics of our projects.

During the year ended March 31, 2010, there were no material environmental incidents or material non-compliance with any applicable environmental regulations.

## **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.

## Risks Related to Our Operations

*Our operations will require future financing and our lease for the Borealis property is affected by our ability to perform development work, an activity that requires capital.*

We are an early stage company and may not have sufficient capital to fully fund all of our obligations under the proposed Joint Venture with Sage to implement the Plan of Operation at the Borealis Property. Currently, we have sufficient cash on hand to fund limited exploration activity, regulatory permitting, claim maintenance fees, and general and administrative expenses for approximately 5 months. However, we will require substantial additional financing for future development activities, if any, or if we encounter unexpected costs or delays. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, and, development or production on any or all of the Borealis Property and any properties we may acquire in the future or even a loss of our property interest.

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. 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.

As at December 31, 2009, the lessors have confirmed that the Borealis Property lease is now in the Continuing Term, as defined, and is valid and in full force and effect. 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.

Since the fall of 2008 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 also 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. 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 March 31, 2010, we had working capital of \$1,723,347, with average cash expenditure rate of \$100,000 per month in a typical month based on the 2 full time employees we have. This level of activity is subject to change based upon future events. Current assets consisted of \$937,056 in cash, \$191,966 in securities held for trading, \$20,183 in

accounts receivable, \$16,230 in accounts receivable joint venture, \$30,980 in prepaid expenses, \$11,441 in the current portion of the note receivable, and \$3,708,691 in assets held for sale in discontinued operations. We had \$832,977 in accounts payable and accrued liabilities, \$270,000 in share consideration payable to former owners of discontinued operations and \$2,170,223 in liabilities in liabilities held for sale in discontinued operations at March 31, 2010.

***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 (resources at the Borealis Property, future development of the property may be uneconomic. We cannot provide any assurance that we will establish any additional resources or successfully commence mining operations on the Borealis Property.

***We have no history of producing metals from our mineral property and there can be no assurance that we will successfully establish mining operations or profitably produce precious metals.***

We have no history of producing metals from the Borealis Property. While our plan is to move the Borealis Property into the development stage, production there will be subject to completing construction of the mine, processing plants, roads, and other related works and infrastructure. As a result, we are subject to all of the risks associated with establishing new mining operations and business enterprises including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the ability to find sufficient gold reserves to support a mining operation;
- the availability and costs of skilled labor and mining equipment;
- the availability and cost of appropriate smelting and/or refining arrangements;
- compliance with environmental and other governmental approval and permit requirements;
- the availability of funds to finance construction and development activities;
- potential opposition from non-governmental organizations, environmental groups, local groups or local inhabitants which may delay or prevent development activities; and
- potential increases in construction and operating costs due to changes in the cost of fuel, power, materials, supplies, and other costs.

The costs, timing and complexities of mine construction and development may be increased by the remote location of the Borealis Property. It is common in new mining operations to experience unexpected problems and delays during construction, development and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, we cannot assure you that our activities will result in profitable mining operations or that we will successfully establish mining operations or profitably produce metals at any of our properties.

***Historical production on the Borealis Property may not be indicative of the potential for future development.***

The Borealis Mine actively produced gold in the 1980s, but we currently have no commercial production at the Borealis Property and have never recorded any revenues from gold production. You should not rely on the fact that there were historical mining operations at the Borealis Property as an indication that we will ever place the property into commercial production. We expect to continue to incur losses unless and until such time, if ever, as our property enters into commercial production and generates sufficient revenues to fund our continuing operations. The development of new mining operations at the Borealis Property will require the commitment of substantial resources for operating expenses and capital expenditures, which may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of our properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, our acquisition of additional properties, and other factors, many of which are beyond our control. We may not be able to place the Borealis Property into production or generate any revenues or achieve profitability.

***Our exploration activities on the Borealis Property may not be commercially successful, which could lead us to abandon our plans to develop the property and our investments in exploration.***

Our long-term success depends on our ability to identify additional mineral deposits on the Borealis Property and other properties we may acquire, if any, that we can then develop into commercially viable mining operations. Mineral exploration is highly speculative in nature, involves many risks and is frequently non-productive. These risks include unusual or unexpected geologic formations, and the inability to obtain suitable or adequate machinery, equipment or labor. The success of gold exploration is determined in part by the following factors:

- the identification of potential gold mineralization based on surficial analysis;

- availability of government-granted exploration permits;
- the quality of our management and our geological and technical expertise; and
- the capital available for exploration.

Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable mineral reserves. The decision to abandon a project may have an adverse effect on the market value of our securities and the ability to raise future financing. We cannot assure you that we will discover or acquire any mineralized material in sufficient quantities on any of our properties to justify commercial operations.

***Actual capital costs, operating costs, production and economic returns may differ significantly from those we have anticipated and there are no assurances that our development activities will result in profitable mining operations.***

We plan to estimate operating and capital costs for the Borealis Property based on information available to us and that we believe to be accurate. However, costs for labor, regulatory compliance, energy, mine and plant equipment and materials needed for mine development and construction may significantly fluctuate. In light of these factors, actual costs related to our proposed mine development and construction may exceed any estimates we may make. We do not have an operating history upon which we can base estimates of future operating costs related to the Borealis Property, and we intend to rely upon our future economic feasibility of the project and any estimates that may be contained therein. Studies derive estimates of cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of the ore to be mined and processed;
- anticipated recovery rates of gold and other metals from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

Capital and operating costs, production and economic returns, and other estimates contained in feasibility studies may differ significantly from actual costs, and there can be no assurance that our actual capital and operating costs will not be higher than anticipated or disclosed.

In addition, any calculations of cash costs and cash cost per ounce may differ from similarly titled measures of other companies and are not intended to be an indicator of projected operating profit.

***A shortage of equipment and supplies could adversely affect our ability to operate our business.***

We are dependent on various supplies and equipment to carry out our mining exploration and development operations. The shortage of such supplies, equipment and parts could have a material adverse effect on our ability to carry out our operations and therefore limit or increase the cost of production.

***The figures for our mineralization are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.***

Unless otherwise indicated, mineralization figures presented in this annual report and in our filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineral reserves and grades of mineralization on our properties. Until ore is actually mined and processed, mineral reserves and grades of mineralization must be considered as estimates only.



These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that:

- these estimates will be accurate;
- reserve or other mineralization estimates will be accurate; or
- this mineralization can be mined or processed profitably.

Any material changes in mineral reserve estimates and grades of mineralization will affect the economic viability of placing a property into production and a property's return on capital.

Because we have not started mine construction at our Borealis Property and have not commenced actual production, mineralization estimates, including reserve estimates, for the Borealis Property may require adjustments or downward revisions based upon actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by our feasibility studies and drill results. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. The mineralization estimates contained in this report have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold and silver may render portions of our mineralization, reserve estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability of our Borealis Property. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our results of operations or financial condition.

***Changes in the market price of gold, silver and other metals, which in the past has fluctuated widely, will affect the profitability of our operations and financial condition.***

Our profitability and long-term viability depend, in large part, upon the market price of gold and other metals and minerals produced from our mineral properties. The market price of gold and other metals is volatile and is impacted by numerous factors beyond our control, including:

- expectations with respect to the rate of inflation;
- the relative strength of the U.S. dollar and certain other currencies;
- interest rates;
- global or regional political, financial, or economic conditions;
- supply and demand for jewelry and industrial products containing metals; and
- sales by central banks and other holders, speculators and producers of gold and other metals in response to any of the above factors.

We cannot predict the effect of these factors on metal prices. The price of gold has risen steadily for the last few years. In 2007, gold traded between approximately \$600 and \$840 per ounce, based on the London PM Fix Price. In 2008, gold traded between approximately \$700 and \$1,010 per ounce, based on the London PM Fix Price. In 2009, gold traded between approximately \$810 and \$1,213 per ounce based on the London PM Fix Price. The price of gold closed at \$1,236 per ounce on June 22, 2010, based on the London PM Fix Price. In 2007, silver traded between approximately \$11.70 and \$15.80 per ounce, based on the London Fix Price. In 2008, silver traded between approximately \$8.90 and \$20.90 per ounce, based on the London Fix Price. In 2009, silver traded between approximately \$10.51 and \$19.18 per ounce, based on the London Fix Price. The price of silver closed at \$18.63 on June 22, 2010, based on the London Fix Price.

A decrease in the market price of gold and other metals could affect the commercial viability of our Borealis Property and our anticipated development and production assumptions. Lower gold prices could also adversely affect our ability to finance future development at the Borealis Property, all of which would have a material adverse effect on our financial condition and results of operations. There can be no assurance that the market price of gold and other metals will remain at current levels or that such prices will improve.

***Mining is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business.***

Mining involves various types of risks and hazards, including:

- environmental hazards;
- power outages;
- metallurgical and other processing problems;

- unusual or unexpected geological formations;
- structural cave-ins or slides;
- flooding, fire, explosions, cave-ins, landslides and rock-bursts;
- inability to obtain suitable or adequate machinery, equipment, or labor;

- metals losses; and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. We may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available to us or to other companies within the mining industry. We may suffer a material adverse effect on our business if we incur losses related to any significant events that are not covered by our insurance policies.

***We are subject to significant governmental regulations.***

Our primary properties, operations and exploration and development activities are in Nevada and are subject to extensive federal, state, and local laws and regulations governing various matters, including:

- environmental protection;
- management and use of toxic substances and explosives;
- management of natural resources;
- exploration, development of mines, production and post-closure reclamation;
- exports controls;
- price controls;
- regulations concerning business dealings with native groups;
- labor standards and occupational health and safety, including mine safety; and
- historic and cultural preservation.

Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory or judicial authorities enjoining or curtailing operations or requiring corrective measures, installation of additional equipment or remedial actions, any of which could result in us incurring significant expenditures. We may also be required to compensate private parties suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or a more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of our operations and delays in the development of our properties.

***Our activities are subject to environmental laws and regulations that may increase our costs of doing business and restrict our operations.***

All of our exploration and potential development and production activities are in the United States and are subject to regulation by governmental agencies under various environmental laws. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Environmental legislation in many countries is evolving and the trend has been towards stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations and future changes in these laws and regulations may require significant capital outlays and may cause material changes or delays in our operations and future activities. It is possible that future changes in these laws or regulations could have a significant adverse impact on our Borealis Property or some portion of our business, causing us to re-evaluate those activities at that time.

***Land reclamation requirements for our Borealis Property may be burdensome.***

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

- control dispersion of potentially deleterious effluents; and
- reasonably re-establish pre-disturbance land forms and vegetation.

In order to carry out reclamation obligations imposed on us in connection with our potential development activities, we must allocate financial resources that might otherwise be spent on further exploration and development programs. We have set up a provision for our reclamation obligations at the Borealis Property, but this provision may not be adequate. If we are required to carry out unanticipated reclamation work, our financial position could be adversely affected.

***We may experience difficulty attracting and retaining qualified management to meet the needs of our anticipated growth, and the failure to manage our growth effectively could have a material adverse effect on our business and financial condition.***

We are dependent on the services of key executives including, John Key, CEO, Matthew Fowler, CFO, and other highly skilled and experienced consultants focused on bringing our Borealis Property into production and managing our interests and on-going exploration programs on our other properties. Our management is also responsible for the identification of new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees required for our development activities may have a material adverse effect on our business or future operations. The failure to hire qualified people for these positions could adversely affect planned operations of the Borealis Property. We do not maintain key-man life insurance on any of our key management employees.

***Increased competition could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.***

The mining industry is intensely competitive. Significant competition exists for the acquisition of properties producing or capable of producing, gold or other metals. We may be at a competitive disadvantage in acquiring additional mining properties because we must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than us. We may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Increased competition could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***We compete with larger, better capitalized competitors in the mining industry.***

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. It requires significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over us. We face strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than us. As a result of this competition, we may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms we consider acceptable or at all.

***Title to the Borealis Property may be subject to other claims, which could affect our property rights and claims.***

Although we believe we have exercised commercially reasonable due diligence with respect to determining title to properties we own or control through the Borealis Mining Company and the claims that are subject to the Borealis

Property mining lease, there is no guarantee that title to such properties will not be challenged or impugned. The Borealis Property may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of these properties which, if successful, could impair development and/or operations. This is particularly the case in respect of those portions of the Borealis Property in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

All of the mineral rights to the Borealis Property consist of "unpatented" mining claims created and maintained in accordance with the U.S. General Mining Law. Unpatented mining claims are unique property interests, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the U.S. General Mining Law, including the requirement of a proper physical discovery of valuable minerals within the boundaries of each claim and proper compliance with physical staking requirements. Also, unpatented mining claims are always subject to possible challenges by third parties or validity contests by the federal government. The validity of an unpatented mining or millsite claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of U.S. federal and state statutory and decisional law. In addition, there are few public records that definitively determine the issues of validity and ownership of unpatented mining claims. (There are differences in U.S. and Canadian practices for reporting reserves and resources.

We are a reporting issuer in Canada and report under Canadian reporting standards outside the United States. Our disclosure outside the United States differs from the disclosure contained in our SEC filings. We generally furnish our disclosure released outside the United States with the SEC as Regulation FD disclosure.

Our reserve and resource estimates disseminated outside the United States are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC. In the United States, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report resources as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in disclosure released outside the United States, or in the documents incorporated herein by reference, may not be comparable to information made public by other United States companies subject to the reporting and disclosure requirements of the SEC.

***We will be required to locate mineral reserves for our long-term success.***

Because mines have limited lives based on proven and probable mineral reserves, we will have to continually replace and expand our mineral reserves, if any, if and when the Borealis Property produces gold and other base or precious metals. Our ability to maintain or increase its annual production of gold and other base or precious metals once the Borealis Property is restarted, if at all, will be dependent almost entirely on its ability to bring new mines into production.

***We do not insure against all risks which we may be subject to in our planned operations.***

We currently maintain insurance to insure against general commercial liability claims and losses of equipment. Our insurance will not cover all the potential risks associated with a mining company's operations. We may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, we expect that insurance against risks such as environmental pollution or other hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of our size and financial means. We might also become subject to liability for pollution or other hazards which may not be insured against or which we may elect not to insure against because of



premium costs or other reasons. Losses from these events may cause us to incur significant costs that could negatively affect our financial condition and ability to fund our activities on the Borealis Property. A significant loss could force us to terminate our operations.

*Our directors and officers may have conflicts of interest as a result of their relationships with other companies.*

Certain of the directors and officers of Gryphon Gold have served as officers and directors for other companies engaged in natural resource exploration and development and may also serve as directors and/or officers of other companies involved in natural resource exploration and development

***Legislation, including the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract officers and directors.***

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of rules and regulations which govern publicly-held companies. Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the Securities and Exchange Commission that increase responsibilities and liabilities of directors and executive officers. We are a small company with a very limited operating history and no revenues or profits, which may influence the decisions of potential candidates we may recruit as directors or officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles.

***While we believe we have adequate internal control over financial reporting, we will be required to provide an auditors attestation on the effectiveness of our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such attestation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our shares of common stock.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by management on our internal control over financial reporting in this annual report on Form 10-K. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective.

For our annual report on Form 10-K for the fiscal year ended March 31, 2011, such report must also contain a statement that our auditors have issued an attestation report on the effectiveness of such internal controls.

While we have evaluated our internal control over financial reporting and have concluded that our internal control over financial reporting is effective, our auditors have not conducted the evaluation necessary to provide an attestation report on the effectiveness of our internal control over financial reporting. During the auditor's evaluation and testing process, they may identify one or more material weaknesses in our internal control over financial reporting, and they will be unable to attest that such internal control is effective. If our auditors are unable to attest that our internal control over financial reporting is effective as of March 31, 2011, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our stock price.

Failure to comply with the new rules may make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

## **Risks Related To Our Securities**

***Broker-dealers may be discouraged from effecting transactions in our common shares because they are considered a penny stock and are subject to the penny stock rules.***

Rules 15g-1 through 15g-9 promulgated under the Exchange Act impose sales practice and disclosure requirements on certain brokers-dealers who engage in certain transactions involving a penny stock. Subject to certain exceptions, a penny stock generally includes any non-NASDAQ equity security that has a market price of less than \$5.00 per share. Our common stock has traded below \$5.00 per share throughout its trading history. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our shares, which could severely limit the market liquidity of the shares and impede the sale of our shares in the secondary market.

A broker-dealer selling penny stock to anyone other than an established customer or accredited investor, generally, an individual with net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse, must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the United States Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

*In the event that your investment in our shares is for the purpose of deriving dividend income or in expectation of an increase in market price of our shares from the declaration and payment of dividends, your investment will be compromised because we do not intend to pay dividends.*

We have never paid a dividend to our shareholders, and we intend to retain our cash for the continued development of our business. We do not intend to pay cash dividends on our common stock in the foreseeable future. As a result, your return on investment will be solely determined by your ability to sell your shares in a secondary market.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not Applicable to smaller reporting company

## **ITEM 2. PROPERTIES**

### **Executive Offices**

We have moved our principal executive office to 611 N. Nevada Street, Carson City, Nevada 89511. We do not currently maintain any investments in real estate, real estate mortgages or securities of persons primarily engaged in real estate activities, nor do we expect to do so in the foreseeable future.

### ***Borealis Property***

Unless stated otherwise, information of a technical or scientific nature related to the Borealis Property is summarized or extracted from the Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA dated April 28, 2008, prepared by Dr. Roger Steininger, Ph.D., CPG of Reno Nevada, a Qualified Person, as defined in National Instrument 43-101 of the Canadian Securities Administrators. The Technical Report was prepared in accordance with the requirements of National Instrument 43-101. Management's plans, expectations and forecasts related to our Borealis Property are based on assumptions, qualifications and procedures which are set out only in the full Technical Report. For a complete description of assumptions, qualifications and procedures associated with the following information, reference should be made to the full text of the Technical Report which is available for review on the System for Electronic Document Analysis and Retrieval (SEDAR) at the website: [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.gryphongold.com](http://www.gryphongold.com). Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

The Borealis Property in Nevada is our principal asset, which we hold through our subsidiary, Borealis Mining Company ( Borealis Mining ). In the 1980s previous operators of the Borealis Property mined approximately 600,000 ounces of gold from near-surface oxide deposits. In this annual report, the previously mined area is referred to as the Borealis site, the previously disturbed area or the previously mined area, while our references to the Borealis Property refer to the entire property we own or lease through Borealis Mining.

Echo Bay Mines Limited ceased active mining operations in 1991. Full site reclamation was completed in 1994. Reclamation bonds were released and Echo Bay relinquished its lease in 1996.

At Borealis, there is one large hydrothermal system, containing at least 13 known gold deposits, some of which are contiguous. There has been historical production from 8 of these deposits. As there are several other showings of gold mineralization across the property, there is an opportunity to identify additional gold deposits.

***Borealis Property Description and Location***

The Borealis Property is located in Mineral County in southwest Nevada, 12 miles northeast of the California border. The Borealis Property covers approximately 15,020 acres. The approximate center of the property is at longitude 118° 45' 34" West and latitude 38° 22' 55" North. The figure below shows the location and access to the Borealis Property.

(Source: Gryphon Gold, 2005)

The Borealis Property is comprised of 751 unpatented mining claims of approximately 20 acres each, totaling about 15,020 acres, and one unpatented millsite claim of approximately 5 acres. Of the 751 unpatented mining claims, 128 claims are owned by others but leased to Borealis Mining, and 623 of the claims were staked by Golden Phoenix Minerals, Inc. , whom we refer to as Golden Phoenix, or Gryphon Gold and transferred to Borealis Mining. Our rights, through Borealis Mining as the owner or lessee of the claims, allow us to explore, develop and mine the Borealis Property, subject to the prior procurement of required operating permits and approvals, compliance with the terms and conditions of the mining lease, and compliance with applicable federal, state, and local laws, regulations and ordinances. We believe that all of our claims are in good standing.

The 128 leased claims are owned by John W. Whitney, Hardrock Mining Company and Richard J. Cavell, whom we refer to as the Borealis Owners. Borealis Mining leases the claims from the Borealis Owners under a Mining Lease dated January 24, 1997 and amended as of February 24, 1997. The mining lease was assigned to Borealis Mining by the prior lessee, Golden Phoenix. The mining lease contains an area of interest provision, such that any new mining claims located or acquired by Borealis Mining within the area of interest after the date of the mining lease shall automatically become subject to the provisions of the mining lease.

The term of the mining lease extends to January 24, 2009 and continues indefinitely thereafter for so long as any mining, development (including exploration drilling) or processing is being conducted on the leased property on a continuous basis. On December 31, 2009, the Borealis Owners confirmed that the lease is in the Continuing Term, as defined, and is valid and in full force and effect. The remainder of the Borealis Property consists of 623 unpatented mining claims and one unpatented millsite claim staked by Golden Phoenix, Gryphon Gold or Borealis Mining. Claims staked by Golden Phoenix were transferred to Borealis Mining in conjunction with our January 28, 2005 purchase of all of Golden Phoenix's interest in the Borealis Property. A total of 202 claims of the total 751 claims held by Gryphon Gold are contiguous with the claim holdings, are located outside of the area of interest, and are not subject to any of the provisions of the lease.

All of the mining claims (including the owned and leased claims) are unpatented, such that paramount ownership of the land is in the United States of America. Claim maintenance payments and related documents must be filed annually with the Bureau of Land Management (BLM) and with Mineral County, Nevada to keep the claims from terminating by operation of law. Borealis Mining is responsible for those actions. At present, the estimated annual BLM maintenance fees are \$125 per claim, or \$94,000 per year for all of the Borealis Property claims (751 unpatented mining claims plus one millsite claim). In addition, Mineral County filing and document fees totaling \$6,400 are paid to fulfill the annual filing requirements. The State of Nevada has imposed a one time fee of \$85 per claim in 2010, an additional \$63,920 will need to be paid in the upcoming fiscal year.

***Royalty Obligations***

The leased portion of the Borealis Property is currently subject to advance royalty payments of approximately \$9,762 per month, payable to the Borealis Owners. These advance royalty payments are subject to annual adjustments based on changes in the United States Consumer Price Index.

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. The option period can and was extended for an additional six months for a payment of \$125,000 that was settled through the issuance of common stock of the Company.

On February 12, 2010 the Company entered into an agreement to extend the option agreement from February 22, 2010 until August 22, 2010 and the extension of the Condemnation Period from August 22, 2010 to August 22, 2011. As consideration for entering into the agreement the Company agreed to pay \$150,000 to the Borealis Owners comprised of cash in the amount of \$25,000 and shares of the Company's common stock equal to \$125,000, calculated based on eighty percent of the average five day closing price immediately prior to the payment date.

The terms of the mining lease prior to the amendment require the payment of a net smelter return production royalty by Borealis Mining to the Borealis Owners in respect of the sale of gold (and other minerals) extracted from those claims within the area of interest specified in the mining lease. The royalty rate for gold is determined by dividing the monthly average market gold price by 100, with the result expressed as a percentage. The royalty amount is determined by multiplying that percentage by the amount of monthly gold production from the claims in the area of interest and by the monthly average market gold price, after deducting all smelting and refining charges, various taxes and certain other expenses. For example, using an assumed monthly average market gold price of \$850, the royalty rate would be 8.5%. Using an assumed monthly production of 5,000 ounces of gold from the leased claims, the monthly royalty amount would be 5,000 ounces times \$850 per ounce, less allowable deductions, multiplied by 8.5%.

At present, there is no royalty payable to the United States or the State of Nevada on production from unpatented mining claims, although legislative attempts to impose a royalty have occurred in recent years.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

Primary access to the Borealis Property is gained from an all weather county gravel road located about two miles south of Hawthorne from State Highway 359. Hawthorne is about 133 highway miles southeast of Reno. The Borealis Property is about 16 road miles from Hawthorne.

The elevation on the property ranges from 7,200 ft to 8,200 ft above sea level. This relatively high elevation produces moderate summers with high temperatures in the 90°F (32°C) range. Winters can be cold and windy with temperatures dropping to 0°F (-18°C). Average annual precipitation is approximately 10 inches, part of which occurs as up to 60 inches of snowfall. Historically, the Borealis Property was operated throughout the year with only limited weather related interruptions.

