

GRYPHON GOLD CORP  
Form 10-Q  
February 11, 2011

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

**FORM 10-Q**

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

For the quarterly period ended **December 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)

**89703**

(Zip Code)

**(604) 261-2229**

(Registrant's Telephone Number, including Area Code)

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

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Indcate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

Number of common shares outstanding at February 11, 2011: 96,760,132

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**GRYPHON GOLD CORPORATION**

December 31, 2010

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Balance Sheets**

(Unaudited) (Stated in U.S. dollars)

	As at December 31, 2010 \$	As at March 31, 2010 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	474,076	937,056
Held for trading securities	-	191,966
Accounts receivable	13,997	20,183
Accounts receivable option agreement	-	16,230
Current portion of note receivable	4,938	11,441
Prepaid expenses	272,122	30,980
Assets held for sale at discontinued operations [note 3]	-	3,788,691
<b>Total Current Assets</b>	<b>765,133</b>	<b>4,996,547</b>
Equipment	119,876	90,286
Mineral properties [note 4]	1,841,912	1,930,909
Other assets [note 6]	985,050	721,679
Non-current portion of note receivable	-	2,131
<b>Total Assets</b>	<b>3,711,971</b>	<b>7,741,552</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	277,488	832,977
Share consideration payable to former owners of discontinued operations	-	270,000
Liabilities held for resale and in discontinued operations [note 3]	-	2,170,223
<b>Total Current Liabilities</b>	<b>277,488</b>	<b>3,273,200</b>
Common stock payable	88,000	-
Asset retirement obligation liability	48,254	-
Total liabilities	413,742	3,273,200
Commitments & contingencies [note 8]		
<b>Stockholders' Equity</b>		
Common stock	89,860	86,034
Additional paid-in capital	40,271,188	39,585,228
Deficit accumulated during the exploration stage	(37,062,819)	(35,202,910)
<b>Total Stockholders' Equity</b>	<b>3,298,229</b>	<b>4,468,352</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>3,711,971</b>	<b>7,741,552</b>

See Note 1 Nature of Operations and Going Concern Uncertainty

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

**Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Statements of Operations**

(Unaudited) (Stated in US Dollars)

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Nine months ended</b>	<b>Nine months ended</b>	<b>Period from April 24, 2003 (inception) to December 31, 2010</b>
	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>December 31, 2010</b>
	\$	\$	\$	\$	\$
Exploration [note 5]	115,930	252,245	694,358	1,107,289	17,296,362
Management salaries and consulting fees	303,421	207,461	845,552	456,673	10,208,921
General and administrative	135,336	168,264	483,267	357,154	4,241,796
Legal and audit	48,865	71,989	232,686	215,434	2,338,124
Travel and accommodation	36,366	56,819	105,659	85,385	1,251,057
Depreciation & amortization	13,145	10,753	40,767	32,856	294,397
Loss (gain) on disposal of equipment	(99)	-	(99)	(18,928)	5,525
Foreign exchange (gain) loss	1,894	(7,739)	18,632	(40,769)	25,804
Gain on change in liability of warrants [note 7[b]]	-	(42,560)	-	212,130	(2,676,000)
Interest income	32	(70)	(1,974)	(960)	(740,972)
Interest expense	123	196	997	500	9,152
Unrealized (gain) loss on securities	-	(4,893)	104,293	(88,653)	-
Realized (gain) loss on sale of securities	-	-	(28,521)	13,484	126,283
Loss for the period from continuing operations	\$ (655,013)	\$ (712,465)	\$ (2,495,617)	\$ (2,331,595)	\$ (32,380,449)
Discontinued operations:					
Loss from discontinued operations	-	(141,568)	(18,241)	(579,523)	(5,336,319)
Gain on sale from discontinued operations	-	-	653,949	-	653,949
Income (loss) from discontinued operations	-	(141,568)	635,708	(579,523)	(4,682,370)
<b>Net loss for period</b>	<b>\$ (655,013)</b>	<b>\$ (854,033)</b>	<b>\$ (1,859,909)</b>	<b>\$ (2,911,118)</b>	<b>\$ (37,062,819)</b>
Basic and diluted (loss) per share:					
Loss from continuing operations	(0.007)	(0.010)	(0.028)	(0.036)	
	-	(0.002)	0.007	(0.009)	