Topography ranges from moderate and hilly terrain with rocky knolls and peaks, to steep and mountainous terrain in the higher elevations.

The vegetation throughout the project area is categorized into several main community types: pinyon/juniper woodland, sagebrush, ephemeral drainages and areas disturbed by mining and reclaimed. Predominate species include pinion pine, Utah juniper, greasewood, a variety of sagebrush species, crested wheat grass and fourwing saltbush.

There is a power line crossing the Borealis Property within 2 miles of the center of the potential operations, which we will evaluate for the power source during our potential future engineering feasibility work. Water is available from two water basins located approximately 5 miles and 7 miles south of the planned mine site, respectively. Water for historical mining operations was supplied from the basin 5 miles away from the site. We have obtained permits from the Nevada Division of Water Resources to access water from each of these basins. We believe that each of these basins, individually, would provide a sufficient water supply for our potential operations.

The Borealis site has been reclaimed by the prior operator to early 1990's standards. The pits and the project boundary are fenced for public safety. Currently, access to the pits and leach heap areas is gained through a locked gate. No buildings or power lines or other mining related facilities located on the surface remain. All currently existing roads in the project area are two-track roads with most located within the limits of the old haul roads that have been reclaimed.



The nearest available services for both mine development work and mine operations are in the small town of Hawthorne, via a wide well-maintained gravel road. Hawthorne has substantial housing available, adequate fuel supplies and sufficient infrastructure to meet basic supply requirements. Material required for property development and mine operations are generally available from suppliers located in Reno, Nevada.

### *History of the District and Borealis Property*

The original Ramona mining district, now known as the Borealis mining district, produced less than 1,000 ounces of gold prior to 1981. In 1978 the Borealis gold deposit was discovered by S. W. Ivosevic, a geologist working for Houston International Minerals Company (a subsidiary of Houston Oil and Minerals Corporation). The property was acquired from the Whitney Partnership, which later became the Borealis Owners, following Houston's examination of the submitted property. Initial discovery of ore-grade gold mineralization in the Borealis district and subsequent rapid development resulted in production beginning in October 1981 as an open pit mining and heap leaching operation. Tenneco Minerals acquired the assets of Houston International Minerals in late 1981, and continued production from the Borealis mine. Subsequently, several other gold deposits were discovered and mined by open pit methods along the generally northeast-striking Borealis trend, and also several small deposits were discovered further to the northwest in the Cerro Duro area. Tenneco's exploration in early 1986 discovered the Freedom Flats deposit beneath thin alluvial cover on the pediment southwest of the Borealis mine. In October 1986, Echo Bay Mines acquired the assets of Tenneco Minerals.

With the completion of mining of the readily available oxide ore in the Freedom Flats deposit and other deposits in the district, active mining was terminated in January 1990, and leaching operations ended in late 1990. Echo Bay left behind a number of oxidized and sulfide-bearing gold mineralized material. All eight open pit operations are reported to have produced 10.7 million tons of ore averaging 0.057 ounces of gold per ton (opt Au). Gold recovered from the material placed on heaps was approximately 500,000 ounces, plus an estimated 1.5 million ounces of silver. Reclamation of the closed mine began immediately and continued for several years. Echo Bay decided not to continue with its own exploration and the property was farmed out as a joint venture in 1990-91 to Billiton Minerals, which drilled 28 reverse circulation (RC) exploration holes on outlying targets for a total of 8,120 ft. Billiton Minerals stopped its farm-in on the property with no retained interest.

Subsequently Santa Fe Pacific Mining, Inc. entered into a joint venture with Echo Bay in 1992, compiled data, constructed a digital drill-hole database and drilled 32 deep RC and core holes totaling 31,899.3 feet, including a number of holes into the Graben deposit. Santa Fe terminated its interest in the joint venture in 1993. Echo Bay completed all reclamation requirements in 1994 and then terminated its lease agreement with the Borealis Owners in 1996.

In 1996 J.D. Welsh & Associates, Inc. negotiated an option-to-lease agreement for a portion of the Borealis Property from the Borealis Owners. Prior to 1996, J.D. Welsh had performed contract reclamation work for Echo Bay and was responsible for monitoring the drain-down of the leach heaps. Upon signing the lease, J.D. Welsh immediately joint ventured the project with Cambior Exploration U.S.A., Inc. Cambior performed a major data compilation program and several gradient IP surveys. In 1998 Cambior drilled 10 holes which succeeded in extending the Graben deposit and in identifying a new area of gold mineralization at Sunset Wash.

During the Cambior joint venture period, in late 1997, Golden Phoenix entered an agreement to purchase a portion of J.D. Welsh's interest in the mining lease. J.D. Welsh subsequently sold its remaining interest in the mining lease to a third party, which in turn sold it to Golden Phoenix, resulting in Golden Phoenix controlling a 100% interest in the mining lease beginning in 2000. Golden Phoenix personnel reviewed project data, compiled and updated a digital drill-hole database (previous computer-based mineralization modeling databases), compiled exploration information and developed concepts, maintained the property during the years of low gold prices, and developed new mineralized material estimates for the entire property.

In July 2003 Borealis Mining acquired an option to earn an interest in a joint venture in a portion of the Borealis Property and in January 2005 Borealis Mining acquired full interest in the mining lease and mining claims comprising the Borealis Property. See, [Description and Development of the Business: History and Background of the Company](#), above.

We have expended considerable effort consolidating the available historical data since acquiring our interest in the Borealis Property. This data has been scanned, and converted into a searchable electronic form. The electronic database has formed the basis of re-interpretation of the district geologic setting, and helped to form the foundation for a new understanding of the district's potential. We acquired this data from Golden Phoenix in May 2003, and additional information from other sources.

***Historical Gold Production***

The Borealis Property is not currently a producing mine. Historical data is presented for general information and is not indicative of existing grades or expected production. We have no reserves on the Borealis Property. We cannot be assured that minerals will be discovered in sufficient quantities to justify commercial operations.

**Photograph of Borealis district.  
View to the east, with Freedom Flat pit in foreground.  
The photograph shows the site as it was circa 1991.**

(Source: Gryphon Gold 2005)

Several gold deposits have been previously defined through drilling on the Borealis Property by prior owners. Some gold deposits have been partially mined. Reports on past production vary. The past gold production from pits on the Borealis Property, as reported by prior owners is tabulated below. The total of past gold production was approximately 10.6 million tons of ore averaging 0.057 ounces per ton (opt) gold. Mine production resulting from limited operations in 1990 is not included. Although no complete historical silver production records still exist at this time, the average silver content of ore mined from all eight pits appears in the range of five ounces of silver for each ounce of gold. We are determining the potential viability of silver recovery as our feasibility study and more detailed mine planning progress.

**Reported past Borealis production, 1981-1990<sup>(1)</sup>**

<b><u>Crushed and Agglomerated Ore(2)</u></b>	<b><u>Tons</u></b>	<b><u>Grade</u></b> <b><u>(opt Au)</u></b>	<b><u>Contained</u></b> <b><u>Gold</u></b>
Borealis	1,488,900	0.103	153,360
Freedom Flats	1,280,000	0.153	195,800
Jaime's/Cerro Duro/Purdy	517,900	0.108	55,900
East Ridge	795,000	0.059	46,900
Gold View	264,000	0.047	12,400
<b>Total</b>	<b>4,345,800</b>	<b>0.107</b>	<b>464,360</b>
<b>Run of Mine Ore(3)</b>			
Polaris (Deep Ore Flats)	250,000	0.038	9,500
Gold View	396,000	0.009	3,500
Northeast Ridge	3,000,000	0.025	75,000
East Ridge	2,605,000	.021	54,700
<b>Total</b>	<b>6,251,000</b>	<b>0.023</b>	<b>142,700</b>
<b>Grand Total</b>	<b>10,596,800</b>	<b>0.057</b>	<b>607,060</b>



- (1) The numbers presented in this table are based on limited production records. A later report in 1991 published by the Geologic Society of Nevada reports that production totaled 10.7 million tons with an average grade of 0.059 opt Au.
- (2) Crushed and agglomerated ore is that material which has been reduced in size by crushing, and as a result may contain a significant portion of very fine particles which is then, with the aid of a binding agent such as cement, reconstituted into larger particles and subsequently leached in a heap. The agglomerated ore typically has greater strength allowing for higher stacked heaps and may allow better percolation of leach solutions if the ore has high clay content.
- (3) Run of mine ore is that material which was fragmented by blasting only, and then stacked on the heaps without being further reduced in size by crushing or other beneficiation processes.

### ***Borealis Property Background***

In October 2003, we engaged a mining consultant to develop a preliminary scoping study for the redevelopment of the Borealis Property.

Following our consideration of the preliminary scoping study, and based on additional geologic field work, we retained a consulting and resource modeling engineering firm, to complete an updated mineralized material estimate model in accordance with National Instrument 43-101. In May 2005, the engineering firm delivered a report titled the *Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada*. A second report by the engineering firm entitled *Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA* dated August 15, 2006 and Revised January 11, 2007 was completed. Cautionary Note to U.S. Investors: The Technical Reports 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

A third Technical Report (the Technical Report ) was completed April 28, 2008, entitled *Technical Report on the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA*, compliant with National Instrument 43-101. The Technical Report was compiled by Dr. Roger Steininger, Ph.D., CPG of Reno, Nevada. 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 mineralized material on the Borealis Property. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

We are undertaking a systematic district-scale exploration program designed to discover and delineate large gold deposits within the greater Borealis property, outside of the known mineral deposits, which should focus along known mineralized trends that project into untested gravel-covered areas with coincident geophysical anomalies. The principal steps to the current drilling plans related to the Borealis Property include:

- maintaining all previously obtained permits;
- completing the permitting process;
- continuing our drilling program, database enhancement and geophysical surveys on the previously disturbed area of the Borealis Property, also referred to as the Borealis site ;

- implementing a systematic metallurgical testing program for gold bearing samples collected;
- continuing drilling in the area known as the Graben to test the extent and further define the quality of known sulfide gold mineralization; and
- continuing the exploration program for the areas of the Borealis Property outside the Borealis site.

We are actively working on completion of all the above steps. We expect to test other high-potential targets contained in the Central and Western Pediment Prospect areas and the Rainbow Ridge and Tough Hills area.

A fourth Technical Report, the PA was completed September 2, 2008 and authored by John R. Danio, P.E. of Denver, Colorado. 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 Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property. Cautionary Note to U.S. Investors: The PA 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

A fifth Technical Report, *NI-43-101 Pre-Feasibility Study of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, Revised and Restated* as at September 17, 2009 was completed and authored by John R. Danio, P.E. of Denver, Colorado. The pre-feasibility was furnished to the SEC as Exhibit 99.2 to our Form 8-K as filed on September 22, 2009. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. Gryphon Gold is undertaking a bankable evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The Pre-Feasibility Study is not a bankable feasibility study. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management's Discussion and Analysis Liquidity and Capital Resources and Risk Factors and Uncertainties. Cautionary Note to U.S. Investors: The Pre-Feasibility Study 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

## ***Geological Setting***

### *Regional Geology*

The Borealis mining district lies within the northwest-trending Walker Lane mineral belt of the western Basin and Range province, which hosts numerous gold and silver deposits. Mesozoic metamorphic rocks in the region are intruded by Cretaceous granitic plutons. In the Wassuk range the Mesozoic basement is principally granodiorite with metamorphic rock inclusions. Overlying these rocks are minor occurrences of Tertiary rhyolitic tuffs and more extensive andesite flows. Near some fault zones, the granitic basement rocks exposed in the eastern part of the district are locally weakly altered and limonite stained.

The oldest exposed Tertiary rocks are rhyolitic tuffs in small isolated outcrops which may be erosional remnants of a more extensive unit. The rhyolitic tuffs may be correlative with regionally extensive Oligocene rhyolitic ignimbrites found in the Yerington area to the north and within the northern Wassuk Range. On the west side of the Wassuk Range, a thick sequence of older Miocene andesitic volcanic rocks unconformably overlies and is in fault contact with the granitic and metamorphic rocks, which generally occur east of the Borealis district. The age of the andesites is poorly constrained due to limited regional dating, but an age of 19 to 15 Ma is suggested (Ma refers to million years before present). In the Aurora district, 10 miles southwest of the Borealis district, andesitic agglomerates and flows dated at 15.4 to 13.5 Ma overlie Mesozoic basement rocks and host gold-silver mineralization. Based on these data, the andesites in the Borealis region can be considered as 19 to 13.5 Ma.

The Borealis district lies within the northeast-trending Bodie-Aurora-Borealis mineral belt; the Aurora district lies 10 miles southwest of Borealis and the Bodie district lies 19 miles southwest in California. All three mining districts are hosted by Miocene volcanics. The intersection of northwesterly and west-northwesterly trending Walker Lane structures with the northeasterly trending structures of the Aurora-Borealis zone probably provided the structural



preparation conducive to extensive hydrothermal alteration and mineralization at Borealis.

*Local Geology*

The Borealis District comprises widespread high-sulfidation(acid-sulfate alteration) gold-silver mineralization that was the focus of recent and historical mining operations. The district trends N70-75W, for seven miles, from Bullion-Delta targets, west-northwest to Purdy Peak. The eastern boundary of the district is west of Mesozoic intrusive rocks, and Pre-Mesozoic sequences. The western limit of the district is unknown and unexplored.

Gold-silver mineralization, silicified fault breccias, zones of silicification, and associated alteration is structurally controlled. The most important structural trends defined in the district are:

- Principal displacement zone: Cerro Duro Fracture Zone (CDFZ), striking approximately N70- 75W, brittle fracture system,
- Transtensional zone: Freedom Flats-Borealis-East Pit-Northeast Pit (FFBENE), striking approximately N50E,
- Antithetic, right lateral, strike slip zones, trending approximately North-South,
- Reverse fault systems trending northwest.

Faults, fault breccias, linear zones of silicification and silicified sheeted joints dip steeply, vertical to 60 degrees. These zones dip predominately westerly, i.e. northwesterly, southwesterly, with subordinate northeast dips. Structural zones are laterally discontinuous exhibiting en-echelon patterns and complex sets of conjugate internal joint arrays.

Five distinct styles of silicification occur in the district:

- Pervasive micro-granular quartz,  $\pm$  chalcedony-opal, devoid of pyrite, associated with weak (to moderate) leaching, and bleaching of host rocks, i.e. low temperature clays.
- Fine-medium grained granular quartz structurally controlled along faults and breccia zones, (a) with pyrite, (b) devoid of pyrite with associated moderate leaching and bleaching, i.e. low to medium temperature clays.
- Medium-grained granular quartz, structurally controlled along faults and breccia zones with pyrite, and zones of late stage vuggy-vapor phase acid leaching. Host lithologies, particularly volcanoclastic breccias exhibit a range in clast replacement, i.e. silica absorption, from weak to moderate. Groundmass is replaced by medium-grained granular quartz. Medium temperature clay alteration occurs as peripheral halos.
- Medium to coarse-grained quartz with pyrite, structurally controlled, with associated fault breccias and zones of intense silicification, moderate to total replacement of original host lithologies and occasionally replacing preexisting silicified fault breccia zones with associated alunite, barite, with peripheral zones of moderate to intense medium to intense moderate to high temperatures clay alteration.
- Quartz sericite pyrite alteration occurs in the granodiorite basement, up to 500 feet from the contact with the volcanic stratigraphy, in fault zones, in zones of stockwork fracturing spatially associated with fault-contact between the basement and volcanic stratigraphy. In addition, as dilatational zones, there are pods in the granodiorite, of granular white quartz.

### *Mineral Deposits*

The gold deposits contained within the larger, district scale, Borealis hydrothermal system are recognized as high-sulfidation type systems with high-grade gold mineralization occurring along steeply dipping structures and lower grade gold mineralization surrounding the high-grade and commonly controlled by more permeable volcanic rocks in relatively flat-lying zones. The gold deposits, some with minor amounts of silver mineralization are hosted by Miocene andesitic flows, laharic breccias, and volcanoclastic tuffs, which all strike northeasterly and dip shallowly to the northwest. Pediment gravels cover the altered-mineralized volcanic rocks at lower elevations along the mountain front where there is potential for discovery of more blind (covered by gravel) gold deposits, similar to the Graben deposit.

The surface footprints of the high-grade pods or pipe-like bodies, found to date are rather small and they can be easily missed with patterns of too widely spaced geophysical surveys and drill holes. Most of the drilling on the property by prior owners was vertical, and therefore did not adequately sample the steep higher-grade zones. Drill-hole orientation may have underestimated the grades within the district. Several drill holes to the west of Freedom Flats and Borealis encountered gold within the alluvium stratigraphically above known deposits. These holes trace a gold-bearing zone that in plan appears to outline a paleochannel of a stream or gently sloping hillside that may have had its origin in the eroding Borealis deposit. The zone is at least 2,500 feet long, up to 500 feet wide, and several tens up to 100 feet thick. At this point it is unknown if this is a true placer deposit, an alluvial deposit of broken ore, or some combination of both. Additional drilling and beneficiation tests are needed to determine if an economic gold deposit exists.

### *Exploration*

Since the late 1970s, exploration completed at the Borealis property focused on finding near surface deposits with oxide-type gold mineralization. Exploration work consisted of field mapping, surface sampling, geochemical surveys, geophysical surveys, and shallow exploration drilling. Only limited drilling and geological field work was conducted in areas covered by pediment gravels, even though Freedom Flats was an unknown, blind deposit, without surface expression when discovered.

Many geophysical surveys were conducted by others in the Borealis district since 1978. In addition, regional magnetics and gravity maps and information are available through governmental sources. The most useful geophysical data from the historic exploration programs has been induced polarization (chargeability), aeromagnetism, and resistivity.

Areas with known occurrences of gold mineralization, which have been defined by historical exploration drilling, and had historical mine production include: Northeast Ridge, Gold View, East Ridge, Deep Ore Flats, Borealis, Freedom Flats, Jaimes Ridge, and Cerro Duro. All of these deposits still have gold mineralization remaining in place, contiguous with the portions of each individual deposit that were mined. Graben, Crocodile Ridge, Purdy Peak, Boundary Ridge, and Bullion Ridge are known gold deposits in the district that have not been mined. Discovery potential on the Borealis property includes oxidized gold mineralization adjacent to existing pits, new oxide gold deposits at shallow depth within the large land position, gold associated with sulfide minerals below and adjacent to the existing pits, in possible feeder zones below surface mined ore and buried gold-bearing sulfide mineralization elsewhere on the property. Both oxidized and sulfide-bearing gold deposits exhibit lithologic and structural controls for the locations and morphologies of the gold deposits.

The following areas have not been subject to historic mine production, but have been subject to historical exploration that has identified gold mineralization.

### *Borealis Extension*

The Borealis Extension deposit occurs 110 to 375 feet below the surface at the northern and western margins of the former Borealis pit. Generally the top of this target occurs at or slightly below the 7,000-ft elevation. The primary target is defined by 16 contiguous drill holes completed by previous operators that have economically attractive gold intercepts. Thicknesses of mineralized intercepts ranges from 15 to 560 ft with nine holes having from 155 to 560 ft of +0.01 opt of gold; the average thickness of the zone is 236 ft. We have drilled an additional 16 holes into the deposit. The drilling results were generally marginal and further evaluation is needed.

### *Graben Deposit*

The Graben deposit has been defined with approximately 36 historical RC holes and 19 historical core holes. This drilling defined a zone of gold mineralization, using an 0.01 opt Au boundary, that extends at least 2,000 feet in a north-south direction and between 200 and 750 feet east-west, and up to 300 feet thick. The top of the deposit is from

500 to 650 feet below the surface. Near its southern margin the axis of the deposit is within 800 feet of the Freedom Flats deposit and along one portion of the southeastern margin low-grade mineralization may connect with the Freedom Flats mineralization through an east-west trending splay.

Through November 2007, Gryphon Gold has drilled an additional 58 RC drill holes into the Graben zone. All holes had mineralized intervals. Gryphon Gold's Graben drilling program was designed to test for extensions of the interior high-grade zones and to expand the exterior boundaries of the deposit. Drilling along the margins of the deposit, particularly along the northwestern portion, identified significant extensions of mineralization. Drilling for extensions of the northern and southern high-grade pods also revealed that these zones are larger than previously thought. Additional drilling in, and around, the Graben deposit is needed before it can be considered fully explored. At this point the mineralization estimate for the deposit probably represents a minimum size.

In mid-2007 a controlled source audio-frequency magnetotellurics CSAMT survey was conducted over the Graben deposit as a test case. Several anomalies were identified that correlated favorably with known mineralization. The survey lines ended to the northwest in a similar looking anomaly in an undrilled area. The initial interpretation is that this could be an extension of the Graben deposit, or a separate mineralized area.

Additional drilling is needed to fill in gaps between widely spaced holes in the Graben, and step out from the Graben zone in a north, east and west direction in order to delineate the full extent of the gold mineralization, and to fully define the boundaries of the zone.

#### *North Graben Prospect*

The North Graben prospect is defined by the projection of known mineralization, verified by drill hole sampling, and coincident with a large intense aeromagnetic low and an elongate chargeability (IP) high. This blind target lies on trend of the north-northeast-elongate Graben mineralized zone. In 1989, Echo Bay completed a district-wide helicopter magnetic/electromagnetic survey, which identified a large, intense type aeromagnetic low in the North Graben area. This coincident magnetic low/chargeability high is now interpreted as being caused by an intensive and extensive hydrothermal alteration-mineralization system. Five drill holes completed in the North Graben by Gryphon Gold encountered a permissive geologic setting and trace levels of gold mineralization.

In early 2006 the Company completed four holes into the North Graben geophysical anomaly and one additional hole was drilled in 2007. All the holes intercepted a hydrothermal system as indicated by several zones of silicification, and pyrite up to 20 percent. None of the holes contained significant amounts of gold, but were geochemically anomalous in gold and silver, and other important trace elements. North Graben is a target area that needs additional study and drilling to determine if a gold deposit is present.

#### *Rainbow Ridge and Tough Hills Prospects*

Previous exploration drilling the Rainbow Ridge and Tough Hills Prospect areas targeted shallow oxide mineralization, generally less than 500 feet deep. In 2006 we completed four gradient IP/ resistivity survey blocks covering a total area of one square mile. Results from these surveys indicate a broad deep seated north, north-east trending chargeability anomaly and a prominent, shallow north west trending chargeability anomaly. These targets are essentially untested by drilling.

#### *Central Pediment (Lucky Boy) Prospect*

Another important prospect area is the Lucky Boy area, which may be in a shallower pediment environment in the central portion of the district near the range front. Historic drill holes at the periphery of the zone intersected thick zones of silification and traces of gold mineralization. Echo Bay's aeromagnetic map shows another magnetic low and Cambior's IP map shows a coincident chargeability high in the area of the silicification.

We drilled eight RC holes in this area during late 2006 and 2007. All of these holes encountered intense hydrothermal alteration with anomalous gold and favorable trace element geochemistry. A subsequent CSAMT survey indicates that these holes may have encountered the margins of a high-sulfidization gold system. Additional drilling is planned to test the CSAMT anomaly.

#### *Sunset Wash Prospect*

The Sunset Wash prospect consists of a gravel-covered pediment underlain by extensive hydrothermal alteration in the western portion of the Borealis district. Sixteen holes drilled by Echo Bay Mines indicate that intense alteration occurs within a loosely defined west-southwest belt that extends westerly from the Jaimes Ridge/Cerro Duro deposits. At the western limit of the west-southwest belt, Cambior's IP survey and drilling results can be interpreted to indicate that the

alteration system projects toward the southeast into the pediment.. Cambior conducted a gradient array IP survey over the Sunset Wash area effectively outlining a 1,000 by 5,000 foot chargeability anomaly. The anomaly corresponds exceptionally well to alteration and sulfide mineralization identified by Echo Bay s drill hole results. Two structures appear to be mapped by the chargeability anomaly; one is a 5,000-foot long west-southwest-trending structure and the other is a smaller, northwest-trending structure.. Alteration types and intensity identified by the drilling, combined with the strong IP chargeability high and the aeromagnetic low, strongly suggest that the robust hydrothermal system at Sunset Wash is analogous to high-sulfidation gold systems. Cambior drilled three holes to test portions of the Sunset Wash geophysical anomaly and to offset other preexisting drill holes with significant alteration. The westernmost of Cambior s three holes encountered the most encouraging alteration and gold mineralization suggesting that this drill hole is near the most prospective area. This drill hole intercepted hydrothermally altered rock from the bedrock surface to the bottom of the hole, including an extremely thick zone of chalcedonic replacement in the lower two-thirds of the hole.