Income (loss) from discontinued  
operations

Total loss per share	\$	(0.007)	\$	(0.012)	\$	(0.021)	\$	(0.045)
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Basic and diluted weighted average

number of common shares outstanding	89,755,784	70,197,405	88,357,009	64,582,997
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*See Note 1 Nature of Operations and Going Concern Uncertainty*

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

**Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Statements of Stockholders' Equity**

(Unaudited) (Stated in US dollars)

	Common stock		Additional	Deficit	Total
	Shares	Amount	paid-in	accumulated	
	#	\$	capital	during the	
			\$	exploration	
				stage	
				\$	\$
<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			(1,273,087)		(1,273,087)
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					
			222,627		222,627
Fair value of options granted to consultants					
			49,558		49,558
Fair value of underwriters compensation warrants on IPO					
			135,100		135,100
Fair value of options granted					
			2,274,508		2,274,508
Fair value of vested stock grants	429,250	428	520,379		520,807
Fair value of stock granted	221,670	222	21,415		21,637
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				(35,774,819)	(35,774,819)
<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					
			166,088		166,088
Fair value of vested stock grants					
	112,500	113			113
Exercise of warrants	7,161,500	7,162	1,453,204		1,460,366
Settlement of debt	5,905,356	5,905	964,095		970,000
Reclassification of warrants to liability FASB ASC 815-40-55					
			(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>
Shares issued:					
For private placements	1,464,429	1,464	198,536		200,000
Option consideration	1,500,000	1,500	268,500		270,000

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Consultant compensation	150,000	150	31,350	31,500
Share issue costs			(13,736)	(13,736)
Fair value of stock granted	275,000	275	42,198	42,473
Fair value of options granted [note 7[c]]			99,549	99,549
Settlement of accounts payable [note 7[a]]	436,929	437	59,563	60,000
Net loss for the period			(1,859,909)	(1,859,909)
<b>Balance, December 31, 2010</b>	<b>89,860,132</b>	<b>89,860</b>	<b>40,271,188</b>	<b>(37,062,819)</b>
<i>See Note 1 Nature of Operations and Going Concern Uncertainty</i>				

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

**Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Statements of Cash Flows**

(Unaudited) (Stated in US dollars)

	Nine months ended December 31, 2010	Nine months ended December 31, 2009	Period from April 24, 2003 (inception) to December 31, 2010
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(1,859,909)	(2,911,118)	(37,062,819)
Items not involving cash:	-		
Depreciation	40,767	32,856	294,397
(Gain) loss on disposal of equipment	(99)	(18,928)	5,525
Write down of accrued liability	(124,008)	-	(124,008)
Fair value of options, warrants and other non-cash compensation [note 7[c]]	142,022	121,735	3,478,995
Non-cash interest expense on discontinued operations [note 3]	10,364	277,052	725,304
Realized (gain) loss on securities	(28,521)	13,484	126,282
Unrealized (gain) loss on sale of securities	104,292	(88,653)	-
Held for trading securities included in lease revenue	-	-	(9,598)
Impairment of carrying value of exploration properties [note 3]	-	-	5,100,000
Loss (gain) on disposal of mineral properties	-	58,553	53,168
Loss (gain) on change in warrant liability [note 7[b]]	-	212,749	(2,676,000)
Gain on extinguishment of debt [note 3]	-	-	
Gain on sale of discontinued operations [note 3]	(653,949)	-	(1,981,025)
Changes in non-cash working capital items:			
Accounts receivable	22,416	11,821	(10,247)
Accounts payable and accrued liabilities	(371,481)	421,324	343,311
Prepaid expenses	(121,642)	15,575	(152,620)
<b>Cash used in operating activities</b>	<b>(2,839,248)</b>	<b>(1,853,550)</b>	<b>(31,889,335)</b>
<b>INVESTING ACTIVITIES</b>			
Other assets [note 6]	(69,115)	-	(225,892)
Option payment received [note 4]	100,000	-	100,000
Purchase of equipment	(58,307)	(734)	(364,502)
Cash received from sale of discontinued operations	2,250,000	-	2,250,000
Nevada Eagle acquisition and related non-compete agreement [note 3]	-	-	(3,068,340)
Mineral property expenditures [note 4]	(11,003)	(24,333)	(2,003,133)
Mineral property lease payments received	-	291,550	1,499,854
Proceeds from sale of mineral properties	-	50,000	200,000
Option payment to amend royalty [note 6]	(150,000)	-	(460,902)
Proceeds from sales of held for trading securities	116,195	9,951	177,149
Proceeds from note receivable	8,634	7,000	19,062
Proceeds from sale of equipment	100	1,571	16,503
<b>Cash provided (used) by investing activities</b>	<b>2,190,504</b>	<b>335,005</b>	<b>(1,860,201)</b>

<b>FINANCING ACTIVITIES</b>			
Cash paid on extinguishment of debt [ <i>note 3</i> ]	-	-	(500,000)
Capital lease principal payments	-	-	(53,523)
Exercise of warrants	-	1,161,036	1,161,036
Shares issued for cash	200,000	-	36,570,369
Share issue costs	(13,736)	-	(3,343,395)
Subscription receivables collected	-	-	389,125
<b>Cash provided by financing activities</b>	<b>186,264</b>	<b>1,161,036</b>	<b>34,223,612</b>
<b>Increase (decrease) in cash during the period</b>	<b>(462,980)</b>	<b>(357,509)</b>	<b>474,076</b>
Cash, beginning of period	937,056	799,517	
<b>Cash, end of period</b>	<b>474,076</b>	<b>442,008</b>	<b>474,076</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Shares issued for settlement of accounts payable	60,000		60,000
Extinguishment of note payable by sale of discontinued operations	2,180,587		2,180,587
Share consideration paid to former owners of discontinued operations	270,000		270,000
Asset retirement obligation	48,254		48,254
Stock issued for prepaid asset	31,500		31,500
Stock payable for prepaid asset	88,000		88,000

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

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

**Gryphon Gold Corporation**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements (Unaudited)**

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

Gryphon Gold Corporation was incorporated in the State of Nevada in 2003 and wholly owns its subsidiary, Borealis Mining Company, (collectively, Gryphon Gold or the Company ). The Company is an exploration stage company in the process of exploring 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.

On April 23, 2010, the Company sold its wholly owned subsidiary, Nevada Eagle Resources LLC ( Nevada Eagle ), and 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. 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 \$37,062,819 as at December 31, 2010 and has cash on hand of \$474,076. 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.

On January 21, 2010 the company closed a private placement with net proceeds to the Company of C\$1,230,839, see Note 9, Subsequent Events.

**Basis of Presentation**

The unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three and nine month periods ended December 31, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2011.

For further information refer to the financial statements and footnotes thereto in the Company s Annual Report on Form 10-K for the year ended March 31, 2010.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Codification**

In June 2009, the Company adopted ASC 105-10-65, the accounting standards codification and the hierarchy of generally accepted accounting principles. Under ASC 105-10-65 codification became the exclusive source of authoritative U.S. generally accepted accounting principles ( U.S. GAAP ) to be applied by all nongovernmental entities. ASC 105-10-65 was effective for the Company s 2009 second fiscal quarter. The adoption of 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.

**Fair value measurements**

The Company measures fair value in accordance with ASC 820-10-55 Fair Value Measurements . The objective of ASC 820-10-55 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. 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. The adoption of ASC 820-10-55 did not have a material effect on the Company s consolidated financial statements.

**Gryphon Gold Corporation**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements (Unaudited)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, COUNTINUED:**

**Fair value measurements, continued:**

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

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.

**Asset Retirement Obligations**

The Company accounts for reclamation costs by the allocation of the expense over the life of the related assets which are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. Such costs include care and maintenance, removal of mining infrastructure, filling in of the mine area, and re-vegetation of the land. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, its asset retirement obligation in accordance with ASC 410, Asset Retirement and Environmental Obligations .

**NEW ACCOUNTING PRONOUNCEMENTS**

**Fair Value Accounting**

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was effective beginning January 1, 2010, with the exception of the level 3 disaggregation which is effective for the Company's fiscal year beginning March 31, 2010. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

**Reclassification**

Certain comparative figures have been reclassified to conform to the current quarter presentation. The Statement of Operations relating to costs of discontinued operations for the three and nine month periods ended December 31, 2009 have been classified as such for comparative purposes for the three and nine-month periods ended December 31, 2010.

**Gryphon Gold Corporation***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****3. NEVADA EAGLE RESOURCES LLC**

On August 21, 2007, Gryphon Gold closed the acquisition of Nevada Eagle Resources LLC ( Nevada Eagle ). On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer Development (USA) Inc. ( 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. The Company recognized a gain of \$653,949 in connection with the sale.