We drilled three holes in the same area, all of which encountered strongly developed hydrothermal alteration with anomalous gold and favorable pathfinder trace elements. To assist in defining the target a CSAMT survey was conducted late in 2007 and further defined the anomalous zone. Additional drilling is planned to test the center of the anomaly.

#### *Bullion Ridge/Boundary Ridge*

The northeast-trending alteration zone extending along Boundary Ridge into Bullion Ridge contains intense silicification that is surrounded by argillization, with abundant anomalous gold. Widely-spaced shallow drill holes completed by previous operators have tested several of the alteration/anomalous gold zones and defined discrete zones of mineralized material.

### ***Mineralization***

#### *Overview*

Finely disseminated gold mineralization found in the Borealis epithermal system was associated with pyrite and other gold bearing sulfide minerals such as marcasite when initially deposited by the gold rich hydrothermal fluids. In the upper portions of the near surface deposits, over time through natural oxidation, the pyrite was transformed to limonite releasing the gold particles. Through this geologic process, the mineral character of the deposit was altered, and sulfides were destroyed releasing the gold so that conventional hydrometallurgical processes (e.g. gold heap leaching) could be effectively applied to recover the gold. Gold bound in pyrite or pyrite-silica which was not oxidized (commonly in the deeper deposits) in the geologic process, is not as easily recovered by a simple heap leaching and may require some type of more advanced milling operation. Limited evidence suggests that in certain deposits, such as the Borealis and Freedom Flats deposits, some coarse gold exists, probably in the higher-grade zones.

#### *Oxide Gold Mineralization*

Oxide gold mineralization is generally more amenable to direct cyanidation processes such as heap leaching as compared to sulfide gold mineralization.

Oxide deposits in the district have goethite, hematite, and jarosite after iron sulfides as the supergene oxidation products, and the limonite type depends primarily on original sulfide mineralogy and abundance. Iron oxide minerals occur as thin fracture coatings, fillings, earthy masses, as well as disseminations throughout the rock. The degree of supergene oxidation, mineral constituents, and form and occurrence of the oxide minerals in the host rock are significant factors in determining metallurgical performance and ultimate gold recovery. As demonstrated in previous operations, this type of gold bearing material is amenable to conventional heap leaching methodology. Depth of oxidation is variable throughout the district and is dependent on alteration type, structure, and rock type. Oxidation ranges from approximately 250 ft in argillic and propylitic altered rocks to over 600 ft in fractured silicified rocks. A transition zone from oxides to sulfides with depth is common and is characterized by a mixture of oxide and sulfide minerals.

Except for the Graben deposit, all of the known gold deposits are at least partially oxidized. Typically the upper portion of a deposit is totally oxidized and the lower portions unoxidized. In places, such as the Ridge deposits, there is an extensive transition zone of partially oxidized sulfide bearing gold mineralization. Oxidation has been observed to at least 1,000 ft below the surface.

#### *Sulfide Gold Mineralization*

Sulfide gold mineralization is generally less amenable to conventional direct cyanidation metallurgical processes, and may require more advanced processes such as milling, flotation, and roasting or some pre-cyanidation treatment.

Sulfide deposits in the district are mostly contained within quartz-pyrite alteration with the sulfides consisting mostly of pyrite with minor marcasite, and lesser arsenopyrite. Many trace minerals of copper, antimony, arsenic, mercury and silver have also been identified. Pyrite content ranges from 5 to 20 volume percent with local areas of nearly massive sulfides in the quartz-pyrite zone and it occurs with grain sizes up to 1mm. Gold is commonly restricted to the iron sulfide grains.

The Graben deposit is the best example found to date of the size and quality of sulfide deposits within the district. In addition sulfide mineralization occurs in the bottoms of most of the mined areas, but the most significant of which is beneath the Freedom Flats pit.



## ***Drilling***

We have conducted a drilling program on the Borealis site. Set out below is a summary of the drilling work conducted on the Borealis Property by prior owners and by us.

### *Historical Drill Hole Database*

The historical drill hole database used for the Borealis project mineralization models contains 2,417 drill holes with a total drilled length of 671,595 feet. A total of 1,947 holes were drilled inside the mineralization model areas. An additional 470 holes were either drilled outside the mineralization models at scattered locations throughout the district or did not have collar coordinates.

The historic holes were drilled by several different operators on the property. Drill hole types include diamond core holes, reverse circulation holes and rotary holes. The only holes that have down-hole survey information are a few core holes. Since most of the drilling is shallow, the absence of down-hole survey information is not significant. In the deeper Graben zone, however, unsurveyed drill holes may locally distort the shape of the grade zones. Drill hole sampling lengths are generally 5 feet for the RC holes, but vary for the core holes based on geological intervals. Sampling length is up to 25 feet for some of the early rotary holes. Gold assays in parts per billion (ppb) and troy ounces per short ton (opt) are provided for most of the sample intervals. Silver assays in parts per million (ppm) and opt are also provided for some of the sample intervals.

### *Drilling of Existing Heaps and Dumps*

In May 2004 we completed a drilling program on the five Borealis site heaps and parts of the Freedom Flats and Borealis waste dumps. This program consisted of 32 holes totaling 2,478.5 ft. Dump holes were drilled deep enough to penetrate the soil horizon below the dump, while holes on the heaps were drilled to an estimated 10-15 ft above the heap's liner.

### *Gryphon Gold Drilling Program*

Since acquiring the Borealis property we have drilled 252 holes totaling 153,000.5 feet. The majority of these holes were drilled in, and around, known gold deposits. Less than 30 holes can be considered purely exploration.

## ***Sampling and Analysis***

### *General*

The Borealis Mine operated from 1981 through 1990 producing approximately 10.7 million tons of ore averaging 0.059 ounces of gold per ton from seven open pits. The mined ore contained approximately 607,000 ounces of gold of which approximately 500,000 ounces of gold were recovered through a heap leach operation (please refer to table Reported Past Borealis Production 1981-1990 ). This historic production can be considered a bulk sample of the deposits validating the database that was used for feasibility studies and construction decisions through the 1980s. With over 2,400 drill holes in the database that was compiled over a 20-year period by major companies, the amount of information on the project is extensive. It is primarily these data that have been used as the foundation of the current mineralization estimate. The bulk of the data was collected beginning in 1978, the year of discovery of the initial ore-grade mineralization, and was continuously collected through the final year of full production. Subsequent owners who conducted exploration programs through the 1990s added to the database.

### *Previous Mining Operations Sampling, Analysis, Quality Control and Security*

Specific detailed information on sampling methods and approaches by the various mine operators is not available to us. However, a report written in 1981 (referred to in the Technical Report) noted that the drilling, sampling and analytical procedures as well as assay checks were reported as acceptable by industry practice.

Echo Bay Mines performed quality checks on their drill cuttings, sampling and assaying methods as part of their evaluation of the property prior to and following its purchase from Tenneco Minerals, indicating that the original assays were reliable and representative. During their exploration and development programs they also drilled a number of core hole twins of reverse circulation rotary drill holes to compare assay results in the same areas. Houston Oil and Minerals, Tenneco, and Echo Bay Mines are reported to have used standard sample preparation and analytical techniques in their exploration and evaluation efforts, but detailed descriptions of the procedures have not been found. Most of the drill-hole assaying was accomplished by major laboratories that were in existence at the time of the drilling programs. Various labs including Monitor Geochemical, Union Assaying, Barringer, Chemex, Bondar-Clegg, Metallurgical Laboratories, Cone Geochemical, the Borealis Mine lab and others were involved in the assaying at different phases of the exploration and mining activity.

We believe that early work on the property relied on assay standards that were supplied by the laboratories doing the assaying. However, Echo Bay Mines (1986) reported using seven internal quality control standards for their Borealis Mine drill-hole assaying program, with gold concentrations from 170 ppb to 0.37 opt. Analytical labs involved in the standards analyses were Cone Geochemical, Chemex, and the Borealis Mine lab, and the precision of the three labs was reported as excellent (+/- 1 to 8%) for the higher gold grades (0.154-0.373 opt); acceptable (+/- 3 to 14%) for the lower grades (0.029-0.037 opt); and fair (+/- 4 to 20%) for the geochemical anomaly grades (0.009 opt to 170 ppb). These data provide an initial estimation of the precision and accuracy of gold analyses of Borealis mineralization.

During 1986, Echo Bay instructed Chemex to analyze duplicate samples for five selected drill holes. A comparison was made of (a) 1/2 assay-ton fire assay with a gravimetric finish, versus (b) 1/2 assay-ton fire assay with an atomic absorption finish, versus (c) hot cyanide leach of a 10-gram sample. The 1/2 assay-ton fire assay gravimetric and the 1/2 assay-ton fire assay atomic absorption gave essentially the same results. However the hot cyanide leach gave results that were 5-11 percent higher in one comparison and significantly lower in another, prompting Chemex to conclude that cyanide leach assaying was not appropriate for Borealis samples. The great majority of the assays in the database are based on fire assays.

We have no information relating to the sample security arrangements made by the previous operators.

#### *Gryphon Gold Operations Sampling, Analysis, Quality Control and Security*

The work we performed to evaluate the 32 holes drilled in 2004 on the five previously leached heaps and two waste dumps was done by a sonic rig to retrieve core-like samples. All drill holes were drilled vertical, with the sample immediately slid into a plastic sleeve that was sealed and marked with the drill hole number and footage interval. These plastic sample sleeves were not reopened until they reached the analytical lab. A Qualified Person and geologist, Dr. Roger Steininger, monitored all of the drill procedures and the handover to the analytical lab. A non-blind standard was added as the last sample of each hole, which was obvious to the lab since the standard was in a pulp bag, although the lab did not know the gold value of the standard.

All samples were submitted to American Assays Labs of Sparks, Nevada. Each analytical sample was split in a rotary splitter with a one-fifth of the sample removed for assay and the remaining four-fifths retained for metallurgical testing. Each assay sample was pulverized and assayed for gold and silver by one assay ton fire assay, and a two hour 200 gram cyanide shake assay for dissolvable gold. As part of the quality control program, standards were submitted to American Assay Labs (AAL) with each drill hole, several assayed pulps and two standards were submitted to ALS Chemex, and three of the duplicates and two standards were submitted to ActLabs-Skyline.

For the hard rock drilling program, started in 2005 and continuing through 2007, reverse circulation drilling services were provided by two international drilling contractors, Diversified Drilling LLC of Missoula, Montana and Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 4 ½ inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by drill contractor employees, placed in bins, and delivered to a secure storage. American Assay Laboratories in Sparks, Nevada picked up the sample bins from secure storage. AAL is ISO/IEC 17025 certified and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

In the period between April 2006 and November 2007, reverse circulation drilling services were provided Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 4 ½ inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by the drill contractor employees, placed in bins, and delivered to a secure storage. Inspectorate America Corporation (IAC) in Sparks, Nevada picked up the sample bins from secure storage. IAC is ISO 9001:2000 certified (Certificate number: 37295) and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary

split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with an AA finish. Assays greater than 0.10 opt Au were re-assayed by 1-assay ton fire assay with a gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

## **Borealis Mineralization Estimate**

A mineralization model was developed for the Borealis property and is detailed in the April 28, 2008 report, entitled

*Technical Report on the Mineral Resources of the Borealis Gold Projected Located in Mineral County, Nevada, USA*, compliant with National Instrument 43-101, 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. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

*The PA* that was completed September 2, 2008 concluded that there is significant mineralization which could support an open pit, heap leach gold and silver mine. Based on historical operational data and similar deposits and projects in the area, the field-proven process technology selected (heap leach and ADR plant, using carbon absorption) will be able to effectively produce gold and silver ore for sale. The PA was furnished to the SEC as Exhibit 99.1 to the Company's Form 8-K filed on October 10, 2008. The Technical Report details mineralization on the Borealis Property. Cautionary Note to U.S. Investors: The PA 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

The Pre-Feasibility Study as at September 17, 2009 was completed and authored by John R. Danio, P.E. of Denver, Colorado. The Pre-Feasibility Study was furnished to the SEC as Exhibit 99.2 to our Form 8-K as filed on September 22, 2009. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. Telesto Nevada Inc. and the authors of the Pre-Feasibility Study recommended that the Borealis project be put into production. Cautionary Note to U.S. Investors: The Pre-Feasibility Study 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

### *Historical Mining and Metallurgical Operations*

The historical mining operations processed both a run-of-mine ore and an ore that was crushed to a nominal 1 1/2-inch product as the primary feed material that was placed on the heap for leaching. The fines fraction was agglomerated with cement, mixed with the coarse fraction, and leached with sodium cyanide solution. Gold mineralization is finely disseminated and/or partially bonded with pyrite, and although there are very little ore mineralogy data available, historical operating reports suggest that some coarse gold may exist. Gold that is bound in pyrite or pyrite-silica is not easily recovered by simple heap leach cyanidation, however gold recovery in oxide ores is reported to average about 80% for the ore treated. There are no reports of carbonaceous refractory components within the old heap or dump materials. The previous mine operators employed a Merrill Crowe circuit to enhance ease of silver recovery, followed by a retort to remove mercury.

Laboratory testing subsequent to mine shut down in 1990 indicates that gold recoveries of 55 to 80 percent can be expected from remaining oxide material on the Borealis Property by heap leaching.

Based on limited test work, gold bearing sulfide material appears to respond to conventional flotation concentration and cyanidation of oxidized concentrates. In the laboratory testing, chemical oxidation and biooxidation treatment of the sulfide material yield a high level of oxidation and correspondingly high gold recoveries after cyanidation of the oxidized material. Aeration of concentrate slurries may be a suitable oxidation method for the sulfide material. A test plan to evaluate recovery options for the sulfide ores from the Borealis Project site is planned for 2008.

### *Exploration and Development*

Our development and exploration plans are based on the recommendations contained on the Technical Report and are subject to our ability to obtain additional capital to fund such plans. These plans are outlined below:

#### *Permitting Process*

We intend to maintain the permits we have received that are necessary for mine start up. Maintaining the permits necessary for mine start up does not require us to complete a feasibility study. The principal permits were issued during calendar 2006, while ordinary course permits will be sought prior to the possible mine start up.

The following is a summary and status of the permits required for the Borealis Gold Project:

- An Approved Plan of Operations from the USFS, Humboldt-Toiyabe National Forest has been received. The Environmental Assessment (EA) was approved for the Plan of Operations with a Finding of No Significant Impact (FONSI) on June 19, 2006. The Decision Notice was published on June 22 and 23, 2006 and is not appealable. Final revisions to the Plan of Operations were submitted to the USFS on June 23, 2006 and the USFS signed the Plan on June 29, 2006. The Plan of Operations can be implemented as soon as a reclamation bond of \$4,205,377 is posted with the USFS.
- A Water Pollution Control Permit (WPCP) from the NDEP-Bureau of Mining Regulation & Reclamation (BMRR) was approved and granted to BMC on January 28, 2006. The permit allows BMC to construct and operate a 10-million ton capacity heap leach pad and processing plant as a zero-discharge facility.
- A Reclamation Permit from the NDEP-BMRR and reclamation bond amount were approved on June 23, 2006. This permit is the State of Nevada's approval of the Plan of Operations and is effective with the posting of the reclamation bond with the USFS.
- A Tentative Permanent Closure Plan to be administered by the NDEP-BMRR was submitted with the WPCP application and accepted by NDEP-BMRR. A Final Permanent Closure Plan will not need to be developed until 2 years prior to project closure.
- NDEP-Bureau of Air Pollution Control (BAPC) issued the Air Quality Operating Permit on April 28, 2006 for the Borealis processing facilities. The State of Nevada recently(not so recent) adopted new regulations regarding mercury emissions, and an application was filed under this new State program on September 14, 2006, as a compliance order pursuant to the approved air quality permit. Because Gryphon was not able to move the project into construction within the air permit time frame, NDEP kept this old permit in force while a new air quality and mercury permit application was being developed and approved. This permit writing and review is nearing completion and the company does not expect any problems moving forward.
- A Surface Area Disturbance Permit from the NDEP-BAPC was approved and granted to BMC on April 3, 2006 for disturbances associated with construction and mining activities.
- The Storm Water Pollution Prevention Plan (SWPPP) has been prepared for the project. A Notice of Intent, filing fee, and the SWPPP will be submitted to the Bureau of Water Pollution Control (BWPC) 2 days prior to the start of mining operations to obtain coverage under the general National Pollutant Discharge Elimination System (NPDES) permit for Nevada mines.
- A Spill Prevention, Control, and Countermeasure (SPCC) Plan, under the jurisdiction of the U.S. Environmental Protection Agency (EPA), will be prepared and implemented before starting operations. The SPCC Plan will provide methods for storing, transporting, and using petroleum products as well as emergency response measures in the event of a release.
- A preliminary Emergency Release, Response and Contingency Plan (ERRCP) was submitted with the Plan of Operations. The ERRCP provides methods for storing, using, and transporting process chemicals on site as well as emergency response measures in the event of a release. A final ERRCP will be prepared prior to the start of leaching and processing activities. Both the USFS and the NDEP-BMRR require the ERRCP.





- **Threatened & Endangered Species Act:** No known threatened or endangered species have been identified within or near the project area. A Biological Assessment and Biological Evaluation (BA/BE) and a Wildlife Specialist Report were approved by the USFS on June 6, 2006. These reports identified three USFS sensitive plants and two other plant species of concern within the project area. Mitigation measures were developed for these plants and incorporated into the EA and Plan of Operations. The USFS concluded that the project may impact individual plants and plant habitat but will not likely contribute to a trend towards listing or cause a loss of viability to the population or species.
- **Historical Preservation Act (Section 107):** Consultation with the USFS and the State Historical Preservation Officer (SHPO) has occurred in conjunction with the preparation of the EA. The Heritage Research Final Report, Gryphon Gold, USA, Mining and Exploration Project, Borealis Mine Area was submitted to the USFS in March 2006. The report identifies prehistoric cultural resources located within and near the project area. This report was approved by the USFS and forwarded to SHPO for their review and comment on April 17, 2006. The SHPO approved the report in early May 2006. Mitigation measures consisting of avoidance and protection were incorporated into the EA and the Plan of Operations.
- **Water Rights:** Water Rights have been granted by the Nevada Division of Water Resources (NDWR) for two production wells located approximately 3 miles south of the project, in the same vicinity as the supply wells from the previous mining operation. Based on historic well productivity records, this water right and point of diversion has the capacity and productivity to meet project needs. A second set of water rights were obtained for a site about 10 miles to the south of the planned operation as a contingency; however, this water right has been forfeited as it has been deemed extraneous.
- **Industrial Artificial Pond Permit:** The Department of Wildlife, State of Nevada, has issued an Industrial Artificial Pond permit to use and store industrial waters in lined containers on the Borealis project site. This permit was granted on December 1, 2009 and expires on November 30, 2014.

In addition, the BLM has granted approval for drilling exploration holes in the areas of the West Pediment and the Central Pediment, which are on the Borealis property but outside of the central project area.

#### *Drilling and Feasibility*

We plan to continue our drilling and exploration program with the intent of locating additional sulfide and oxide gold mineralization on the Borealis property. The primary focus of the program will be within the previously disturbed area, the Graben zone and in the Central and Western Pediment areas. Once sufficient additional potential mineralization is discovered, we will assess possible methods of beginning production including the possible completion of a feasibility study.

#### *Possible Future Mine Development*

If warranted by the discovery and possible development of additional gold mineralization, project economics, and if we are successful in obtaining adequate additional capital, we may propose to build a mine operation on the Borealis site. Our plan will be based on the Plan of Operation filed with the U.S. Forest Service and could change based on additional information as it is acquired and analyzed in our ongoing engineering studies and feasibility study.

The Plan of Operation was the basis for the Pre-Feasibility Study as at September 17, 2009. The Pre-Feasibility Study presents an economic analysis, and provides capital expenditures, operating costs, ore grade, anticipated revenues, and projected cash flows. Cautionary Note to U.S. Investors: The Pre-Feasibility Study 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.



*Mineralized Material Expansion and Drilling Program*

We have undertaken a systematic district scale drilling program designed to discover and delineate large gold deposits within the greater Borealis Property, outside of the known mineral deposits, which will focus along known mineralized trends that project into untested gravel-covered areas with coincident geophysical anomalies. The greatest potential in the district lies beneath a large gravel-covered area at the mountain front with several potential blind deposits (with no surface expression). The Graben zone is an example of this type of deposit, and other high-potential targets include Rainbow Ridge/Tough Hills, Sunset Wash, Lucky Boy, and others yet to be named generally within the areas referred to as the Central and Western Pediments. To date we have drilled and assayed 206 holes as part of the district wide exploration program.

In addition to the district program, the Borealis property embraces numerous areas with potential for discovery of mineable gold deposits. The defined target areas can be grouped into categories based on our expectation for deposit expansion or potential for discovery. Past emphasis was focused on targets which are the extensions of previously mined deposits, specifically within the previously disturbed areas the East Ridge-Gold View-Northeast Ridge mineralized trend, and around the margins of the Borealis, Freedom Flats, and Deep Ore Flats/Polaris deposits. Each has the potential to add to the material that can be developed as part of the initial mine plan. Drilling programs from 2005 through 2007 were completed primarily in areas where mineralization is known to exist. In addition to advancing existing mineralization to a higher level of confidence, this drilling program has further information gathering objectives for metallurgical assessment, waste characterization, and hydrological analyses that are required in support of our operating permit applications, environmental assessment, and engineering design. Results from drilling of heap leachable material will be incorporated into the feasibility study, should a feasibility study be completed.

Planned activities and expenditures include both field and compilation geology, geophysics, geochemistry, permitting and claim maintenance, road construction and drill-site preparation, reverse circulation (RC) and core drilling, drill-hole assaying, sampling protocol studies and assay quality control, preliminary metallurgical testing, and database management. We estimate that nearly 50% of the budget would be spent directly on drilling (mostly on RC drilling) with approximately 20% on geologists, 10% on assaying, and the remainder divided among the other items. The budget is expected to be sufficient to discover and delineate one or more deposits, but additional funding will be required for detailed development drilling and other development activities.

The names of deposits and targets on the Borealis Property are shown on the map below. The map also shows the boundary of the claim holdings that comprise the Borealis Property.

(Source: Gryphon Gold, 2005)

## **United States Mining Laws**

Mining in the State of Nevada is subject to federal, state and local law. Three types of laws are of particular importance to the Borealis Property: those affecting land ownership and mining rights; those regulating mining operations; and those dealing with the environment.

The Borealis Property is situated on lands owned by the United States (Federal Lands). Borealis Mining, as the owner or lessee of the unpatented mining claims, has the right to conduct mining operations on the lands subject to the prior procurement of required operating permits and approvals, compliance with the terms and conditions of the mining lease, and compliance with applicable federal, state, and local laws, regulations and ordinances. On Federal Lands, mining rights are governed by the General Mining Law of 1872 as amended, 30 U.S.C. §§ 21-161 (various sections), which allows the location of mining claims on certain Federal Lands upon the discovery of a valuable mineral deposit and proper compliance with claim location requirements. A valid mining claim provides the holder with the right to conduct mining operations for the removal of locatable minerals, subject to compliance with the General Mining Law and Nevada state law governing the staking and registration of mining claims, as well as compliance with various federal, state and local operating and environmental laws, regulations and ordinances. Historically, the owner of an unpatented mining claim could, upon strict compliance with legal requirements, file a patent application to obtain full fee title to the surface and mineral rights within the claim; however, continuing Congressional moratoriums have precluded new mining claim patent applications since 1993.

The operation of mines is governed by both federal and state laws. Part of the Borealis Property is situated within the Toiyabe National Forest, and that part is administered by the U.S. Forest Service. The rest of the Borealis Property is administered by the Bureau of Land Management (BLM). In general, the federal laws that govern mining claim location and maintenance and mining operations on Federal Lands, including the Borealis Property, are administered by the BLM. The Forest Service is concerned with surface land use, disturbances and rights-of-way on Federal Lands that it manages. Additional federal laws, such as those governing the purchase, transport or storage of explosives, and those governing mine safety and health, also apply. Various permits or approvals from the BLM and other federal agencies will be needed before any mining operations on the Borealis Property can begin.

The State of Nevada likewise requires various permits and approvals before mining operations can begin, although the state and federal regulatory agencies usually cooperate to minimize duplication of permitting efforts. Among other things, a detailed reclamation plan must be prepared and approved, with bonding in the amount of projected reclamation costs. The bond is used to ensure that proper reclamation takes place, and the bond will not be released until that time. The bond amount for a large mining operation is significant. Local jurisdictions (such as Mineral County) may also impose permitting requirements (such as conditional use permits or zoning approvals).

Mining activities on the Borealis Property are subject also to various environmental laws, both federal and state, including but not limited to the federal National Environmental Policy Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Recovery and Conservation Act, the Clean Water Act, the Clean Air Act and the Endangered Species Act, and certain Nevada state laws governing the discharge of pollutants and the use and discharge of water. Various permits from federal and state agencies are required under many of these laws. See, *Permitting Requirements*, below. Local laws and ordinances may also apply to such activities as waste disposal, road use and noise levels.

## **Permitting**

### *Permit Acquisition and Fundamental Environmental Permitting Considerations*

In 2004 we initiated a plan to obtain the required principal environmental operating permits in anticipation of a possible mine start-up.

A staged permit acquisition program is in progress. The first permitting stage, started in the fall of 2003, has been completed. Permits obtained at that time authorized exploration activities needed to prove the mineral mineralization, condemn the heap sites and support infrastructure, and obtain environmental baseline data to support the permitting packages. A second stage of application for exploration drilling permits was submitted in December 2004 and approval was obtained in May 2005. A Plan of Operations for a new mine was submitted in August 2004 to the U.S. Forest Service and Nevada State agencies and approval was received in the second quarter of 2006. A Water Pollution Control Permit application for the reopening and expansion of the mine was submitted to the Nevada Bureau of Mining Regulation and Reclamation in January 2005. The permit was granted in January 2006. Future exploration activities and mine expansion initiatives will be included in applications for subsequent approvals on a case-by-case and as-needed basis.

The approved Plan of Operation focuses on the approximately 460 acre area previously disturbed by mining operations. Deposits within this boundary, subject to permit applications generally, include the oxidized and partially oxidized portions of Borealis, Deep Ore Flats (also known as Polaris), East Ridge, Freedom Flats, and Northeast Ridge which are amenable to a conventional hydrometallurgical gold recovery process such as heap leaching. Also included in the Plan of Operations is the option for development of underground access to the Graben deposit to be used for exploration and future development activities, although no production plan has been submitted for consideration in this mineralized zone at this date. Crocodile Ridge, Middle Ridge, and other deposits within the study area boundaries of the Borealis Property will be added to the permit applications if warranted based on ongoing engineering and in-fill drilling results.

#### *Permitting Process Overview*

The development, operation, closure and reclamation of mining projects in the United States require numerous notifications, permits, authorizations and public agency decisions. This section does not attempt to exhaustively identify all of the permits and authorizations that need to be gained, but instead focuses on those that are considered to be the main efforts that are on the critical path for possible project start-up.

#### *Environmental Inventories*

There are certain environmental evaluations that routinely must be completed in order to provide the information against which project impacts are measured. Both the U.S. Forest Service and the Nevada Bureau of Mining Regulation and Reclamation (BMRR) have requirements to profile existing conditions and to evaluate what effects will result from implementing the project plans on those mineral resources.

Background information on geology, air quality, soils, biology, water resources, social and economic conditions, and cultural resources were assembled for us and submitted to the appropriate regulatory agency.

### **Permitting Requirements**

#### *U.S. Forest Service Requirements*

The Bridgeport Ranger District of the U.S. Forest Service is the lead agency regulating mining and reclamation activities at the Borealis Property. The permitting process with the U.S. Forest Service approved our Plan of Operations in the second quarter of 2006, pursuant to the requirements of 36 CFR Part 228, Subpart A. Our Plan of Operations was filed in August 2004 describing the project plans in a step-by-step process. The Plan of Operations describes the development of the deposits identified in the Technical Report and recognizes and anticipates the effects of market impacts such as reductions or increases in gold price, and describes the measures that will be taken to adjust for these changing conditions. The emphasis of the Plan of Operations is on defining the spatial and temporal aspects, as they will affect the land that is managed by the agency. The Plan of Operations also describes the plans to reclaim the site, and includes an estimate of the cost to accomplish that reclamation. This cost estimate is the first step toward establishing the reclamation surety for the site.

In order to satisfy the reclamation surety requirements of the U.S. Forest Service, we will consider obtaining an insurance policy for its benefit. This policy, if obtained on terms acceptable to us, would require us to pay into a commutation account of the insurer the agreed cost of the initial future reclamation work. The initial amount covered under the policy will be funded by a deposit into the commutation account, in an amount to be negotiated. The amount covered by the policy is expected to increase as reclamation costs increase due to expanded mining related disturbances. This additional policy coverage is expected to be funded from mining revenue once the mine is in operation. Once funded, the account will be available to pay for concurrent and final reclamation expenses as they are incurred. The policy is expected to provide us a mechanism to manage the overall cost of reclamation for a known cost for the entire life of mine and provide financial assurance required by the U.S. Forest Service. We would propose

to acquire the policy once the project is permitted and before commencement of construction.

The National Environmental Policy Act (NEPA) requires that any decision made by a Federal agency must consider the environmental effects of that decision. The USFS will decide whether or not there is a decision to be made, and whether that decision is significant or not. If there is no decision to be made, as in the instance of Categorical Exclusions (CE), the project can proceed with notification only. CE's are allowed when surface disturbances are limited to less than one mile of new road building. If a decision must be made, an environmental impact evaluation is completed and from that analysis, a determination of whether the environmental impact is significant or not. If the determination is a finding of no significant impact (FONSI), then the agency is authorized to approve the plan based on the Environmental Assessment (EA) findings. If the decision is that the impacts are in fact significant, then an Environmental Impact Statement (EIS) is required to arrive at the final decision. There is a significantly increased time period for review and public comment for an EIS versus an EA. Approvals of Gryphon Gold's site exploration activities to date were authorized under a CE.



The USFS Bridgeport Ranger District (District) determined that preparation of an Environmental Assessment (EA) was necessary to comply with the requirements of the National Environmental Policy Act (NEPA). The USFS and we mutually agreed to have Knight Piesold and Co. (KPCO), a third-party NEPA contractor, prepare the EA. Comments from a variety of stakeholders have been solicited. These comments were incorporated into a Modified Plan of Operations, which includes some changes from the initial Plan of Operations submitted to account for updated operating plans and required mitigation measures to better protect the environment.

At the completion of the NEPA process and decision, the reclamation surety must be posted with the USFS prior to any surface disturbance on site. The reclamation cost estimate provided in the Plan of Operations will be reviewed and refined by the agency and an acceptable amount agreed upon among the U.S. Forest Service, BMRR and us.

#### *Nevada Division of Water Resources Requirements*

Development of the Borealis Property will involve significant water demand in an arid region where the water basin has been over-appropriated and for which project water rights have been withdrawn. Successful mining and processing will require careful control of project water and efficient reclamation of project solutions back into the leaching process.

The Nevada Division of Water Resources (NDWR) is the responsible agency for granting water rights permits. The basin from which water rights could be appropriated is the same basin that was the water supply for the mining activities at Borealis during the 1980 s and early 1990 s. Although this basin appears to be over allocated to various users, many of these rights go unused, so it may be possible to transfer existing appropriations to the project if necessary.

We believe that water rights granted to us by the NDWR are sufficient to conduct planned operations. A wellfield to perfect this water supply has not yet been tested or developed.

#### *NDEP Bureau of Mining Regulation and Reclamation Requirements*

The Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation (BMRR) regulates mining activities within the state including water pollution control and reclamation.

The heap leach and process solution ponds are presented in the water pollution control permit application that was filed in January 2004. The permit application package includes the engineering design report for the heap and ponds, certified by a Nevada registered professional engineer. In addition to the engineering report, operating plans describing the mineral processing circuit, fluid management plan, monitoring plans, emergency response plan, temporary closure plan and tentative permanent closure plan were presented. The Water Pollution Control Permit was issued on January 28, 2006.

BMRR also administers and enforces the requirements relating to the reclamation of land subject to mining or exploration projects.

A Reclamation Plan that contains the identical information as was contained in the Plan of Operations was submitted to the BMRR in August 2004. The Reclamation Plan was approved during the second quarter of 2006.

We will be required to post a reclamation bond from a financial institution or otherwise set aside a corresponding amount for the benefit of BMRR. We anticipate that BMRR will accept the reclamation bond we post for the benefit of the U.S. Forest Service.

#### *Nevada Division of Environmental Protection Bureau of Air Quality Requirements*

Prior to the commencement of construction activities, an air quality permit will be necessary. The Nevada Bureau of Air Quality (BAQ) regulations state that a process flow diagram must be generated to communicate the technical aspects of the process/activity and determine which class of permit will be required. We have prepared the required process flow diagram and submitted our permit application. On April 28, 2006 the Class II air quality permit was issued by BAQ. Because Gryphon was not able to move the project into construction within the air permit time frame, NDEP kept this old permit in force while a new air quality and mercury permit application was being developed and approved. This permit writing and review is nearing completion and the company does not expect any problems moving forward.

## United States Regulatory Matters

### *General*

All of our exploration activities in the United States are subject to regulation by governmental agencies under various mining and environmental laws. The nature and scope of regulation depends on a variety of factors, including the type of activities being conducted, the ownership status of land on which the operations are located, the nature of the resources affected, the states in which the operations are located, the delegation of federal air and water-pollution control and other programs to state agencies, and the structure and organization of state and local permitting agencies. We believe that we are in substantial compliance with all such applicable laws and regulations. While these laws and regulations govern how we conduct many aspects of our business, we do not believe that they will have a material adverse effect on our operations or financial condition. We evaluate our projects in light of the cost and impact of regulations on the proposed activity, and evaluate new laws and regulations as they develop to determine the impact on, and changes necessary to, our operations.

Generally, compliance with environmental and related laws and regulations requires us to obtain permits issued by regulatory agencies and to file various reports and keep records of our operations. Some permits require periodic renewal or review of their conditions and may be subject to a public review process during which opposition to our proposed operations may be encountered.

### *U.S. Federal and State Environmental Law*

Our past and future activities in the United States may cause us to be subject to liability under various federal and state laws. Proposed mining activities on federal land trigger regulations promulgated by the U.S. Forest Service (USFS), the Bureau of Land Management (BLM), and potentially other federal agencies, depending on the nature and scope of the impacts. For operations on federal public lands administered by the BLM that disturb more than five acres, an operator must submit a Plan of Operations to BLM. On USFS-administered lands, the USFS requires the submission of a notice for all mining operations, regardless of size, and a Plan of Operations if the USFS determines that there will be any significant disturbance of the surface.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), imposes strict, joint, and several liability on parties associated with releases or threats of releases of hazardous substances. Liable parties include, among others, the current owners and operators of facilities at which hazardous substances were disposed or released into the environment and past owners and operators of properties who owned such properties at the time of such disposal or release. This liability could include response costs for removing or remediating the release and damages to natural resources. We are unaware of any reason why our undeveloped properties would currently give rise to any potential CERCLA liability. We cannot predict the likelihood of future CERCLA liability with respect to our properties or surrounding areas that have been affected by historic mining operations.

Under the Resource Conservation and Recovery Act (RCRA) and related state laws, mining companies may incur costs for generating, transporting, treating, storing, or disposing of hazardous or solid wastes associated with certain mining-related activities. RCRA costs may also include corrective action or clean up costs.

Mining operations may produce air emissions, including fugitive dust and other air pollutants, from stationary equipment, such as crushers and storage facilities, and from mobile sources such as trucks and heavy construction equipment. All of these sources are subject to review, monitoring, permitting, and/or control requirements under the federal Clean Air Act and related state air quality laws. Air quality permitting rules may impose limitations on our production levels or create additional capital expenditures in order to comply with the permitting conditions.

Under the federal Clean Water Act and delegated state water-quality programs, point-source discharges into Waters of the State are regulated by the National Pollution Discharge Elimination System (NPDES) program. Section 404 of the Clean Water Act regulates the discharge of dredge and fill material into Waters of the United States, including wetlands. Stormwater discharges also are regulated and permitted under that statute. All of those programs may impose permitting and other requirements on our operations.

The National Environmental Policy Act (NEPA) requires an assessment of the environmental impacts of major federal actions. The federal action requirement can be satisfied if the project involves federal land or if the federal government provides financing or permitting approvals. NEPA does not establish any substantive standards. It merely requires the analysis of any potential impact. The scope of the assessment process depends on the size of the project. An Environmental Assessment (EA) may be adequate for smaller projects. An Environmental Impact Statement (EIS), which is much more detailed and broader in scope than an EA, is required for larger projects. NEPA compliance requirements for any of our proposed projects could result in additional costs or delays.

The Endangered Species Act (ESA) is administered by the U.S. Department of Interior's U.S. Fish and Wildlife Service. The purpose of the ESA is to conserve and recover listed endangered and threatened species and their habitat. Under the ESA, endangered means that a species is in danger of extinction throughout all or a significant portion of its range. Threatened means that a species is likely to become endangered within the foreseeable future. Under the ESA, it is unlawful to take a listed species, which can include harassing or harming members of such species or significantly modifying their habitat. We conduct wildlife and plant inventories as required as part of the environmental assessment process prior to initiating exploration projects. We currently are unaware of any endangered species issues at any of our projects that would have a material adverse effect on our operations. Future identification of endangered species or habitat in our project areas may delay or adversely affect our operations.

We are committed to fulfilling our requirements under applicable environmental laws and regulations. These laws and regulations are continually changing and, as a general matter, are becoming more restrictive. Our policy is to conduct our business in a manner that safeguards public health and mitigates the environmental effects of our business activities. To comply with these laws and regulations, we have made, and in the future may be required to make, capital and operating expenditures.

#### *U.S. Federal and State Reclamation Requirements*

We are subject to land reclamation requirements under state and federal law, which generally are implemented through reclamation permits that apply to exploration activities. These requirements often mandate concurrent reclamation and require the posting of reclamation bonds or other financial assurance sufficient to guarantee the cost of reclamation. If reclamation obligations are not met, the designated agency could draw on these bonds and letters of credit to fund expenditures for reclamation requirements.

Reclamation requirements generally include stabilizing, contouring and re-vegetating disturbed lands, controlling drainage from portals and waste rock dumps, removing roads and structures, neutralizing or removing process solutions, monitoring groundwater at the mining site, and maintaining visual aesthetics. We believe that we currently are in substantial compliance with and are committed to maintaining all of our financial assurance and reclamation obligations pursuant to our permits and applicable laws.

#### **Nevada Eagle Properties**

Subsequent to the Company's year-end, on April 23, 2010, we entered into a Membership Interest Purchase Agreement with Fronteer Development (USA) Inc. (Fronteer) pursuant to which we sold our wholly-owned subsidiary Nevada Eagle Resources to Fronteer for \$4.75 million. The Nevada Eagle holdings consisted of approximately 53 prospective gold properties covering over 70 square miles of gold trends in Nevada. The Company determined to sell Nevada Eagle to Fronteer in order to focus its efforts on the exploration and development of its Borealis Gold Project. For more information regarding the disposition of Nevada Eagle to Fronteer, see the Company's Current Report on Form 8-K filed with the SEC on April 27, 2010.

#### **ITEM 3. 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 4. [REMOVED AND RESERVED]****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is quoted on the Toronto Stock Exchange ( TSX ). Our common shares commenced trading on the TSX on December 22, 2005. Before trading on the TSX our stock was not publicly traded on any exchange. The high and low bid quotations of our common stock on the TSX were as follows:

<u>Period</u>	<u>High</u>	<u>Low</u>
<b>2010</b>		
April 1 – June 22, 2010 (TSX)	Cdn\$0.14	Cdn\$0.14
First Quarter (TSX)	Cdn\$0.23	Cdn\$0.13
<b>2009</b>		
First Quarter (TSX)	Cdn\$0.22	Cdn\$0.11
Second Quarter (TSX)	Cdn\$0.25	Cdn\$0.14
Third Quarter (TSX)	Cdn\$0.31	Cdn\$0.10
Fourth Quarter (TSX)	Cdn\$0.33	Cdn\$0.17
<b>2008</b>		
First Quarter (TSX)	Cdn\$0.79	Cdn\$0.40
Second Quarter (TSX)	Cdn\$0.54	Cdn\$0.37
Third Quarter (TSX)	Cdn\$0.44	Cdn\$0.21
Fourth Quarter (TSX)	Cdn\$0.23	Cdn\$0.05

As of June 22, 2010 the closing bid quotation for our common stock was Cdn\$0.13 per share as quoted by the TSX.

As of June 22, 2010, we had 87,935,132 shares of common stock issued and outstanding, held by approximately 2,000 registered shareholders. In many cases, shares are registered through intermediaries, making the precise number of shareholders difficult to obtain.

**Dividend Policy**

We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any further determination to pay cash dividends will be at the discretion of our board of directors and will be dependent on the financial condition, operating results, capital requirements and other factors that our board deems relevant. We have never declared a dividend.

**Purchases of Equity Securities by the Small Business Issuer and Affiliates**

There were no purchases of our equity securities by us or any of our affiliates during the year ended March 31, 2009.

## Equity Compensation Plans

### *Securities Authorized for Issuance*

On March 29, 2005, our board of directors adopted a stock option plan which was approved by our shareholders on May 13, 2005. As of March 31, 2007 we had granted 3,000,000 stock options, of which 565,000 were forfeited and 107,500 were exercised, pursuant to the terms of our 2005 stock option plan with expiry dates to 2011. We may only issue up to 3,000,000 shares of common stock under the terms of the 2005 stock option plan.



On April 4, 2006 (amended July 24, 2006), the Board of Directors approved the 2006 Omnibus Incentive Plan, which increased the number of reserved shares of common stock for issuance to employees, officers, directors, consultants and advisors, from 3,000,000 to 7,000,000 shares. The 2006 Omnibus Incentive Plan was ratified by the shareholders at the company's annual general meeting on September 12, 2006, along with all options previously granted there under, pending such ratification.

On September 8, 2009, at the special meeting of the shareholders, the shareholders approved an increase in the number of shares of common stock issuable pursuant to the grant of stock options under the Omnibus Incentive Plan. After the shareholder approved increase, the 2006 Omnibus Incentive Plan authorizes the Company to grant 6,000,000 options and 1,000,000 restricted stock units. As of June 22, 2010 we had granted 7,782,000 stock options, of which 4,195,000 were forfeited, pursuant to the terms of our omnibus incentive plan as described below with expiry dates to 2014; 851,170 restricted stock units had been granted as of June 11, 2009, of which 142,750 have been forfeited and the equivalent of 42,500 were issued in cash pursuant to the terms of our omnibus incentive plan. We have no equity compensation plans in place that have not been approved by our shareholders. The table below shows securities issued under our equity compensation plans as of June 22, 2010.

	<b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants, and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
<b>Equity compensation plans approved by security holders<sup>(1)</sup></b>	4,707,500 <sup>(1)</sup>	\$0.43*	1,814,080 <sup>(2)</sup>
<b>Equity compensation plans not approved by security holders</b>	--	--	--
<b>TOTAL</b>	4,707,500	--	1,814,080

Consists of 230,000 outstanding options granted from the Stock Option Plan, and 4,477,500 outstanding options granted from the Omnibus Incentive Plan.

Consists of 1,522,500 options and 291,580 restricted stock units remaining under the Omnibus Incentive Plan.

\* Based on the March 31, 2010 exchange rate of Cdn\$1.0158 equals US\$1

#### ***Omnibus Incentive Plan***

The Plan is administered by the Compensation Committee, which has full and final authority with respect to the granting of options there under. Options may be granted under the Plan to such directors, officers, employees or consultants of Gryphon Gold and its subsidiaries as the Compensation Committee may from time to time designate (referred to as a participant). Each option will generally entitle a participant to purchase one share of common stock during the term of the option upon payment of the exercise price. The exercise price of any options granted under the Plan shall be determined by the Compensation Committee and may not be less than the market price of our common stock on the date of grant of the options (calculated in accordance with the rules of the Toronto Stock Exchange as the volume weighted average trading price for the five trading days preceding the date of grant). Gryphon Gold may provide financial assistance to eligible persons to purchase shares of common stock under the Plan, subject to

applicable law and the rules and policies of any securities regulatory authority or stock exchange with jurisdiction over the Corporation or a trade in its securities. Any financial assistance so provided will be repayable with full recourse and the term of any such financing shall not exceed the term of the option to which the financing applies.

The term of any options granted shall be determined by the Compensation Committee at the time of the grant but the term of any options granted under the Plan shall not exceed ten years. If desired by the Compensation Committee, options granted under the Plan may be subject to vesting provisions. Options granted under the Plan are not transferable or assignable other than by will or otherwise by operation of law. In the event of death or disability of an option holder, options granted under the Plan expire one year from the death or disability of the option holder.

Certain restrictions contained in the Plan include:

- the number of shares of common stock which may be issued pursuant to the Plan (or any other employee related plan or options for service) to any one person may not exceed 5% of all the common shares issued and outstanding on a non-diluted basis from time to time; and
- the number of shares of common stock which may be issued pursuant to the Plan (or any other employee-related plan or options for services) to insiders (as defined in the rules of the Toronto Stock Exchange to include generally directors, senior officers of Gryphon Gold or its subsidiaries or shareholders who own more than 10% of our common stock) during any twelve month period may not exceed 10% of the common stock issued and outstanding on a non-diluted basis from time to time (unless approval of disinterested shareholders has been obtained in accordance with the rules of the Toronto Stock Exchange).
- the number of shares of common stock which may be reserved for issuance in respect of options granted to insiders pursuant to the Plan (or any other employee-related plan or options for service) may not exceed 10% of the common stock issued and outstanding on a non-diluted basis from time to time unless approval of disinterested shareholders has been obtained in accordance with the rules of the Toronto Stock Exchange).

Gryphon Gold's board of directors may at any time terminate or amend the Plan in any respect, provided however, that the board may not, without the approval of the shareholders, amend the Plan or any option granted there under in any manner that requires shareholder approval under applicable law or the rules and policies of any stock exchange or quotation system upon which the common shares are listed or quoted.

### **Sale of Unregistered Securities**

On February 18, 2010, the Company closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn\$0.17 per unit for gross proceeds of \$1,762,701 (Cdn\$1,852,550). Each unit consists of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.25. The units were offered for sale directly by the Company. In connection with the private placement, the Company has paid qualified registered dealers cash commissions in the aggregate amount of \$162,003 (Cdn\$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of common stock of the Registrant, exercisable at a price of US\$0.21 for a period of up to twelve months from the date of closing of the private placement. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, the Registrant relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The proceeds of this offering were applied to fund the continuation of our exploration and development programs. This private placement was reported in the Company's current report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2010.

All sales of unregistered securities prior to January 1, 2010 were previously reported in the Company's quarterly and current reports filed with the Securities and Exchange Commission.

### **ITEM 6. SELECTED FINANCIAL DATA**

Not Applicable to smaller reporting company

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under Risk Factors and Uncertainties and elsewhere in this annual report.*

## Overview

In May 2005 we initiated a drilling program. As of March 31, 2010, 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. Cautionary Note to U.S. Investors: The Technical 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

During September 2008, we released the independent 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. Cautionary Note to U.S. Investors: The PA 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. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

No drilling was completed during the year ended March 31, 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 March 31, 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.