The Company completed the sale of Nevada Eagle during the three months ended June 30, 2010; Nevada Eagle's results have been classified and presented in Discontinued Operations.

**4. MINERAL PROPERTIES**

	<b>Total</b>
	<b>\$</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>
Sage Gold Inc. option payment received	(100,000)
Mineral property expenditures	11,003
<b>Mineral property costs, December 31, 2010</b>	<b>1,841,912</b>

**5. EXPLORATION**

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Nine months ended</b>	<b>Nine months ended</b>	<b>Period from April 24, 2003 (inception) to December 31, 2010</b>
	<b>December 31</b>	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>31, 2010</b>	<b>31, 2009</b>	<b>31, 2010</b>	<b>31, 2009</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**NEVADA, USA****Borealis property****Exploration:**

Drilling	28,755	49,569	275,490	212,832	7,633,487
Property maintenance	41,555	70,956	253,760*	356,028	3,762,965
Geologic and assay	5,585	172	44,757	910	2,078,043
Project management	15,635	67,695	25,218	193,807	1,896,749
Engineering	3,200	63,175	72,441	341,982	1,529,010
Metallurgy	6,800		6,800		338,010
Subtotal Borealis property	<b>101,530</b>	251,567	678,466	1,105,559	17,238,264
Other exploration	14,400	678	15,892	1,730	58,097
<b>Total exploration</b>	<b>115,930</b>	252,245	694,358	1,107,289	17,296,361

*\*Property maintenance was reduced by \$124,008 during the three months ended September 30, 2010, due to an accrued liability at year end that was written down as the Company has determined it has no legal obligation to pay.*

**Gryphon Gold Corporation***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****6. OTHER ASSETS**

	<b>December 31, 2010</b>	March 31, 2010
	\$	\$
Reclamation bond & deposits	<b>225,893</b>	160,777
Option to amend Borealis Property mining lease	<b>710,903</b>	560,902
Asset retirement obligation	<b>48,254</b>	-
<b>Total</b>	<b>985,050</b>	721,679

On December 31, 2010 the Company had \$216,885 (March 31, 2010 - \$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 \$9,008 (March 31, 2010 - \$27,177), which supports its potential future obligations for reclamation during the Company's exploration activities within the BLM area. The United States Forest bond was increased during the nine months ended December 31, 2010 by \$83,285.

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 February 12, 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 August 11, 2010 the option was extended until February 22, 2011 at a cost of \$150,000 paid in cash.

Reclamation and mine closure costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Company uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels, capital costs and reclamation costs. Such assumptions are based on the Company's current mining plan and the best available information for making such estimates. In calculating the present value of the asset retirement obligation the Company used a risk free interest rate of 4%. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

Changes to the Company's asset retirement obligations on its Borealis property are as follows:

	Nine months ended December 31, 2010
	\$
Asset retirement obligation beginning balance	-
Incurred	48,254
Accretion	-
Addition and changes in estimates	-
Settlements	-
Asset retirement obligation ending balance	48,254



**Gryphon Gold Corporation**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements (Unaudited)**

**7. 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.

During the nine months ended December 31, 2010, the Company issued 436,929 common shares with a fair value of \$60,000 to Telesto Nevada Inc., which was applied against accounts payable.

On June 16, 2010, the Company completed a private placement relating to its Option Agreement with Sage Gold Inc. ( Sage ), of 1,464,429 units at Cdn\$0.14 for gross proceeds of \$200,000 (Cdn\$205,020). Each unit consisted of one common share and one-half series M warrant. Each series M warrant entitles the holder to purchase a common share at a price of US\$0.20 per share for a period of 24 months. 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\$0.60 per common share, for a period of twenty consecutive days.

On February 5, 2010 the Company and the Debt holders, also previous owners of the Company s discontinued operations, 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 was subject to obtaining Company shareholder and TSX approval (the Approvals ). In connection with the amendment the Company recorded a liability of \$270,000 based upon the fair value of the common shares. On August 22, 2010 after obtaining shareholder approval, the Company issued these 1,500,000 common shares and extinguished the liability.

On September 20, 2010 the Company issued 275,000 restricted stock units to three employees valued at \$42,473.