## Transactions during year ended March 31, 2010

On February 5, 2010, the Company and Gerald and Fabiola Baughman (Debt holders) entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 (Amendment No. 1) pursuant to which, among other items, (i) the Company obtained the right, in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated private placement or February 19, 2010; (ii) to delete certain unmet conditions required to be satisfied by the Company in connection with the exercise of the Option; and (iii) update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement) pursuant to which the Company

agreed to (i) issue the Debt holders 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration ), which Amendment Consideration is subject to obtaining Company shareholder and Toronto Stock Exchange approval (the Approvals ). The conversion price of Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company s shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note.

On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 common shares and a promissory note in the principal amount of \$500,000 to the Debt holders and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

On February 12, 2010 the Company and Richard J. Cavell TTTEE F/T Richard J. Cavell Trust dated 02/23/1994, Hardrock Mining Company and John W. Whitney (collectively, the Lessors ) entered into Amendment No. 2 to the Option Agreement Amendment to Mining Lease dated August 22, 2008 (the Option Agreement ). Pursuant to Amendment No. 2, the Option Agreement was amended to provide for the extension of the Option Term from February 22, 2010 until August 22, 2010 and the extension of the Condemnation Period from August 22, 2010 to August 22, 2011. As consideration for entering into Amendment No. 2, the Company agreed to pay the Lessors \$150,000 comprised of cash in the amount of \$25,000 and shares of the Company s common stock equal to \$125,000, calculated based on eighty percent of the average five day closing price immediately prior to the payment date.

On February 18, 2010, the Company closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn\$0.17 per unit for gross proceeds of \$1,762,701 (Cdn\$1,852,550). Each unit consists of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.25. The units were offered for sale directly by the Company. In connection with the private placement, the Company has paid qualified registered dealers cash commissions in the aggregate amount of \$162,003 (Cdn\$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of common stock of the Registrant, exercisable at a price of US\$0.21 for a period of up to twelve months from the date of closing of the private placement. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, the Registrant relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On March 5, 2010, the Company and Sage entered into an Option Agreement (the Option Agreement ) pursuant to which the Company granted Sage the option (the Option ) to enter into a Joint Venture Agreement (the Joint Venture Agreement ) and earn a 50% joint venture interest (the Joint Venture ) in the Company s wholly owned subsidiary Borealis Mining Company. The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. Under the terms of the Option Agreement, Sage has the right to exercise the Option and enter into the Joint Venture Agreement with the Company upon the satisfaction of the following conditions:

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the Option Period ) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).
- (c)

Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.

- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units by April 16, 2010. Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date, but not less than Cdn\$0.18 per unit and not more than Cdn.\$0.25, subject to TSX approval.



- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.
- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

On March 7, 2010, Gerald W. Baughman resigned from his positions as an employee, officer and director of the Company in order to pursue other business opportunities. The Company and Mr. Baughman entered into a Separation Agreement for the purpose of facilitating a transition of Mr. Baughman's duties as an employee, officer and director of the Company. Under the terms of the Separation Agreement, Mr. Baughman's Employment Agreement was terminated and the Company agreed to pay Mr. Baughman \$50,000 to assist in the transition period following his resignation.

On March 26, 2010, the Company and Sage entered into Amendment No. 1 to Option Agreement and Amendment No. 1 to Subscription Agreement ("Amendment No. 1"). Amendment No. 1 amends the Option Agreement, dated March 5, 2010 by extending the Due Diligence period to April 19, 2010, and amends the Subscription Agreement, dated March 5, 2010, by extending the closing of the Private Placement to on or before May 11, 2010.

## **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 ongoing 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 could 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.

### ***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 which 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 could differ from these estimates.

#### ***Revenue recognition***

Mineral lease rentals are treated as reductions of the cost of the property as the payor 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. The leases provide for the receipt of royalty payments upon production being generated from 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.

### ***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 and maintenance) 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) (since codified as FASB ASC 718-10) 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 ASC 718-10, 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 7%. Estimation of forfeitures will be 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 9 of the consolidated 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 FASB ASC 810-10-55 (Prior authoritative literature: FASB Statement 160,

*Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*). FASB ASC 810-10-55 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 FASB ASC 810-10-55 did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued FASB ASC 805-10-55 (Prior authoritative literature: FASB Statement 141(R), *Business Combinations*), which amends FASB ASC 805-10-55, 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. FASB ASC 805-10-55 is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively. FASB ASC 805-10-55 may have an impact on the Company's consolidated financial statements in the future, 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 FASB ASC 815-10-15 (Prior authoritative literature: FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities*). FASB ASC 815-10-15 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 FASB ASC 815-20-25, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. FASB ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of FASB ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of FASB ASC 815-10-15 is not expected to have a material impact on our consolidated operating results, financial position, or cash flows.

On May 9, 2008, the FASB issued FASB ASC 470-20-55, (Prior authoritative literature: APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). FASB ASC 470-20-55 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of FASB ASC 470-20-55, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FASB ASC 470-20-55-1 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 FASB ASC 470-20-55 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 FASB ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, the EITF reached consensus on FASB ASC 815-40-55 (Prior authoritative literature *EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). FASB ASC 815-40-55 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 ASC 815-20-25 (Prior authoritative literature: FASB Statement 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 FASB ASC 815-40-55 (Prior authoritative literature: EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock*). FASB ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required

the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair 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), deficit accumulated during the exploration stage was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded.

In May 2009, the FASB issued FASB ASC 855-10-25 (Prior authoritative literature: FASB Statement 165, *Subsequent Events*), 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. FASB ASC 855-10-25 is effective for our fiscal year commencing April 1, 2009. The adoption of FASB ASC 855-10-25 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 ASC 820-10-65, (Prior authoritative literature:

*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*). FASB ASC 820-10-65:

- 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. FASB ASC 820-10-65 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 FASB ASC 820-10-65 and to quantify its effects, if practicable.
- Applies to all fair value measurements when appropriate.

FASB ASC 820-10-65 must be applied prospectively and retrospective application is not permitted. FASB ASC 820-10-65 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 FASB ASC 820-10-65 must also early adopt FASB ASC 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments*. The adoption of FASB ASC 820-10-65 had no impact on the company's consolidated operating results, financial position, or cash flows.

During the second quarter of 2009, FASB issued FASB ASC 320-10-65 (Prior authoritative literature: FASB FSP 115-2/124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). ASC Topic 320-10-65-1 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. It also contains additional disclosure requirements related to debt and equity securities and changes existing impairment guidance under Statement of Financial Accounting Standards No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*". For debt securities, the "ability and intent to hold" provision is eliminated, and impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). This new framework does not apply to equity securities (i.e., impaired equity securities will continue to be evaluated under previously existing guidance). The "probability" standard relating to the collectability of cash flows is eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. ASC Topic 320-10-65-1 also provides that for debt securities which (i) an entity does not intend to sell and (ii) it is not more likely than not that the entity will be required to sell before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into the amount related to estimated credit losses and the amount related to all other factors. The amount of the total impairment related to all other factors is

recorded in other comprehensive loss and the amount related to estimated credit loss is recognized as a charge against current period earnings. ASC Topic 320-10-65-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. The Company elected to adopt ASC Topic 320-10-65-1 in the first quarter of 2009. FASB ASC 320-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.



In April 2009, the FASB issued FASB ASC Topic 270-10-05, *Interim Disclosures about Fair Value of Financial Instruments* (Prior authoritative literature: FSP FAS 107-1 and APB 28-1). FASB ASC Topic 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Before this guidance was adopted, fair values for these assets and liabilities were disclosed only once a year. The guidance now requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This pronouncement is effective for periods ending after June 15, 2009. The Company adopted this standard effective June 30, 2009, and it did not have a material impact on the Company's financial position and results of operations.

In June 2009, the FASB issued FASB ASC 105-10-65 (Prior authoritative literature: FASB Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). Under FASB ASC 105-10-65 the FASB Accounting Standards Codification (the Codification) will become the exclusive source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards, with the exception of certain non-SEC accounting literature which will become non-authoritative.

FASB ASC 105-10-65 was effective for the Company's 2009 second fiscal quarter. The adoption of FASB ASC 105-10-did not have a material impact on the Company's financial statements. All references to U.S. GAAP provided in the notes to the financial statements have been updated to conform to the Codification.

## **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 gain on disposal of mineral properties of discontinued operations in the Statement of Operations (see note 5 of the Company's consolidated financial statements).

### ***Year ended March 31, 2010 compared to year ended March 31, 2009***

For the year ended March 31, 2010 we had a net loss from continuing operations of \$3,273,757 or \$0.05 per share and net income from discontinued operations of \$957,536 or \$0.01 per share compared to a net loss from continuing operations of \$3,988,457 or \$0.06 per share and a net loss from discontinued operations of \$5,954,774 or \$0.10 per share for the prior year.

The prior years expenses, now in discontinued operations, included a charge to earnings of \$5,100,000 for the impairment of the carrying value of the Nevada Eagle exploration properties. The decrease in the net loss from continuing operations is due to decreased spending on exploration activities, management salaries and consulting fees, and general and administrative costs as a result of our efforts to conserve cash.

Exploration expenses from continuing operations during the year ended March 31, 2010 were \$1,405,165 or 43% of our net expense from continuing operations compared to \$1,429,559 or 36% of our total net expenses from continuing operations in the prior year. No drilling was completed during the year ended March 31, 2010. Much of the current year's exploration expense covered the completion of the Pre Feasibility report plus permitting efforts for drilling in the pediment areas of the Borealis property.

Management salaries and consulting fees from continuing operations for the year ended March 31, 2010 were \$682,814 compared to \$1,375,518 incurred in the prior year as two of the three employees went to part time and non-cash compensation decreased. Total non-cash compensation expense recognized in the year totaled \$166,088 compared to non-cash compensation expense of \$521,665 recognized in the prior year. General and administrative from continuing operations expenses totaled \$521,774, compared to \$654,908 in the prior year. The decrease is due to reduced spending on investor relations and our efforts to conserve cash. Legal and audit fees from continuing operations for the period increased to \$429,314 from \$226,549 for the year ended March 31, 2010. The increase resulted from an increase in corporate activities including our financing efforts activity. Travel and accommodation expense for the year ended March 31, 2010 was \$119,777, compared to \$133,933 for the prior year.

Interest income from continuing operations earned on cash deposits was \$1,052 for the year ended March 31, 2010, compared to \$32,364 in the prior year due to lower cash balances held on average through the current year versus the prior year and a declining interest rate environment in the current fiscal year.

***Year ended March 31, 2009 compared to year ended March 31, 2008***

For the year ended March 31, 2009 we had a net loss of \$9,943,231 or \$0.16 per share compared to a net loss of \$7,850,766 or \$0.13 for the prior year.

The 2009 expenses include a charge to earnings of \$5,100,000 for the impairment of the carrying value of the Nevada Eagle exploration properties. The loss before the impairment charge is \$4,843,321 and is less than the 2008 comparable loss. The reduction in the comparable loss is due to decreased spending on exploration activities, management salaries and consulting fees, and general and administrative costs as a result of our efforts to conserve cash.

Exploration expenses during the year ended March 31, 2009 were \$1,473,628 or 32% of our net expenses (before the effect of the non-cash impairment charge) compared to \$3,845,525 or 49% of our total net expenses in the prior year. No exploration drilling was completed during the year ended March 31, 2009. During the prior year we drilled a total of 31 holes at the Borealis property, representing 36,485 feet. During the year ended March 31, 2009, we completed a CIM compliant NI 43-101 report and in September 2008, we released the results of our Preliminary Assessment of the development of an oxide heap leach gold mine on the Borealis property. Much of the current year's exploration expense covered the completion of these two reports plus permitting efforts for exploration drilling in the pediment areas of the Borealis property.

Management salaries and consulting fees for the year ended March 31, 2009 were \$1,375,518 compared to \$2,061,885 incurred in the prior year as the number of employees and consultants decreased during the year and non-cash compensation decreased. Total non-cash compensation expense recognized in the year totaled \$528,429 compared to non-cash compensation expense of \$829,080 recognized in the prior year. General and administrative expenses totaled \$657,708, compared to \$1,007,053 in the prior year. The decrease is due to reduced spending on investor relations and our efforts to conserve cash. Legal and audit fees for the period decreased from \$492,308 to \$229,034 for the year ended March 31, 2009. The decrease resulted from a larger number of registration statements being completed for shares issued under private placements, an increase in audit fees due to the acquisition of Nevada Eagle Resources during the prior year, and legal fees related to potential acquisition activity in the prior year. Travel and accommodation expense for the year ended March 31, 2009 was \$133,971, compared to \$202,118 for the prior year. The decrease is due to decreased investor relations related travel and fewer property site visits. Loss on disposal of mineral properties for the year ended March 31, 2009 was \$302,276, compared to \$0 in the prior year. The loss is due a \$340,014 loss on two properties we had released our interest in offset by a gain of \$37,738 on two sold properties.

Interest income earned on cash deposits was \$33,116 for the year ended March 31, 2009, compared to \$203,970 in the prior year due to lower cash balances held on average through the current year versus the prior year and a declining interest rate environment in the current fiscal year. Interest expense totaled \$529,776, of which \$276,863 was non-cash compared to \$316,963 of which \$159,775 was non-cash, in the prior period. The increase is due to interest being charged for 7 months in the prior period compared to 12 months during the current year ended. The interest expense was related to the note payable for the purchase of Nevada Eagle Resources during fiscal 2008.

**Liquidity and Capital Resources**

Our source of liquidity is cash that is raised by way of sale of common stock from treasury and other equity securities.

***Convertible Debt***

On July 4, 2007, we entered into a membership interest purchase agreement with the Baughmans, as sellers, and Nevada Eagle, under which we agreed to purchase all of the outstanding limited liability company interests of Nevada Eagle. Upon closing of the membership interest purchase agreement on August 21, 2007, we acquired Nevada Eagle from the sellers for the following consideration:

- (a) \$2,500,000 in cash;
- (b) four million five hundred thousand (4,500,000) shares of our common stock; and
- (c) a 5% convertible note in the principal amount of \$5,000,000.

The convertible note, due March 30, 2010, bears interest at the annual rate of 5% and is convertible at the option of the holder into common shares at an initial conversion price of \$1.00 per share during first the twelve month period following the closing date, \$1.25 per share during the second twelve month period following the closing date, \$1.50 per share thereafter and \$1.75 per share if converted on March 30, 2010. The interest payments are due on a semi-annual basis beginning on January 1, 2008 and due each January 1 and June 1. In addition to the purchase consideration, the sellers were entitled to all revenues of Nevada Eagle (payable in cash, stock, or other consideration) calculated to be received and received on the assets and properties of Nevada Eagle during calendar year 2007.

Effective August 5, 2008, we entered into an option agreement with the Baughmans 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. 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 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.

On February 5, 2010, the Company and the Baughmans ( Debt holders ) entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 ( Amendment No. 1 ) pursuant to which, among other items, (i) the Company obtained the right, in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated private placement or February 19, 2010; (ii) to delete certain unmet conditions required to be satisfied by the Company in connection with the exercise of the Option; and (iii) update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement ) pursuant to which the Company agreed to (i) issue the Debt holders 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration ), which Amendment Consideration is subject to obtaining Company shareholder and Toronto Stock Exchange approval (the Approvals ). The conversion price of Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company s shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note.

On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 common shares and a promissory note in the principal amount of \$500,000 to the Debt holders, and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer Development (USA) Inc. for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin

property located in Idaho.

***Borealis Lease***

We anticipate continuing to take all steps necessary to preserve our rights to the Borealis property under the existing terms of the property lease. We also intend to 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 are undertaking development activity through the completion of a pre-feasibility study by Telesto of Nevada.

### ***Borealis Mine***

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. We cannot make any assurance that financing will be available to us on acceptable terms or at all.

On March 5, 2010, the Company and Sage entered into an Option Agreement (the *Option Agreement*) pursuant to which the Company granted Sage the option (the *Option*) to enter into a Joint Venture Agreement (the *Joint Venture Agreement*) and earn a 50% joint venture interest (the *Joint Venture*) in the Company's Borealis gold project located in the Walker Lane Mineral Belt of Southwest Nevada (the *Borealis Project*). The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. Under the terms of the Option Agreement, Sage has the right to exercise the Option and enter into the Joint Venture Agreement with the Company upon the satisfaction of the following conditions:

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the *Option Period*) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).
- (c) Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.
- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units by April 16, 2010. Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date, but not less than Cdn\$0.18 per unit and not more than Cdn.\$0.25, subject to TSX approval.
- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.
- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

### ***Capital Resources***

At March 31, 2010, we had working capital of \$1,723,347 with an average cash expenditure rate of \$100,000 per month in a typical month based on the 2 full time employees we have. This level of activity is subject to change based upon future events. Current assets consisted of \$937,056 in cash, \$191,966 in securities held for trading, \$20,183 in accounts receivable, \$16,230 in accounts receivable - joint venture, \$30,980 in prepaid expenses, \$11,441 in the current portion of our note receivable, and \$3,788,691 in assets held for sale and in discontinued operations. We had

\$832,977 in accounts payable and accrued liabilities, \$270,000 in share consideration payable to former owners of discontinued operations and \$2,170,223 in liabilities held for sale in discontinued operations at March 31, 2010.

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 also resulted in greater volatility in the equity markets, increased credit losses and tighter credit conditions. These 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.



As we expect our reliance on equity financings to continue into the future, these current market 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 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. We intend to raise additional funds through debt and/or equity financing 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 \$1,723,347 with an average cash expenditure rate of \$100,000 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 consider raising funds through different forms of equity offerings, joint ventures 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%.

During the year ended March 31, 2010, we used cash in operating activities of \$3,117,638 which included our net loss during the year of \$2,316,221 off-set by depreciation of \$44,828, non-cash compensation of \$166,088, non-cash interest expense of \$205,014, unrealized gain of \$121,227 on the valuation of marketable securities, realized loss on the sale of securities of \$14,651, gain on disposal of equipment \$18,928, a gain on disposal of mineral property of \$249,108, loss of \$212,130 on change in the liability of warrants, gain on extinguishment of debt of \$1,327,076, and changes in non-cash working capital of a \$8,720 increase in accounts receivable, a \$263,633 increase in accounts payable and a \$17,298 decrease in prepaid expenses.

We generated cash from investing activities of \$1,003,706 including \$27,488 for expenditures on mineral properties, \$9,355 on purchase of equipment, \$100,000 received from an option payment on the Borealis property, \$893,349 in cash payments from the leasing of exploration properties, \$10,201 from sales of held for trading securities, \$50,000 from the sale of a mineral property, \$10,428 proceeds from note receivable, \$1,571 from sale of equipment, and a \$25,000 option payment to amend royalty. We generated cash in financing activities of \$2,251,471 for the year ended March 31, 2010 which included \$1,161,036 from the exercise of warrants, \$1,762,814 from the sale of shares, \$500,000 paid for the extinguishment of debt, and \$172,379 paid in share issue costs. Cash increased during the period by \$137,539 to \$937,056 as at March 31, 2010.

Updated share capital as of June 22, 2010:

Basic Common Stock Issued and Outstanding	86,470,703
Warrants, Options and other Convertible Securities	10,926,177
Fully Diluted Common Stock	97,396,880

**Off-Balance Sheet Arrangements**

The Company does 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 \$9,762 per month to certain lease holders while our efforts are proceeding on the Borealis Property. Also, to maintain its existing claims on the Borealis property, we make payments totaling approximately \$94,000 annually, 2010 will be \$158,000 due to a one-time fee imposed by the State of Nevada. These payments are contingent upon us maintaining an interest in the property.

Under the terms of the acquisition agreement for Nevada Eagle Resources LLC, we have a note payable outstanding for \$2,500,000 due March 30, 2012. Refer to the section **Liquidity and Capital Resources** under this document for a full description of the acquisition and commitment.

As of March 31, 2010, we had the following non-cancelable contractual obligations:

**Payments Due by Period**

	<b>Total</b>	<b>Less than 1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>More than 5 Years</b>
Operating Lease Obligation <sup>(1)</sup>	208,546	59,187	123,608	25,752	-
Operating Lease Obligation <sup>(2)</sup>	900	900	-	-	-

<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 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. As at March 31, 2010 the Company has accrued \$49,273, being the difference between the required lease payments and the estimated future sub-lease receipts. On January 31, 2010 the lessees in the Vancouver office vacated the premises. The office has been subsequently sub-leased to another party commencing May 1, 2010 for 3 years and 5 months (remaining life on lease) for Cdn\$4,200 per month.

<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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable to smaller reporting company

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Consolidated Financial Statements

**Gryphon Gold Corporation**

(an exploration stage company)

March 31, 2010 and 2009

(Stated in U.S. dollars)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
**Gryphon Gold Corporation**  
(an exploration stage company)

We have audited the accompanying consolidated balance sheets of **Gryphon Gold Corporation** (an exploration stage company) as of March 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended March 31, 2010 and for the period from April 24, 2003 (inception) to March 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gryphon Gold Corporation (an exploration stage company) as of March 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the two years in the period ended March 31, 2010 and for the period from April 24, 2003 (inception) to March 31, 2010, in conformity with United States generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1 to the consolidated financial statements, the Company has suffered recurring operating losses and has an accumulated deficit of \$35,202,910. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The March 31, 2010 consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Vancouver, Canada  
June 23, 2010

*/s/Ernst and Young LLP*  
Chartered Accountants

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

**CONSOLIDATED BALANCE SHEETS**  
(Stated in US dollars)

	As at March 31, 2010 \$	As at March 31, 2009 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	937,056	799,517
Held for trading securities	191,966	80,015
Accounts receivable	20,183	23,943
Accounts receivable - joint venture [note 3]	16,230	-
Current portion of note receivable [note 4]	11,441	-
Prepaid expenses	30,980	48,278
Assets held for sale at discontinued operations [notes 5 & 15]	3,788,691	-
<b>Total Current Assets</b>	<b>4,996,547</b>	<b>951,753</b>
Equipment [note 6]	90,286	117,967
Mineral properties [note 7]	1,930,909	1,930,909
Other assets [note 9]	721,679	446,679
Non-current portion of note receivable [note 4]	2,131	-
Assets held for sale and in discontinued operations [notes 5 & 15]	-	4,471,020
<b>Total Assets</b>	<b>7,741,552</b>	<b>7,918,328</b>
<b>LIABILITIES AND STOCKHOLDERS, EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	832,977	451,159
Share consideration payable to former owners of discontinued operations [note 10]	270,000	-
Liabilities held for resale and in discontinued operations [notes 5, 10 & 15]	2,170,223	4,782,285
<b>Total current liabilities</b>	<b>3,273,200</b>	<b>5,233,444</b>
Commitments & contingencies [note 14]		
<b>Stockholders' equity</b>		
Common stock	86,034	61,957
Additional paid-in capital	39,585,228	38,397,746
Deficit accumulated during the exploration stage	(35,202,910)	(35,774,819)
<b>Total stockholders' equity</b>	<b>4,468,352</b>	<b>2,684,884</b>
	<b>7,741,552</b>	<b>7,918,328</b>

See accompanying notes

See Note 1 - Nature of Operations and Going Concern Uncertainty

On behalf of the Board:

/s/ John Key  
Director

/s/ Marvin Kaiser  
Director



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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Stated in US dollars)

	Year Ended March 31, 2010 \$	Year Ended March 31, 2009 \$	Period from April 24, 2003 (inception) to March 31, 2010 \$
Exploration [note 8]	1,405,165	1,429,559	16,602,002
Management salaries and consulting fees [note 11]	682,814	1,375,518	9,363,369
General and administrative	521,774	654,908	3,758,529
Legal and audit	429,314	226,549	2,105,438
Travel and accommodation	119,777	133,933	1,145,398
Depreciation & amortization	44,828	55,313	253,630
(Gain) or loss on disposal of equipment	(18,928)	(1,722)	5,624
Foreign exchange loss (gain)	(16,194)	28,843	7,172
Loss (gain) on change in liability of warrants [note 11[b]]	212,130	-	(2,676,000)
Interest income	(1,052)	(32,364)	(738,998)
Interest expense	705	2,320	8,157
Unrealized (gain) loss on securities	(121,227)	(22,471)	(102,211)
Realized loss on sale of securities	14,651	138,071	152,722
Loss for the period from continuing operations	(3,273,757)	(3,988,457)	(29,884,832)
Discontinued operations:			
Income (loss) from discontinued operations	957,536	(5,954,774)	(5,318,078)
<b>Net loss for the period</b>	<b>(2,316,221)</b>	<b>(9,943,231)</b>	<b>(35,202,910)</b>
Basic and diluted loss per share:			
Loss from continuing operations	(0.05)	(0.06)	
Income (loss) from discontinued operations	0.01	(0.10)	
Total loss per share	(0.04)	(0.16)	
Basic and diluted weighted average number of common shares outstanding			
	68,494,268	61,781,770	

See accompanying notes

See Note 1 Nature of Operations and Going Concern Uncertainty



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

**CONSOLIDATED STATEMENTS OF  
STOCKHOLDERS' EQUITY**  
(Stated in US dollars)

	Common stock Shares #	Amount \$	Additional paid-in capital \$	Deficit accumulated during the exploration stage \$	Total \$
<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 11[b]]					
			222,627		222,627
Fair value of options granted to consultants [note 11[c]]					
			49,558		49,558
Fair value of underwriters' compensation warrants on IPO [note 11[b]]					
			135,100		135,100
Fair value of options granted [note 11[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 11[c]]					
			500,028		500,028
Fair value of vested stock grants [notes 11 [c] & [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:					
For private placements	10,897,353	10,897	1,751,804		1,762,701
Share issue costs			(172,379)		(172,379)

Fair value of options granted [note 11[c]]			166,088		166,088
Fair value of vested stock grants [notes 11 [a] & [d]]	112,500	113			113
Exercise of warrants	7,161,500	7,162	1,453,204		1,460,366
Settlement of debt [notes 10 & 11[a]]	5,905,356	5,905	964,095		970,000
Reclassification of warrants to liability					
FASB ASC 815-40-55 [note 2]			(2,975,330)	2,888,130	(87,200)
Net loss for the period				(2,316,221)	(2,316,221)
<b>Balance, March 31, 2010</b>	<b>86,033,774</b>	<b>86,034</b>	<b>39,585,228</b>	<b>(35,202,910)</b>	<b>4,468,352</b>

See Note 1 Nature of Operations and Going Concern Uncertainty

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Stated in US dollars)

	Year Ended March 31, 2010 \$	Year Ended March 31, 2009 \$	Period from April 24, 2003 (inception) to March 31, 2010 \$
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(2,316,221)	(9,943,231)	(35,202,910)
Items not involving cash:			
Depreciation	44,828	55,313	253,630
(Gain) loss on disposal of equipment	(18,928)	(1,722)	5,624
Fair value of options, warrants and other non-cash compensation [note 11[c]]	166,088	521,665	3,336,973
Non-cash interest expense [note 10]	205,014	350,151	714,940
Loss on securities	14,651	138,071	152,722
Unrealized (gain) loss on sale of securities	(121,227)	(22,471)	(102,211)
Held for trading securities included in lease revenue	-	(9,598)	(9,598)
Impairment of carrying value of exploration properties [note 5]	-	5,100,000	5,100,000
Loss (gain) on disposal of mineral properties	(249,108)	302,276	53,168
Loss (gain) on change in liability of warrants [note 11[b]]	212,130	-	(2,676,000)
Gain on extinguishment of debt [note 10]	(1,327,076)	-	(1,327,076)
Changes in non-cash working capital items:			
Accounts receivable	(8,720)	68,161	(32,663)
Accounts payable and accrued liabilities	263,633	(175,684)	714,792
Prepaid expenses	17,298	94,264	(30,978)
<b>Cash used in operating activities</b>	<b>(3,117,638)</b>	<b>(3,522,805)</b>	<b>(29,049,587)</b>
<b>INVESTING ACTIVITIES</b>			
Reclamation deposit	-	34,859	(160,777)
Sage Gold Inc. option payment received	100,000	-	100,000
Purchase of equipment	(9,355)	(45,198)	(306,195)
Nevada Eagle acquisition and related non-compete agreement [note 5]	-	-	(3,068,340)
Mineral property expenditures [note 5 & 7]	(27,488)	(347,054)	(1,992,130)
Mineral property lease payments received	893,349	386,700	1,499,854
Proceeds from sale of mineral properties	50,000	50,000	100,000
Option payment to amend royalty [note 9]	(25,000)	-	(310,902)
Proceeds from sales of held for trading securities	10,201	50,753	60,954
Proceeds from note receivable	10,428	-	10,428
Proceeds from sale of equipment	1,571	8,568	16,403
<b>Cash provided by (used in) investing activities</b>	<b>1,003,706</b>	<b>138,628</b>	<b>(4,050,705)</b>
<b>FINANCING ACTIVITIES</b>			
Cash paid on extinguishment of debt [note 10]	(500,000)	-	(500,000)
Capital lease principal payments	-	(3,454)	(53,523)

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Exercise of warrants	1,161,036	-	1,161,036
Shares issued for cash	1,762,814	-	36,370,369
Share issue costs	(172,379)	(9,246)	(3,329,659)
Subscription receivables collected	-	-	389,125
<b>Cash provided by (used in) financing activities</b>	<b>2,251,471</b>	<b>(12,700)</b>	<b>34,037,348</b>
<b>Increase (decrease) in cash during the period</b>	<b>137,539</b>	<b>(3,396,877)</b>	<b>937,056</b>
Cash, beginning of period	799,517	4,196,394	-
<b>Cash, end of period</b>	<b>937,056</b>	<b>799,517</b>	<b>937,056</b>
<i>See accompanying notes</i>			

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

## **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, Gryphon Gold or 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 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.

Subsequent to year end the Company sold its wholly owned subsidiary, Nevada Eagle Resources LLC ( Nevada Eagle ) (see note 15), however, 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 interests in its remaining mineral properties (see notes 7 & 15). 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 an accumulated deficit of \$35,202,910 and at March 31, 2010 has cash on hand of \$937,056. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The accompanying consolidated 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the consolidated financial statements as well as the reported amounts of expenses incurred during the period. Significant areas requiring the use of management estimates include the determination of potential impairments of asset values, the calculation of fair values of options and warrants, and rates for depreciation of equipment. Actual results could differ from those estimates.

### **Financial instruments**

The Company s financial instruments consist of cash, held for trading securities, accounts and note receivable, accounts payable and accrued liabilities and the convertible promissory note classified as part of the liabilities held for sale and in discontinued operations. The Company has designated cash, which consists of cash held on deposit at major financial institutions, and its held for trading securities as held for trading such that they are recorded at fair

value with unrealized gains and losses, if any, reported in the consolidated statement of operations. Accounts and notes receivable have been designated as loans and receivables and are recorded at amortized cost. The accounts payable and convertible promissory note have been designated as other financial liabilities and are also recorded at amortized cost.

Financial risk is the risk arising from the fluctuations in foreign currency exchange rates. The Company does not use any derivative or hedging instruments to reduce its exposure to fluctuations in foreign currency exchange rates or metal prices.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:**

### **Revenue recognition**

Mineral lease rentals are treated as reductions of the cost of the property as the payor is accumulating an interest in the mineral property; payments in excess of capitalized costs are recognized in income. Under the Option Agreement with Sage, Sage is required to reimburse the Company 50% of Borealis expenditures, which will be recorded as an accounts receivable and a reduction in the corresponding expense. 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. The leases provide for the receipt of royalty payments upon production being generated from 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.

### **Mineral property acquisition costs**

The cost of acquiring mineral properties are capitalized and will be amortized over their estimated useful lives following the commencement of production or expensed if it is determined that the mineral property has no future economic value or the properties are sold or abandoned.

Cost includes cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made.

The recoverable amounts for mineral properties is dependent upon the existence of economically recoverable reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain financing to complete the exploration and development of the properties; and upon future profitable production or alternatively upon the Company's ability to recover its spent costs from the sale of its interests. The amounts recorded as mineral properties reflect actual costs incurred and are not intended to express present or future values.

The capitalized amounts may be written down if potential future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of the Company reviews the carrying value of each mineral property interest quarterly, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the estimated future net cash flows.

### **Exploration and development costs**

Exploration costs are expensed as incurred. When it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration and development costs related to such reserves 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, capitalized costs will be transferred to the appropriate asset category and amortized over their estimated useful lives. Capitalized costs, net of salvage values, relating to a deposit which is abandoned or considered uneconomic for the foreseeable future, will be written off.

### **Foreign currency translation**

The U.S. dollar is the functional currency of the Company. Transactions involving foreign currencies for items included in operations are translated into U.S. dollars using the monthly average exchange rate; monetary assets and liabilities are translated at the exchange rate prevailing at the consolidated balance sheet date and all other

consolidated balance sheet items are translated at the historical rates applicable to the transactions that comprise the amounts. Translation gains and losses are included in the determination of net income.

**Equipment**

Equipment is recorded at cost less accumulated depreciation and is comprised of office furniture, trucks, computers and lab equipment. All equipment is being amortized on a straight line basis over 5 years.

**Income taxes**

Income taxes are accounted for using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment. In addition, deferred tax assets are recognized to the extent their realization is more likely than not. Also, under FIN 48, the benefit of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. The Company does not have any significant uncertain tax positions at yearend.

### **Stock-based compensation**

The Company accounts for its stock options in accordance with FASB ASC 718-10 (Prior authoritative literature: FAS 123(R) *Share Based Payments*, and related interpretations in accounting for stock-based compensation awards to employees, directors and non-employees). In accordance with FASB ASC 718-10, the Company recognizes stock-based compensation expense based on the fair value of the stock options on the date of grant. The fair value of the stock options at the date of grant is amortized over the vesting period, with the offsetting credit to additional paid in capital.

### **Loss per share**

Loss per common share is determined based on the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of diluted stock options and warrants classified as equity instruments are applied to repurchase common shares at the average market price for the period. Also, outstanding convertible promissory notes are assumed to be converted into common stock at the then applicable rate. Stock options and warrants are dilutive when the Company has income from continuing operations and when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. The convertible promissory notes are dilutive when the Company has income from continuing operations, and the impact from the dilution exceeds the impact from the reduction in interest expense resulting from the conversion of the notes.

### **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.

### **Fair value measurements**

In September 2006, the FASB issued FASB ASC 820-10-55 (Prior authoritative literature: FASB FSP 157-2/Statement 157, Effective Date of FASB Statement No. 157.), *Fair Value Measurements*. The objective of FASB ASC 820-10-55 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. FASB ASC 820-10-55 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820-10-55 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of FASB ASC 820-10-55 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of FASB ASC 820-10-55 did not have a material effect on the Company's consolidated financial statements.

The Company measures its held for trading securities at fair value in accordance with FASB ASC 820-10-55. FASB ASC 820-10-55 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable method data, if available when estimating fair value. The fair value of the Company's held for trading securities is based on the quoted market prices (level 1). The Company's cash, accounts and notes receivable, and accounts payable and accrued liabilities are carried at cost, which the Company believes approximates fair value because of the short-term maturities of these instruments. The Company believes the carrying value amount of the convertible promissory note approximates its fair value at March 31, 2010 because its fair value was estimated shortly before year end (see Note 10).

In February 2007, the FASB issued FASB ASC 825-10-55 (Prior authoritative literature: FASB statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( FASB ASC 825-10-55 ). FASB ASC 825-10-55 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 FASB ASC 825-10-55 are effective for the Company's fiscal year beginning April 1, 2008. Effective April 1, 2008, the Company adopted FASB ASC 825-10-55, which did not have any impact on the Company's consolidated financial statements as the Company did not elect to measure any of its liabilities at fair value pursuant to this guidance.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued FASB ASC 810-10-55 (Prior authoritative literature: FASB Statement 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*). FASB ASC 810-10-55 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling 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 non-controlling interest. It also requires disclosure, on the face of the consolidated statement of operations, 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 FASB ASC 810-10-55 did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued FASB ASC 805-10-55 (Prior authoritative literature: FASB Statement 141(R), *Business Combinations*), which amends FASB ASC 805-10-55, 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. FASB ASC 805-10-55 is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively. FASB ASC 805-10-55 may have an impact on the Company's consolidated financial statements in the future, 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 FASB ASC 815-10-15 (Prior authoritative literature: FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities* ). FASB ASC 815-10-15 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 FASB ASC 815-20-25, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. FASB ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of FASB ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of FASB ASC 815-10-15 will not have a material impact on our consolidated operating results, financial position, or cash flows.

On May 9, 2008, the FASB issued FASB ASC 470-20-55, (Prior authoritative literature: APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). FASB ASC 470-20-55 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of FASB ASC 470-20-55, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FASB ASC 470-20-55-1 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 FASB ASC 470-20-55 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 FASB ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

**RECENT ACCOUNTING PRONOUNCEMENTS, CONTINUED:**

In June 2008, the EITF reached consensus on FASB ASC 815-40-55 (Prior authoritative literature *EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). FASB ASC 815-40-55 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 ASC 815-20-25 (Prior authoritative literature: FASB Statement 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 FASB ASC 815-40-55 (Prior authoritative literature: EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock*). FASB ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair 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), deficit accumulated during the exploration stage was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded.

In May 2009, the FASB issued FASB ASC 855-10-25 (Prior authoritative literature: FASB Statement 165, *Subsequent Events*), 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. FASB ASC 855-10-25 is effective for our fiscal year commencing April 1, 2009. The adoption of FASB ASC 855-10-25 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 ASC 820-10-65, (Prior authoritative literature:

*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*). FASB ASC 820-10-65:

- 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. FASB ASC 820-10-65 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 FASB ASC 820-10-65 and to quantify its effects, if practicable.
- Applies to all fair value measurements when appropriate.

FASB ASC 820-10-65 must be applied prospectively and retrospective application is not permitted. FASB ASC 820-10-65 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 FASB ASC 820-10-65 must also early adopt FASB ASC 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments*. The adoption of FASB ASC 820-10-65 had no impact on the company's consolidated operating results, financial position, or cash flows.



**RECENT ACCOUNTING PRONOUNCEMENTS, CONTINUED:**

During the second quarter of 2009, FASB issued FASB ASC 320-10-65 (Prior authoritative literature: FASB FSP 115-2/124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). ASC Topic 320-10-65-1 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. It also contains additional disclosure requirements related to debt and equity securities and changes existing impairment guidance under Statement of Financial Accounting Standards No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*". For debt securities, the "ability and intent to hold" provision is eliminated, and impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). This new framework does not apply to equity securities (i.e., impaired equity securities will continue to be evaluated under previously existing guidance). The "probability" standard relating to the collectability of cash flows is eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. ASC Topic 320-10-65-1 also provides that for debt securities which (i) an entity does not intend to sell and (ii) it is not more likely than not that the entity will be required to sell before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into the amount related to estimated credit losses and the amount related to all other factors. The amount of the total impairment related to all other factors is recorded in other comprehensive loss and the amount related to estimated credit loss is recognized as a charge against current period earnings. ASC Topic 320-10-65-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. The Company elected to adopt ASC Topic 320-10-65-1 in the first quarter of 2009. FASB ASC 320-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.

In April 2009, the FASB issued FASB ASC Topic 270-10-05, *Interim Disclosures about Fair Value of Financial Instruments* (Prior authoritative literature: FSP FAS 107-1 and APB 28-1). FASB ASC Topic 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Before this guidance was adopted, fair values for these assets and liabilities were disclosed only once a year. The guidance now requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This pronouncement is effective for periods ending after June 15, 2009. The Company adopted this standard effective June 30, 2009, and it did not have a material impact on the Company's financial position and results of operations.

In June 2009, the FASB issued FASB ASC 105-10-65 (Prior authoritative literature: FASB Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). Under FASB ASC 105-10-65 the FASB Accounting Standards Codification (the "Codification") will become the exclusive source of authoritative U.S. generally accepted accounting principles ( "U.S. GAAP" ) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ( "SEC" ) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards, with the exception of certain non-SEC accounting literature which will become non-authoritative.

FASB ASC 105-10-65 was effective for the Company's 2009 second fiscal quarter. The adoption of FASB ASC 105-10-65 did not have a material impact on the Company's consolidated financial statements. All references to U.S. GAAP provided in the notes to the consolidated financial statements have been updated to conform to the Codification.

**RECLASSIFICATION**

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

### **3. ACCOUNTS RECEIVABLE    JOINT VENTURE**

On March 5, 2010, the Company entered into an Option Agreement with Sage to which the Company agreed to grant Sage the option to enter into a joint venture agreement to earn 50% joint venture interest BMC, all subject to certain terms and conditions. The obligations of Sage during the option period require Sage to pay 50% of all costs and expenses whatsoever, direct or indirect, with respect to the property. As at March 31, 2010 the Company had an amount totaling \$16,230 due from Sage.



**4. NOTE RECEIVABLE**

During the year ended March 31, 2010 the Company sold an asset by signing a 24-month lease agreement with an individual. In accordance with FASB ASC 840-10-55 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 consolidated 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. Ten lease payments were received during the year ended March 31, 2010. The current portion of the note receivable totals \$11,441 and the total receivable due is \$13,572.

**5. NEVADA EAGLE RESOURCES LLC**

On August 21, 2007 Gryphon Gold closed the acquisition of 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
- (c) a 5% convertible note in the principal amount of \$5,000,000 (the Convertible Note ) with an issue date of August 21, 2007, a maturity date of March 30, 2010, and a fair value of \$4,272,359 (Note 10)

**Allocation of Purchase Price**

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

The original purchase price allocation for the acquisition of the Nevada Eagle 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.

Subsequent to the purchase of Nevada Eagle, 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. In performing the impairment test, management also determined that the projected undiscounted cash flows were not likely to recover the carrying values of the properties.

To estimate the impairment charge to be recorded, the Company updated the valuation parameters that were utilized for the purchase price allocation so that the fair value of the properties could be estimated at September 30, 2008. The updated parameters were input into the valuation model. As a result of this update it was determined that the Nevada Eagle exploration properties [note 5] 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 March 12, 2010, the Company entered into a letter of intent to sell Nevada Eagle to Fronteer Development (USA) Inc. ( Fronteer ). Based on the letter of intent, management and the board of directors of Nevada Eagle have concluded that a disposition of Nevada Eagle is probable and is expected to occur in fiscal year 2011 [note 15].

As the Company completed the sale of Nevada Eagle subsequent to yearend, Nevada Eagle s results have been classified as held for sale and presented in Discontinued Operations.

**5. NEVADA EAGLE RESOURCES LLC, CONTINUED:****Consolidated Balance Sheets of Discontinued Operations**

	As at March 31, 2010	As at March 31, 2009
<b>Current assets</b>		
Mineral properties	3,788,691	-
	<b>3,788,691</b>	<b>-</b>
<b>Non-current assets</b>		
Mineral properties	-	4,471,020
	<b>3,788,691</b>	<b>4,471,020</b>
<b>Current liabilities</b>		
Convertible promissory note [note 10]	2,170,223	4,782,285
	<b>2,170,223</b>	<b>4,782,285</b>

**Consolidated Statements of Operations of Discontinued Operations**

	Year Ended March 31, 2010	Year Ended March 31, 2009	Period from April 24, 2003(inception) to March 31, 2010
Exploration	99,444	44,069	149,867
General and administrative	4,626	5,323	13,359
Interest expense	514,578	527,456	1,353,864
Loss (gain) on disposal of properties	(249,108)	277,926	28,069
Impairment of mineral properties	-	5,100,000	5,100,000
Gain on extinguishment of convertible promissory note [note 10]	(1,327,076)	-	(1,327,076)
Income (loss) from discontinued operations	957,536	(5,954,774)	(5,318,078)

All assets and operations related to discontinued operations are located in the United States.

**6. EQUIPMENT**

	Cost \$	March 31, 2010 Accumulated Depreciation \$	Net Book Value \$
Office and lab equipment	210,510	142,688	67,822
Trucks under capital lease	64,097	41,633	22,464
<b>Total</b>	<b>274,607</b>	<b>184,321</b>	<b>90,286</b>

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



**7. 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>
<b>Mineral property costs, March 31, 2008</b>	<b>1,920,371</b>
Expenditures during the year	10,538
<b>Mineral property costs, March 31, 2009 and 2010</b>	<b>1,930,909</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.

On March 5, 2010, the Company and Sage entered into an Option Agreement (the *Option Agreement*) pursuant to which the Company granted Sage the option (the *Option*) to enter into a Joint Venture Agreement (the *Joint Venture Agreement*) and earn a 50% joint venture interest (the *Joint Venture*) in the Company's wholly owned subsidiary Borealis Mining Company. The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. Under the terms of the Option Agreement, Sage has the right to exercise the Option and enter into the Joint Venture Agreement with the Company upon the satisfaction of the following conditions:

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the *Option Period*) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).
- (c) Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.
- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units by April 16, 2010. Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date, but not less than Cdn\$0.18 per unit and not more than Cdn.\$0.25, subject to TSX approval.
- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.

- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

**8. EXPLORATION**

	Year Ended March 31, 2010 \$	Year Ended March 31, 2009 \$	Period from April 24, 2003 (inception) to March 31, 2010 \$
<b>NEVADA, USA</b>			
<b>Borealis property</b>			
<b>Exploration:</b>			
Drilling	227,450	425,414	7,357,996
Property maintenance	558,073	412,148	3,509,205
Geologic and assay	910	64,053	2,033,287
Project management	264,302	205,438	1,871,530
Engineering	342,780	288,004	1,456,569
Metallurgy	-	34,374	331,210
Subtotal Borealis property	1,393,515	1,429,431	16,559,797
Other exploration	11,650	128	42,205
<b>Total exploration</b>	<b>1,405,165</b>	<b>1,429,559</b>	<b>16,602,002</b>

**9. OTHER ASSETS**

	March 31, 2010 \$	March 31, 2009 \$
Reclamation bond & deposits	160,777	160,777
Option to amend Borealis Property mining lease	560,902	285,902
	<b>721,679</b>	<b>446,679</b>

On March 31, 2010 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 March 31, 2010, the Company has recorded an estimated reclamation liability of \$5,600 (March 31, 2009 - \$5,600) representing future obligations related to its general property activities completed to March 31, 2010.

On August 22, 2008, the Company entered into a 12-month option agreement, at a cost of \$250,000 and an additional \$35,902 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. On August 19, 2009 the option was extended for six months at a cost of \$125,000, which was settled through the issuance of 966,340 shares. On March 22, 2010 the option was extended until August 22, 2010 at a cost of \$150,000, which was settled through the issuance of \$25,000 and 939,016 shares.

**10. CONVERTIBLE PROMISSORY NOTE**

	March 31, 2010 \$	March 31, 2009 \$
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,		4,782,285

2007 (date of issue) to Feb 5, 2010 totalled \$691,058.

On February 5, 2010 the note was extinguished through issuance of \$500,000, 4,000,000 shares and a new convertible promissory note with a face value of \$2,500,000 due March 30, 2012, 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 February 5, 2010 to March 31, 2010 totalled \$23,882.

2,170,223



**10. CONVERTIBLE PROMISSORY NOTE, CONTINUED:**

Gryphon Gold issued a Convertible Promissory Note to the former owners of Nevada Eagle [the Debt holders ] with a face amount of \$5 million, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note was 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 was permitted to 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 the default acceleration feature was considered an embedded derivative however its issue date fair value was not considered to be significant. The conversion feature did not require bifurcation in the financial statements because it was not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion were 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. Effective August 5, 2008, the Company entered into an option agreement with Debt holders to amend the \$5 million face value note payable to them at a cost of \$35,000. The option period was twelve months and was extended in August 2009 for another six months at an additional cost of \$35,000. Both payments of \$35,000 were included general and administration expense in the respective fiscal years. The option agreement allows the Company, assuming certain conditions were met, to reduce the note payable from \$5 million to \$2.5 million and extend the maturity date to March 30, 2012 by issuing a cash payment of \$500,000 and issuing 4,000,000 shares of common stock of the Company.

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

On February 5, 2010, the Company and Debt holders entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 ( Amendment No. 1 ) pursuant to which, (i) the Company obtained the right, in lieu of the \$500,000 cash payment required to exercise the option, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds of \$500,000 from a contemplated private placement or February 19, 2010; and (ii) to delete the unmet conditions required to be satisfied by the Company in order to be permitted to exercise the option. The promissory note was fully repaid prior to yearend.

As consideration for entering into Amendment No. 1, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement ) pursuant to which the Company agreed to (i) issue the Debt holders an additional 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration ), which Amendment Consideration is subject to obtaining Company shareholder and TSX approval (the Approvals ). The conversion price of Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company's shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note.

On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 common shares and a promissory note in the

principal amount of \$500,000 to the Debt holders, and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

## 10. CONVERTIBLE PROMISSORY NOTE, CONTINUED:

Management accounted for the resulting amendment and subsequent exercise of the option as a single transaction that resulted in an extinguishment of the original note. The amended note is convertible at the holder's option into shares for the first 54 days at \$0.60 per common share; for the next 12 months at \$0.70 per common share; for the period 12 months from closing to March 30, 2012 at \$0.80 per common share. The conversion rate is subject to certain anti-dilution adjustments and is subject to adjustment on payment of cash dividends by the Company. Upon an event of default, which includes amongst other things a change in control of the Company, the holder is permitted to 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 increase to 9%. The change in control event of default acceleration feature is considered an embedded derivative, however its issue date fair value was not considered to be significant at March 31, 2010. The conversion feature does not require bifurcation in the consolidated financial statements because it is not a beneficial conversion feature and a cash payment is not required if common shares issued at the time of conversion are never successfully registered. The amended note, including the conversion feature was recorded at its estimated issue date fair value of \$2,146,339. This fair value estimate falls within level 3 of the fair value hierarchy and is based upon the following key assumptions:

- Term to maturity 26 months
- Effective yield 15%
- Coupon rate 5%
- Dividend rate 0%
- Volatility of the Company's common stock 95.5% to 147.7%
- Risk free rate 1.25%
- Expected term of conversion option 0.15 years to 2.15 years

Based on the fair value of the new note, the carrying value of the original note, the \$500,000 in cash paid, the value of the 4,000,000 shares issued, and the value of the 1,500,000 shares to be issued in the future, an extinguishment gain of \$1,327,076 was recognized as part of discontinued operations (see note 5).

## 11. CAPITAL STOCK

- [a] Authorized capital stock consists of 250,000,000 common shares with a par value of \$0.001 per share and 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) due to the vesting of RSU's granted in the prior year. The issuance was provided under a transition agreement.

During the quarter ended September 30, 2009, the Company issued an aggregate of 7,161,500 common shares for gross proceeds of \$1,161,036 on the exercise of 7,161,500 warrants, whose terms were amended on July 8, 2009. Each warrant had an amended exercise price of CDN\$0.18.

During the quarter ended September 30, 2009, the Company issued 966,340 common shares with a fair market value of \$125,000 to extend the option to fix the variable rate NSR royalty on the Borealis property for six months.

On February 5, 2010, the Company issued 4,000,000 common shares to the note holders with a fair value of \$720,000 as per the option agreement with the Debt holders with the respect to the convertible note [note 10].

On February 18, 2010, the Company completed a private placement of 10,897,353 units at Cdn\$0.17 for gross proceeds of \$1,762,701 (Cdn\$1,852,550). Each unit consisted of one common share and one half series K warrant. Each series K warrant entitles the holder to purchase a common share at a price of US\$0.25 per share

for a period of 24 months. Cash compensation of \$162,003 (Cdn\$170,261) and 990,500 compensation warrants (series L) were issued to agents and are exercisable at a price of US\$0.21 per share and expire 12 months after closing. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, Cdn\$0.75 per common share, for a period of twenty consecutive days.

On March 22, 2010, the Company issued 939,016 common shares with a fair market value of \$125,000 to extend the option to fix the variable rate NSR royalty on the Borealis property until August 22, 2010.

**11. CAPITAL STOCK, CONTINUED:**

[b] Warrants:

The following table contains information with respect to all warrants:

	<b>Number of Warrants</b>
	<b>#</b>
<b>Warrants outstanding, March 31, 2004</b>	
Issued for:	
Private placements	3,407,981
Agents compensation	141,008
Exercised	
<b>Warrants outstanding, March 31, 2005</b>	<b>3,548,989</b>
Issued for:	
Private placements	3,015,204
Agents compensation on private placement	130,000
Initial Public Offering (IPO) Series A	6,900,000
Underwriters compensation on IPO	690,000
Private placements Series B	2,737,500
Agents compensation on private placement Series C	280,500
Exercised	(197,500)
<b>Warrants outstanding, March 31, 2006</b>	<b>17,104,693</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
Exercised	(1,658,275)
Expired	(15,175,410)
<b>Warrants outstanding, March 31, 2007</b>	<b>5,420,558</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
Agents compensation on private placement Series J	89,530
Exercised	(130,000)
Expired	(290,558)
Forfeited	(14,000)
<b>Warrants outstanding, March 31, 2008</b>	<b>14,827,080</b>
Expired	(5,340,580)
<b>Warrants outstanding, March 31, 2009</b>	<b>9,486,500</b>
Exercised	(7,161,500)
Expired	(2,325,000)
Issued for:	
Private placements Series K	5,448,667
Private placements Series L	990,500
<b>Warrants outstanding, March 31, 2010</b>	<b>6,439,167</b>

The following table summarizes information about warrants outstanding and exercisable as at March 31, 2010:

**Warrants Outstanding and Exercisable**

<b>Warrants #</b>	<b>Average Remaining Life Years #</b>	<b>Exercise Price</b>	<b>Expiry date</b>
5,448,677	1.9	\$0.25	February, 18 2012
990,500	0.9	\$0.21	February 18, 2011
6,439,177	1.4	\$0.24	

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**11. CAPITAL STOCK, CONTINUED:**

On July 8, 2009, the Company announced the extension and repricing of its outstanding warrants. 9,486,500 warrants were amended to expire December 31, 2009, and the exercise price was reduced to Cdn\$0.18 if exercised by September 20, 2009 and Cdn\$0.40 thereafter until December 31, 2009. On or before September 20, 2009, 1,161,500 warrants were exercised. The fair value of the warrants at the dates of exercise of \$299,330 was transferred to additional paid in capital.

On December 31, 2009, the remainder of the Company's Canadian dollar denominated warrants expired. Through the year ended March 31, 2010, the Company recognized a loss of \$212,130 in the consolidated statements of operations due to the revaluation of the warrants to their fair market value at each reporting period.

**[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. FASB ASC 718-10-55 (Prior authoritative literature: FASB Statement 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:

	<b>Year Ended March 31, 2010</b>	<b>Year Ended March 31, 2009</b>
	<b>\$</b>	<b>\$</b>
Management salaries, exploration expense & consulting fees	166,088	521,665
<i>Stock option activity</i>		

The following table summarizes the Company's stock option activity for the nine months ended March 31, 2010:

	<b>Number of Stock Options</b>	<b>Weighted Average exercise price</b>
Outstanding, April 1, 2009	4,642,000	\$0.58*
Granted	800,000	\$0.21
Expired	(825,000)	\$0.75
Forfeited	(109,500)	\$0.22*
Total outstanding at March 31, 2010	4,507,500	\$0.48*
Vested and exercisable at March 31, 2010	4,120,000	\$0.50*

\* Based on the March 31, 2010 exchange rate of Cdn\$1 equals US\$0.98.

**11. CAPITAL STOCK, CONTINUED:**

The following table summarizes information about stock options outstanding as at March 31, 2010:

<b>Stock Options Outstanding and Exercisable</b>					
<b>Stock Options Outstanding</b>	<b>Average Remaining Life (Years)</b>	<b>Stock Options Exercisable</b>	<b>Average Remaining Life of Exercisable (Years)</b>	<b>Exercise price</b>	
95,000	0.6	95,000	0.6	Cdn\$0.85	
20,000	1.0	20,000	1.0	Cdn\$1.37	
395,000	1.0	395,000	1.0	Cdn\$1.37	
20,000	1.0	20,000	1.0	Cdn\$1.37	
30,000	1.2	30,000	1.2	Cdn\$1.60	
50,000	1.3	50,000	1.3	Cdn\$1.29	
50,000	1.6	50,000	1.6	Cdn\$1.34	
90,000	1.8	90,000	1.8	Cdn\$0.81	
20,000	1.8	20,000	1.8	Cdn\$0.88	
125,000	1.9	125,000	1.9	Cdn\$0.80	
20,000	2.1	20,000	2.1	Cdn\$0.95	
85,000	2.5	85,000	2.5	Cdn\$0.90	
150,000	2.9	150,000	2.9	Cdn\$0.62	
20,000	3.0	20,000	3.0	Cdn\$0.43	
300,000	3.0	300,000	3.0	Cdn\$0.41	
362,500	3.3	362,500	3.3	Cdn\$0.38	
750,000	3.3	612,500	3.3	Cdn\$0.41	
200,000	3.5	200,000	3.5	Cdn\$0.28	
150,000	3.5	150,000	3.5	Cdn\$0.26	
150,000	3.6	150,000	3.6	Cdn\$0.07	
275,000	3.6	275,000	3.6	Cdn\$0.07	
250,000	3.7	250,000	3.7	Cdn\$0.26	
100,000	3.9	100,000	3.9	Cdn\$0.28	
150,000	4.3	112,500	4.3	\$0.17	
550,000	4.5	412,500	4.5	\$0.22	
100,000	4.8	25,000	4.8	\$0.22	
<b>4,507,500</b>		<b>4,120,000</b>			

*Valuation assumptions*

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

	<b>2010</b>	<b>2009</b>
Dividend yield	<b>0%</b>	<b>0%</b>
Expected volatility	<b>100% -105%</b>	<b>51% - 80%</b>
Risk free interest rate	<b>1.48% -1.62%</b>	<b>1.31% - 2.06%</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's stock. The period of historical volatility is the same period as the expected



life of the options 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. Option 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.

**11. CAPITAL STOCK, CONTINUED:**

[d] Restricted stock units ( RSU s ):

The RSU stock grants entitle 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 vesting 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 RSU s outstanding as at March 31, 2010:

	<b>RSU s Granted</b>	<b>RSU s Vested</b>	<b>RSU s Forfeited</b>	<b>RSU s Outstanding</b>	<b>Weighted Average Fair Value at Grant Date</b>
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 September 6, 2007	154,170	154,170			Cdn\$0.77
<b>Outstanding at March 31, 2010</b>	<b>798,670</b>	<b>665,920</b>	<b>132,750</b>		

**12. 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 year ended March 31, 2010 the consultants were paid a total of \$217,716, including accrued severance of \$177,424 (C\$185,000 less applicable withholdings).

In March 2010, Gerald Baughman, VP Business Development, resigned and was paid a severance of \$50,000.

**13. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax balances are as follows:

	2010	2009
	\$	\$
<b>Deferred tax assets</b>		
Net operating loss carryforwards	6,198,719	5,799,761
Mineral property basis	2,355,252	1,954,798
Permitting & feasibility costs	1,325,846	1,067,055
Exploration costs	2,290,355	2,555,287
Stock compensation	974,167	916,471
Reclamation costs	1,979	1,965
Equipment	9,342	8,009
Non-compete agreement	20,742	22,258
Donations	834	671
Unrealized foreign exchange loss	268	5,949
Certain unpaid accrued liabilities	-	52,485
Unrealized losses on marketable securities	(36,855)	6,802
Accrued compensation not paid by June 15/10	3,522	-
Accrued sub-lease loss	17,412	23,017
Capital losses	53,831	48,696
Total deferred tax assets	13,215,414	12,463,224
Valuation allowance	(13,215,414)	(12,463,224)
Net deferred tax assets	-	-
<b>Deferred tax liabilities</b>		
Equipment	-	-
Prepaid expenses	-	-
Total deferred tax liabilities	-	-

The potential income tax benefits relating to the deferred tax assets have not been recognized in the consolidated financial statements as their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. Accordingly, no deferred tax assets have been recognized as at March 31, 2010 and 2009.

The reconciliation of income taxes attributable to continuing operations computed at the statutory income tax rate of 35.34 % [2009 35.09%] is as follows:

	2010	2009
	\$	\$
Tax at statutory rates	(817,038)	(3,489,080)
State taxes, net of federal benefit	(7,892)	(9,247)
Non-deductible items	169,601	118,215
Change in valuation allowance	752,190	3,476,821
State tax rate adjustment	(65,771)	(7,679)
State minimum income taxes	900	900
Other	(31,990)	(89,930)

At March 31, 2010 the Company has non-capital losses of approximately \$17.6 million [2009 - \$16.5 million] in the United States available for future deduction from taxable income and which expire prior to 2030. The Company has not recognized as an asset any of these potential deductions as it cannot be considered more likely than not that they

will be utilized.

**14. 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 \$9,762, 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 September 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:

	\$
2011	60,087
2012	61,804
2013	61,804
2014	25,752

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 before October 31, 2010. If the option to terminate the Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. As at March 31, 2010 the Company has accrued \$49,273, being the difference between the required lease payments and the estimated future sub-lease receipts.

On January 31, 2010 the lessees in the Vancouver office vacated the premises. The office has been subsequently sub-leased to another party commencing May 1, 2010 for 3 years and 5 months (remaining life on lease) for Cdn\$4,200 per month.

[c] Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

**15. SUBSEQUENT EVENTS**

On April 19, 2010, Gryphon Gold and Sage entered into Amendment No. 2 to Option Agreement and Amendment No. 2 to Subscription Agreement (the "Amendment 2"). Pursuant to the Amendment 2, the Option Agreement and Subscription Agreement were amended to extend the termination date of the due diligence period from April 19, 2010 to April 30, 2010.

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho. On April 28, 2010, Gryphon Gold and Sage entered into Amendment No. 3 to Option Agreement and Amendment No. 2 to Subscription Agreement (the "Amendment 3"). Pursuant to the Amendment 3, the Option Agreement and Subscription Agreement were amended to extend the Option Expiry Date, as defined in the Option Agreement, until June 30, 2011 and to permit Sage to satisfy its commitment to invest US\$400,000 in the Private Placement through a subscription in the amount of US\$200,000 by June 16, 2010 and a further subscription in the amount of US\$200,000 by August 16, 2010, based on a subscription price equal to the greater of (i) the maximum discounted price permitted by the TSX Company Manual, and (ii) a 5% premium to the 30-day volume weighted average trading price of common stock of the Registrant on the day immediately preceding the subscription date.

On May 28, 2010, R. William Wilson resigned as Chief Financial Officer and Matthew A. Fowler of Sharp Executives Associates was appointed Chief Financial Officer of the Company.

On June 15, 2010 Gryphon Gold and Sage entered into Amendment No. 4 to Option Agreement and Amendment No. 4 to Subscription Agreement (the Amendment No.4). Pursuant to the Amendment 4, the Option Agreement and Subscription Agreement were amended to extend the JV Agreement Condition, as defined in the Options Agreement, until July 15, 2010.

## 15. SUBSEQUENT EVENTS, CONTINUED

On June 16, 2010, the Company closed the private placement with Sage and issued 1,464,429 units at a purchase price of Cdn\$0.14 per unit for gross proceeds of \$200,000 (Cdn\$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.20. The units were offered for sale directly by the Company. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, the Company relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

## 16. NON-CASH TRANSACTIONS

During the year ended March 31, 2010 several non-cash transactions occurred:

- Receipt of 150,000 shares for a lease payment on one of the properties in held for sale in discontinued operations. The fair value of the shares was determined by the closing price of the stock as of the date of the certificate.
- On August 22, 2008, the Company entered into a 12-month option agreement to amend the Borealis Property mining lease. On August 19, 2009 the option was extended for six months at a cost of \$125,000, which was settled through the issuance of 966,340 shares. On March 22, 2010 the option was extended until August 22, 2010 at a cost of \$150,000, which was settled through the issuance of \$25,000 and 939,016 shares.
- On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 common shares and a promissory note in the principal amount of \$500,000 to the Debt holders, and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012. The fair value of the 4,000,000 shares was determined by the closing price of the Company's stock on the day of issuance.
- On February 5, 2010, the Company and Debt holders entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 ( Amendment No. 1 ). As consideration for entering into Amendment No. 1, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement ) pursuant to which the Company agreed to (i) issue the Debt holders an additional 1,500,000 common shares of the Company. The fair value of the 1,500,000 shares was determined by the closing price of the Company's stock on the day Amendment No. 1 was executed.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A(T). 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 the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), 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.

### **Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the design and operation of the Company's internal control over financial reporting as of March 31, 2010 based on the criteria in a framework developed by the Company's management pursuant to and in compliance with the SEC's *Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, Release No. 33-8810. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of March 31, 2010 and no material weaknesses were discovered.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

### **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.

**Subsequent to year end the Company had a change in Chief Financial Officers,. We have analyzed certain of our system internal controls that were affected by this changed and have made reasonable efforts to reassign tasks to maintain appropriated segregation of duties. In conjunction we have added certain individuals as signing authorities and hired part time administrative help to perform certain tasks. Our disclosure controls were not affected by these personnel changes and remain effective.**

**ITEM 9B. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Our directors hold office until the next annual meeting of the stockholders and the election and qualification of their successors. Officers are elected annually by the Board of Directors and serve at the direction of the Board of Directors.

The following table and information that follows sets forth, as of June 22, 2010, the names, and positions of our directors and executive officers:

<b>Name and Municipality of Residence</b>	<b>Current Office with Gryphon Gold</b>	<b>Principal Occupation Last Five Years</b>	<b>Director Since</b>
<b>John L. Key</b> Gardnerville, Nevada	Chief Executive Officer, Director	Chief Executive Officer appointed July 21, 2008, General Manager Projects for the Teck Cominco organization from 1973 to 2004.	July 21, 2008
<b>Donald W. Gentry</b> Bella Vista, Arkansas	Director	President, Chief Executive Officer, Chairman and Director of PolyMet Mining Corporation, 1998 to 2003	July 18, 2005
<b>Marvin K. Kaiser</b> Mayfield, Kentucky	Director	Consultant to natural resource industry, Whippoorwill Consulting 2006 Present, CFO, Executive VP, Chief Administrative Officer Doe Run Company 1993- 2006, CFO AMAX Gold, Inc 1989 to 1993, CFO, Senior VP Ranchers Exploration and Development Corporation 1969 to 1984.	Nov. 18, 2008
<b>Terence J. Cryan</b> Bronxville, NY	Director	Managing director at Paine Webber (Kidder,Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Currently, Mr. Cryan serves as the Managing Director to Concert Energy Partners, LLC.	Sep. 3, 2009
<b>Matthew A. Fowler<sup>(1)</sup></b> Spokane, WA	Chief Financial Officer	Chief Financial Officer appointed May 28, 2010. Leadership roles with Strata Partners, LLC, Octavius Capital Management, LLC, and Sharp Executive Associates, Inc.	

- (1) Subsequent to year end Raymond William Wilson resigned as consulting Chief Financial Officer and was replaced by Matthew A. Fowler.

The following is a description of the business background of the directors and executive officers of the Corporation.

**John L. Key**, 59, was appointed February 5, 2008 as Chief Operating Officer and has since been appointed President, CEO, and Director (July 21, 2008). Mr. Key is a graduate of the University of Missouri Rolla with an M.S. in Mining Engineer. He possesses 32 years of extensive mining experience. He worked for the Teck Cominco organization from 1973 to 2004 during which time he was directly responsible for running, in succession, the Magmont, Polaris, and Red Dog mines and also served as General Manager Projects. Mr. Key oversaw over \$300 million in capital expansions at Red Dog. His primary duties at Gryphon Gold are to review the potential for an oxide mine on the Borealis property,

to work on the longer term opportunities for the sulphide ore resources and to review opportunities available to Gryphon Gold.

**Donald W. Gentry**, 67, Director, joined our board in July 2005 after retiring from PolyMet Mining Corporation as its President, Chief Executive Officer, Chairman and Director from 1998 to 2003. He is a retired Professor Emeritus of the Colorado School of Mines, having served that institution from 1972 to 1998 as Professor, Department Head and Dean of Engineering. He has an international reputation as a consulting mining engineer, professional educator and mining executive. His primary interests center on the financial aspects of project evaluation, investment decision analysis, project financing, and corporate investment strategies. He previously served as a Director of Santa Fe Pacific Gold Corporation, Newmont Mining Corporation, and Newmont Gold Company and currently is a Director of Golden Gryphon Explorations (a company which is unrelated to Gryphon Gold Corporation). He was elected President of the Society for Mining, Metallurgy and Exploration, Inc. in 1993 and the American Institute of Mining, Metallurgical and Petroleum Engineers in 1996 and to the National Academy of Engineering in 1996. He holds B.S., M.S. and Ph.D. degrees in mining engineering from the University of Illinois, Mackay School of Mines, and University of Arizona, respectively.

**Marvin K. Kaiser**, 68, was appointed to our board on November 18, 2008. Mr. Kaiser graduated from Southern Illinois University-Carbondale and began his career in the field of public accounting becoming a Certified Public Accountant in 1965. His career in the natural resources industry began in 1969 with Ranchers Exploration and Development Corporation where he held various positions including Chief Financial Officer and Senior Vice President until the company was combined with Hecla Mining Company in 1984. Mr. Kaiser also served as Chief Financial Officer of AMAX Gold, Inc from 1989 until 1993 when AMAX Inc was combined with Cyprus Mining. Subsequent to leaving AMAX, Mr. Kaiser joined The Doe Run Company as Chief Financial Officer. At the time of his retirement from Doe Run in 2006, he held the positions of Executive Vice President and Chief Administrative Officer. Following his retirement, Mr. Kaiser formed Whippoowill Consulting, LLC, which provides financial advisory services to the natural resources industry. He presently serves as a director of several publicly traded mining/exploration companies as well as The Southern Illinois University Foundation.

**Terence J. Cryan**, 47, was appointed to our board on September 3, 2009. Mr. Cryan graduated with honors from Tufts University in Medford, Massachusetts with a Bachelor of Arts degree in Economics/Political Science. He then attended the London School of Economics to earn his Masters of Science degree in Economics in December 1984. Mr. Cryan began his career in 1985 as a Portfolio Manager/Investment Officer for Chase Investment Management Corp in New York, NY. In 1987 he located to London, England with Lazard where he gained extensive knowledge of cross border corporate finance as well as mergers and acquisitions. Mr. Cryan's career continued as a managing director at Paine Webber (following its acquisition of Kidder, Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Mr. Cryan was also President & CEO to Medical Acoustics LLC from April 2007 to April 2010. Currently, Mr. Cryan serves as the Managing Director of Concert Energy Partners, LLC, an investment banking and private equity firm based in New York. Mr. Cryan has extensive experience as a director of a number of publicly traded companies.

**Matthew A. Fowler**, 31, was appointed as our Chief Financial Officer effective May 28, 2010. Mr. Fowler has six years of investment, corporate finance and Securities and Exchange Commission (SEC) accounting experience. Over his career he has held leadership roles with Strata Partners, LLC a boutique Investment bank in Seattle, Washington, Octavius Capital Management, LLC a registered Investment adviser serving high net worth individuals and Sharp Executive Associates, Inc., an International Financial Consultancy assisting private, SEC and Toronto Stock Exchange (TSX) listed public companies with their accounting and regulatory compliance needs. During his career, Mr. Fowler has raised approximately \$25 million of institutional capital for private equity investments, invested in numerous private equity transactions and drafted and finalized SEC and TSX documents for publicly listed companies. Mr. Fowler received an AB degree in economics and a Certificate in Accounting from the University of Washington.

#### **Arrangements between Directors and Officers**

To our knowledge, there is no arrangement or understanding between any of our officers and any other person pursuant to which the officer was selected to serve as an officer.

#### **Legal Proceedings, Cease Trade Orders and Bankruptcy**

As of the date of this annual report, no director or executive officer of the Company and no shareholder holding more than 5% of any class of voting securities in the Company, or any associate of any such director, officer or shareholder is a party adverse to the Company or any of our subsidiaries or has an interest adverse to the Company or any of our subsidiaries.

No director or executive officer of the Company is, as at the date of this annual report, or was within 10 years before the date of this annual report, a director, chief executive officer or chief financial officer of any company (including the Company), that:

(a)

was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this annual report, or has been within the 10 years before the date of this annual report, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- (b) has, within 10 years before the date of this annual report, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;
- (c) has, within 10 years before the date of this annual report, been the subject of, or a party to, any U.S. federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any U.S. federal or state securities or commodities law or regulation; or (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- (d) has, within 10 years before the date of this annual report, been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C.78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C.1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Committees of the Board of Directors**

Our Board of Directors has established four board committees: an Audit Committee, a Compensation Committee and a Corporate Governance/Nominating Committee and a Project Development, Environmental & Sustainability Committee. The information below sets out the current members of each of Gryphon Gold's board committees and summarizes the functions of each of the committees in accordance with their mandates.

#### ***Audit Committee***

Our Audit Committee has been structured to comply with Canadian Multilateral Instrument 52-110-Audit Committees (MI 52-110) and Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended ( Exchange Act ). Our Audit Committee is comprised of Marvin Kaiser, Do Gentry and Terence Cryan. The Company's Board of Directors has determined that the three members of the Company's Audit Committee are independent directors under MI 52-110,

Rule 10A-3 of the Exchange Act, and the audit committee rules of the NYSE Amex Equities. Marvin Kaiser is the Chairman of the Audit Committee. Marvin Kaiser satisfies the criteria for an audit committee financial expert under Item 407(e)(5) of Regulation S-K of the rules of the Securities and Exchange Commission.

The Audit Committee meets with management and Gryphon Gold's external auditors to review matters affecting financial reporting, the system of internal accounting and financial controls and procedures and the audit procedures and audit plans. The Audit Committee reviews Gryphon Gold's significant financial risks, will be involved in the appointment of senior financial executives and will annually review Gryphon Gold's insurance coverage and any off-balance sheet transactions.

The Audit Committee is mandated to monitor Gryphon Gold's audit and the preparation of financial statements and to review and recommend to the board of directors all financial disclosure contained in Gryphon Gold's public documents. The Audit Committee is also mandated to appoint external auditors, monitor their qualifications and independence and determine the appropriate level of their remuneration. The external auditors report directly to the Audit Committee and to the board of directors. The Audit Committee and board of directors each have the authority to terminate the external auditor's engagement (subject to confirmation by shareholders). The Audit Committee will also approve in advance any services to be provided by the external auditors which are not related to the audit.

#### ***Compensation Committee***

The Compensation Committee is comprised of Donald Gentry (chairman), Marvin Kaiser and Terence Cryan, all of whom are independent directors. The Compensation Committee is responsible for considering and authorizing terms of employment and compensation of Directors, executive officers and providing advice on compensation structures in the various jurisdictions in which Gryphon Gold operates. In addition, the Compensation Committee reviews both the overall salary objectives of Gryphon Gold and significant modifications made to employee benefit plans, including those applicable to directors and executive officers, and propose any awards of stock options, incentive and deferred compensation benefits.

#### ***Corporate Governance and Nominating Committee***

The Corporate Governance and Nominating Committee is comprised of Donald Gentry (chairman), Marvin Kaiser and Terence Cryan, all of whom are independent directors. The Corporate Governance and Nominating Committee is responsible for developing Gryphon Gold's approach to corporate governance issues and compliance with governance rules. The Corporate Governance and Nominating Committee is also mandated to plan for the succession of Gryphon Gold, including recommending director candidates, review of board procedures, size and organization, and monitoring of senior management with respect to governance issues. The committee is responsible for the development and implementation of corporate communications to ensure the integrity of Gryphon Gold's internal control and management information systems. The purview of the Corporate Governance and Nominating Committee also includes the administration of the board's relationship with the management of Gryphon Gold, monitoring the quality and effectiveness of Gryphon Gold's corporate governance system and ensuring the effectiveness and integrity of Gryphon Gold's communication and reporting to shareholders and the public generally.

There have been no material changes to the procedures pursuant to which a shareholder may recommend nominees for the Company's Board of Directors.

#### ***Project Development, Environmental & Sustainability Committee***

The Project Development, Environmental & Sustainability Committee is comprised of Donald Gentry and John Key. The committee is to review and provide technical and commercial guidance for major project development plans, ensure management has appropriate systems in place to plan, implement and track performance of project development. The Committee shall establish environmental policy, monitor compliance and audit our performance relative to policy. The Committee shall establish health and safety policies monitor compliance and audit our practices and actions. The Committee shall establish policy for involving communities of interest in the design and implementation of project development towards sustainable mining development.



*Code of Conduct*

We adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees. The Code of Business Conduct and Ethics summarizes the legal, ethical and regulatory standards that we must follow and will serve as a reminder to our directors, officers and employees, of the seriousness of that commitment. Compliance with this code and high standards of business conduct is mandatory for each of our employees.

The Code of Business Conduct and Ethics was filed with the SEC on February 10, 2006 as exhibit 14.1(2) to Form 10-QSB quarterly report for the quarter ending December 31, 2005. Further information and a copy of the Code of Business Conduct and Ethics are available on our website at [www.gryphongold.com](http://www.gryphongold.com).

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers, directors, and persons who beneficially own more than 10% of the Company's common stock ( 10% Stockholders ), to file reports of ownership and changes in ownership with the Securities and Exchange Commission ( SEC ). Such officers, directors and 10% Stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms that they file. Based solely upon information provided to us by individual officers, directors and 10% Stockholders, we believe that all of these filing requirements were satisfied by our officers, directors, and 10% Stockholders in the fiscal year ended March 31, 2010.

**ITEM 11. EXECUTIVE COMPENSATION**

The following table sets forth compensation paid to each of the individuals who served as our Principal Executive Officers and our two other most highly compensated employees (the named executive officers ) for the fiscal year ended March 31, 2010 and 2009.

During the fiscal year ended March 31, 2010 and 2009, the Board authorized salary adjustments for directors, officers, and employees. These adjustments are indicated in the compensation table below. Further, the Board made stock and option grants to certain directors and executives to provide additional compensation, and the calculated value of such grants are indicated in the compensation table below.

Name and Principal Position	Year	Salary \$	Bonus \$	Stock Awards \$	Options Awards \$	Non-Equity Incentive Plan Compensation \$	Non-Qualified Deferred Compensation Earnings \$	All Other Compensation	Total
John Key, CEO	2010 2009	115,200 83,562			67,482 35,158				219,482 <sup>(1)</sup> 118,720 <sup>(2)</sup>
R. William Wilson, CFO	2010	84,051			2,407				86,458 <sup>(3)</sup>
Michael Longinotti, former CFO	2010 2009	26,747 98,617			6,278 109,109			154,396	33,025 <sup>(4)</sup> 362,122 <sup>(5)</sup>
Gerald Baughman, former VP Business Development	2010 2009	55,000 95,000			22,057 10,506			50,000	127,057 <sup>(6)</sup> 105,506 <sup>(7)</sup>

(1)

- \$152,000 of grand total was received as cash, remaining \$67,482 was recorded as non-cash stock compensation expense.
- (2) \$83,562 of grand total was received as cash, remaining \$35,158 was recorded as non-cash stock compensation expense.
  - (3) \$84,051 of grand total was received as cash, remaining \$2,407 was recorded as non-cash stock compensation expense.
  - (4) \$26,747 of grand total was received as cash, \$6,278 was recorded as non-cash stock compensation expense, remaining \$50,000 was paid as severance.
  - (5) \$98,617 of grand total was received in cash, \$109,109s recorded in non-cash stock compensation expense, \$149,555 was accrued for severance pay which was paid in March 2010, and \$4,841 was paid in consulting fees.
  - (6) \$55,000 of grand total was received as cash, remaining \$22,057 was recorded as non-cash stock compensation expense.
  - (7) \$95,000 of grand total was received in cash, remaining \$10,506 was recorded as non-cash stock compensation expense.

### **Executive Compensation Agreements and Summary of Executive Compensation**

#### ***Report on Executive Compensation***

During the year ended March 31, 2010, the Company's Compensation Committee was responsible for establishing compensation policy and administering the compensation programs of our executive officers.

The amount of compensation paid by the Company to each of our officers and the terms of those persons' employment is determined solely by the Compensation Committee. The Compensation Committee evaluates past performance and considers future incentive and retention in considering the appropriate compensation for the Company's officers. The Company believes that the compensation paid to the Company's directors and officers is fair to the Company.

Our Compensation Committee believes that the use of direct stock awards is at times appropriate for employees, and in the future intends to use direct stock awards to reward outstanding service or to attract and retain individuals with exceptional talent and credentials. The use of stock options and other awards is intended to strengthen the alignment of interests of executive officers and other key employees with those of our stockholders.

### *Executive Compensation Agreements*

Gryphon Gold is a party to an employment contract with John Key. Pursuant to the agreement Mr. Key is entitled to compensation for termination of his employment in certain circumstances, including termination without cause and change of control. The employment agreement provides for the payment of compensation that will be triggered by a termination of the executive officer's employment by either Gryphon Gold or the executive officer following a change of control of Gryphon Gold, or by Gryphon Gold at any time, other than for cause. In such event, Mr. Key will be entitled to receive an amount equal to one year's annual salary plus bonus (equal to the amount of bonus in the prior year) earned in the year of change of control, and existing benefits for a period of 12 months. The agreement with Mr. Key includes limited non-competition and non-solicitation covenants for a period of 12 months following termination.

Gryphon Gold was party to an employment contract with Gerald Baughman and it was terminated on March 7, 2010 contemporaneous with his resignation. The terms of this agreement were superseded by the Separation Agreement between Gryphon Gold and Mr. Baughman dated March 7, 2010 pursuant to which Gryphon Gold paid Mr. Baughman \$50,000 to assist him during the transition period following his resignation.

Gryphon Gold is party to a consultant contract with Michael Longinotti. The agreement pays an hourly wage of Cdn\$90/hour for any work performed.

On January 6, 2010, effective January 1, 2010, Gryphon Gold entered into an interim consulting agreement with R. William Wilson for the provision of services as the Chief Financial Officer. Mr. Wilson reports to Gryphon Gold's Chief Executive Officer and provide is compensated at a rate of \$700 per day and a \$1,500 per month insurance allowance. Mr. Wilson is also reimbursed for actual out-of-pocket expenses incurred in the provision of the above services. The interim consulting agreement provides for a bonus payment based on certain milestones being achieved. Mr. Wilson resigned from the company on May 28, 2010.

Except as described above, and the payment of directors' fees, there are no service contracts of any officer of Gryphon Gold and there is no arrangement or agreement made or proposed to be made between Gryphon Gold and any of its named executive officers pursuant to which a payment or other benefit is to be made or given by way of compensation in the event of that officer's resignation, retirement or other termination of employment, or in the event of a change of control of Gryphon Gold or a change in the named executive officer's responsibilities following such change in control.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth the stock options and stock appreciation rights granted to our named executive officers as of the fiscal year ended March 31, 2010.

Name	Option Awards		Equity Incentive Plan Awards: Number of Unexercised Options (#)	Exercise Price (\$)	Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Securities Unearned or That not Vested (#)	Equity Incentive Plan Awards: Payout Value of Shares, Units or Other Rights that Have not Vested (\$)
	Exercisable	Unexercisable							
<b>Michael Longinotti<sup>(1)</sup></b> Former Chief Financial Officer	100,000	-		Cdn\$0.41	8-Apr-13				
	200,000			Cdn\$0.41	1-Aug-13				
	37,500	12,500		US\$0.22	9-Sept-14				
<b>Raymond W Wilson<sup>(2)</sup></b> Chief Financial Officer	25,000	75,000		US\$0.20	19-Jan-15				
<b>John Key<sup>(3)</sup></b> Chief Executive Officer	150,000			Cdn\$0.62	11-Feb-13				
	262,500	87,500		Cdn\$0.41	1-Aug-13				
	150,000	50,000		US\$0.22	9-Sept-14				
<b>Gerald Baughman<sup>(4)</sup></b> VP Business Dev.	150,000	50,000		Cdn\$0.41	1-Aug-13				
	37,500	12,500		US\$0.22	9-Sept-14				

(1) 25,000 to vest June 16, 2010

(2) 75,000 to vest 25% each June 30, 2010; Sept 30, 2010; Dec 31, 2010.

(3) 87,500 to vest August 1, 2010.

(4) 50,000 to vest June 16, 2010

**Retirement, Resignation or Termination Plans**

We sponsor no plan, whether written or verbal, that would provide compensation or benefits of any type to an executive upon retirement, or any plan that would provide payment for retirement, resignation, or termination as a result of a change in control of our Company or as a result of a change in the responsibilities of an executive following a change in control of our Company.

**Director Compensation**

Name	Fees Earned or Paid in Cash (\$)(\\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity			Total (\$)
				Incentive Plan Compensation (\$)	Non-Qualified Compensation Earnings (\$)	All Other Compensation (\$)	
Donald Gentry	18,000	-	6,278	-	-	35,000	59,278 <sup>(1)</sup>
Marvin Kaiser	18,000	-	6,278	-	-	35,000	59,278 <sup>(2)</sup>
Terence Cryan	12,000	-	6,278	-	-	40,000	64,278 <sup>(3)</sup>

(1) \$18,000 of fees has been paid in cash. 50,000 stock options, 37,500 have vested; 12,500 vest on June 16, 2010. \$35,000 was accrued for special committee fees of which \$17,500 was paid on March 31, 2010 and the remainder will be paid in April 2010.

(2) 18,000 of fees has been paid in cash. 50,000 stock options, 37,500 have vested; 12,500 vest on June 16, 2010. \$35,000 was accrued for special committee fees of which \$17,500 was paid on March 31, 2010 and the remainder will be paid in April 2010.

(3) \$12,000 of fees has been paid in cash. 50,000 stock options, 37,500 have vested; 12,500 vest on June 16, 2010. \$40,000 was accrued for special committee fees of which \$20,000 was paid on March 31, 2010 and the remainder will be paid in April 2010.

### ***Compensation of Directors***

Beginning April 1, 2008, each independent board member shall receive \$1,500 per month. The fees cover attendance for all meetings, irrespective of the number of audit, compensation and board meetings. All fees have been paid through March 31, 2010.

On December 24, 2010, the board of directors approved the formation of a Special Committee consisting of Donald Gentry, Marvin Kaiser and Terence Cryan, all of the board's independent directors, for the purpose of advising the board on matters related to potential business combinations, and that the Special Committee shall, at its discretion, retain independent legal counsel. Mr. Cryan, as chairman of the Special Committee, received a fee of \$40,000 for his services and each Messrs. Kaiser and Gentry received \$35,000 for his services.

### ***Officer Compensation Agreements***

Gryphon Gold is a party to an employment contract for John Key. Pursuant to the agreement, he is entitled to compensation for termination of their employment in certain circumstances, including termination without cause and change of control. The employment agreements provide for the payment of compensation that will be triggered by a termination of the executive officer's employment by either Gryphon Gold or the executive officer following a change of control of Gryphon Gold, or by Gryphon Gold at any time, other than for cause. In such event, each officer will be entitled to receive an amount equal to one year's annual salary plus bonus (equal to the amount of bonus in the prior year) earned in the year of change of control, and existing benefits for a period of 12 months. The agreement with John Key includes limited non-competition and non-solicitation covenants for a period of 12 months following termination.

Gryphon Gold is a party to a financial consulting agreement with Sharp Executives Associates Inc. (Sharp). Pursuant to the agreement Mr. Matthew Fowler has been named Gryphon Gold's Chief Financial Officer and Mr. Fowler will act in all normal capacities of the office to which he is appointed or elected. Gryphon Gold paid Sharp a retainer of \$10,000 upon execution of the agreement and awarded 50,000 stock options to Mr. Fowler and 50,000 stock options to Sharp at an exercise price of \$0.14 for a term of 5 years. Mr. Fowler's hours will be billed to the Company at a rate of \$105 per hour. Except as described above, and the payment of directors' fees, there are no service contracts of any director of Gryphon Gold and there is no arrangement or agreement made or proposed to be made between Gryphon Gold and any of its directors pursuant to which a payment or other benefit is to be made or given by way of compensation in the event of that officer's resignation, retirement or other termination of employment, or in the event of a change of control of Gryphon Gold or a change in the director's responsibilities following such change in control.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

### **Securities Ownership**

The following tables set forth information as of June 22, 2010 regarding the ownership of our common stock by:

each person who is known by us to own more than 5% of our shares of common stock; and  
each named executive officer, each director and all of our directors and executive officers as a group.

The number of shares beneficially owned and the percentage of shares beneficially owned are based on 89,399,561 shares of common stock outstanding as of June 22, 2010.

For the purposes of the information provided below, shares subject to options and warrants that are exercisable within 60 days following June 22, 2010 are deemed to be outstanding and beneficially owned by the holder for the purpose of computing the number of shares and percentage ownership of that holder but are not deemed to be outstanding for the

purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to these tables, and as affected by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them.



**Principal Stockholders**

<u>Name and Address of Beneficial Owner</u> <sup>(1)</sup>	As of March 31, 2010	
	Shares	Percent
<b>Gerald &amp; Fabiola Baughman</b> <sup>(2)</sup> 197 North Argyle Court Reno, Nevada 89511	8,750,000(2)	9.76%(2)
<b>Top Gold AG M V K</b> <sup>(3)</sup> Landstrasse 14 9496 Balzers Principality of Liechtenstein	11,350,000(3)	12.7%(3)

- (1) Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in this table have sole voting and sole investment control with respect to all shares beneficially owned. Figures shown are on a non-diluted basis.
- (2) 8,750,000 common shares beneficially owned by the Baughmans, as joint tenants with rights of survivorship, is comprised of 8,500,000 shares of common stock of Gryphon Gold, 250,000 shares acquirable upon exercise of options and 1,840,750 shares of common stock of Gryphon Gold that are issuable upon conversion of a \$5,000,000, convertible note, subject to a cap on conversion at 9.99% of the issued and outstanding.
- (3) The Investment Advisor with ultimate voting and dispositive power is Luxor Asset Management Trust reg., Balzers, which is represented by Mr. Martin Frick, Balzers.

**Security Ownership of Management**

<u>Name and Address of Beneficial Owner</u> (1)	Shares	Percent
<b>Michael Longinotti</b> Former Chief Financial Officer Suite 711, 675 West Hastings Street Vancouver, BC V6B 1N2	520,500(2)	0.58%(2)
<b>Raymond W Wilson</b> Chief Financial Officer 5490 Longley Lane Reno, NV 89511	25,000(3)	-
<b>John Key</b> Chief Executive Officer 5490 Longley Lane Reno, NV 89511	562,500(3)	0.63%(3)
<b>Gerald Baughman</b> 5490 Longley Lane, Reno, NV 89511	8,687,500(4)	9.76%(4)
All directors and executive officers as a group (5 persons)	9,613,000	10.57%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in this table have sole voting and sole investment control with respect to all shares beneficially owned.

- (2) Includes vested options exercisable to acquire 337,500 shares of common stock.
- (3) Includes vested options exercisable to acquire 25,000 share of common stock.
- (4) Includes vested options exercisable to acquire 562,500 shares of common stock.
- (5) Includes vested options exercisable to acquire 188,750 shares of common stock.

We have no knowledge of any arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in our control.

We are not, to the best of our knowledge, directly or indirectly owned or controlled by another corporation or foreign government.

As of June 22, 2010, we had approximately 2,000 shareholders of record of our common stock.

### **Equity Compensation Plans**

Please review the disclosure provided under the section heading [Market for Common Equity](#) .

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Except for the transactions described below, none of our directors, senior officers or principal shareholders, nor any associate or affiliate of the foregoing have any interest, direct or indirect, in any transaction, since the beginning of the fiscal year ended March 31, 2010, or in any proposed transactions, in which such person had or is to have a direct or indirect material interest.

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. Gerald W. Baughman is an executive officer of the Company. 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. 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 February 5, 2010, we amended the terms of the option and then exercised the option, reducing the principal amount of the note payable to \$2,500,000. See Note 9 to the financial statements.

Related party transactions are reviewed and approved by the Board of Directors.

### **Purchases Of Securities**

During and subsequent to the fiscal year ending March 31, 2010, no officers, directors and 10% shareholders of Gryphon Gold purchased securities of Gryphon Gold.

Other than compensatory arrangements described under **Executive Compensation** and the transactions described above, we have had no other transactions, directly or indirectly, during the past fiscal year with our directors, senior officers or principal shareholders, or any of their associates or affiliates in which they had or have a direct or indirect material interest.

### **Director Independence**

The Company's Board of Directors has determined that the following directors are independent based on the standards for director independence for the NYSE Amex Equities:

Donald Gentry;  
Marvin Kaiser; and  
Terence Cryan.

### **TEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES Audit Fees**

The aggregate fees billed by the Company's auditors for professional services rendered in connection with the audit of the Company's annual consolidated financial statements for fiscal 2010 and 2009 and reviews of the consolidated financial statements included in the Company's Forms 10-K and 10-QSB for fiscal 2010 and 2009 were \$95,983 and \$99,500, respectively. The aggregate fees billed by the Company's independent registered public accounting firm for any additional fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under **Audit Fees** above for 2010 and 2009 were \$0.

### **Tax Fees**

The aggregate fees billed by the Company's auditors for professional services for tax compliance, tax advice, and tax planning for fiscal 2010 and 2009 were \$18,576 and \$20,350, respectively.

### **All Other Fees**

The aggregate fees billed by the Company's auditors for all other non-audit services rendered to the Company, such as attending meetings and other miscellaneous financial consulting, for fiscal 2010 and 2009 were nil and nil, respectively.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****Financial Statements**

The following financial statements have been filed with this Annual Report on Form 10-K and are presented in Item 8, herein.

1. Report of Independent Registered Public Accounting Firm;
2. Audited Consolidated Balance Sheets as at March 31, 2010 and 2009;
3. Audited Consolidated Statements of Operations for the years ended March 31, 2010 and 2009 and for the period from April 24, 2003 (inception) to March 31, 2010;
4. Audited Consolidated Statements of Shareholder s Equity for the years ended March 31, 2010 and 2009 and for the period from April 24, 2003 (inception) to March 31, 2010;
5. Audited Consolidated Statements of Cash Flows for the years ended March 31, 2010 and 2009 and for the period from April 24, 2003 (inception) to March 31, 2010; and
6. Notes to the Audited Consolidated Financial Statements.

**Exhibits**

<b>Number</b>	<b>Description</b>
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.,

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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)

10.8\* 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)

- 10.13\* 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 (Previously filed as Exhibit 10.18 to Form 10-K filed June 26, 2009)
- 10.19\* Termination of Financial Services Agreement between the Registrant and Tony Ker, dated effective September 28, 2008 (Previously filed as Exhibit 10.19 to Form 10-K filed June 26, 2009)
- 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**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

**GRYPHON GOLD CORPORATION**

/s/ John L. Key                      Chief Executive Officer and Director    June 25, 2010  
(Principal Executive Officer)

/s/ Matthew A. Fowler            Chief Financial Officer                      June 25, 2010  
(Principal Financial and  
Accounting Officer)

In accordance with the Securities Exchange Act of 1934, this report to be signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

/s/ John L. Key                      Chief Executive Officer                      June 25, 2010  
and Director  
(Principal Executive Officer)

/s/ Matthew A. Fowler            Chief Financial Officer                      June 25, 2010  
(Principal Financial and  
Accounting Officer)

/s/ Marvin K. Kaiser                      Director    June 25, 2010

/s/ Donald W. Gentry                Director    June 25, 2010

/s/ Terence J. Cryan                      Director    June 25, 2010