On October 21, 2010 ( effective date ) the Company entered into a consulting agreement with a stock media consultant whereby the Company had agreed to pay the consultant cash, shares of common stock and options. The consulting agreement called for the payment of \$100,000 in cash upon signing of the agreement, \$25,000 paid in cash over five monthly installments, 550,000 shares of the Company s restricted common stock payable over 90 days from the effective date of the agreement, and 550,000 stock options vesting over 90 days from the effective date of the agreement. In connection with the agreement the Company recorded a prepaid expense based upon the fair value of the shares of restricted common stock and stock options to be paid to the consultant. The prepaid expense is being amortized ratably over the life of the a consulting agreement (180 days). During the quarter ended December 31, 2010 the Company had issued 150,000 shares of its common stock valued at \$31,500 to the consultant and recorded a common stock payable of \$88,000 relating to the 400,000 shares yet to be issued at December 31, 2010. In addition, the stock options were valued at \$69,355 at the time of the effective date using a Black Scholes option pricing model.

- [b] Warrants:

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

**Warrants Outstanding and Exercisable**

Warrants #	Average Remaining Life	Exercise Price	Expiry date
	Years #		
5,448,667	1.1	\$0.25	February 18, 2012
990,500	0.1	\$0.21	February 18, 2011
732,215	1.5	\$0.20	June 16, 2012
7,171,382	0.9	\$0.22	

## [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. ASC 718-10-55 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.

**Gryphon Gold Corporation***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****7. CAPITAL STOCK, CONTINUED:**

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

	<b>Three months ended December 31, 2010 \$</b>	<b>Three months ended December 31, 2009 \$</b>	<b>Nine months ended December 31, 2010 \$</b>	<b>Nine months ended December 31, 2009 \$</b>
Management salaries	11,669	49,656	104,951	121,735
Consulting expense	31,143	-	37,071	-
<b>Total</b>	<b>42,812</b>	<b>49,656</b>	<b>142,022</b>	<b>121,735</b>

*Stock option activity*

The following table summarizes the Company's stock option activity (excluding options issued a consultant, above) for the nine months ended December 31, 2010:

	<b>Number of Stock Options</b>	<b>Weighted Average exercise price</b>
Outstanding, April 1, 2010	4,507,500	\$0.48*
Granted	1,125,000	\$0.11
Forfeited	(695,000)	\$0.40*
Total outstanding at December 31, 2010	4,937,500	\$0.41*
Vested and exercisable at December 31, 2010	4,418,750	\$0.44*

\* Based on the December 31, 2010 exchange rate of Cdn\$1 equals US\$0.9946. Valuation assumptions

Compensation and consulting 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>99% - 119%</b>	<b>51% - 80%</b>
Risk free interest rate	<b>0.52% - 1.62%</b>	<b>1.31% - 2.06%</b>
Expected lives	<b>2-3 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 2-3-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.

[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.

**Gryphon Gold Corporation***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****7. CAPITAL STOCK, CONTINUED:**

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 RSUs outstanding as at December 31, 2010:

	RSU s Granted	RSU s Vested	RSU s Forfeited	RSU s Outstanding	Weighted Average Fair Value at Grant Date
Outstanding at April 1, 2006					
Issued April 18, 2006	8,000	8,000			Cdn\$1.63
Issued December 12, 2006	29,000	15,000	14,000		Cdn\$0.84
Issued January 10, 2007	607,500	488,750	118,750		Cdn\$0.82
Issued September 6, 2007	154,170	154,170			Cdn\$0.77
Issued September 20, 2010	275,000	275,000			\$0.16
<b>Outstanding at December 31, 2010</b>	<b>1,073,670</b>	<b>940,920</b>	<b>132,750</b>		

All issued restricted stock units have vested.

**8. 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. The lease payments are recorded as exploration expenses in the Company's statements of operations. 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, office space in Hawthorne, Nevada for a one year term, and office space in Carson City, Nevada for a one year term. The following are the remaining rental lease commitments in relation to the office lease:

	\$
2011	15,507
2012	64,702
2013	64,702
2014	26,959

[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.

## 9. SUBSEQUENT EVENTS

On January 21, 2011 the Company closed a private placement in which we issued 6,500,000 units at C\$0.20 per unit for gross proceeds of \$1,300,000. Each unit consisted of one share of common stock and one half purchase warrant, each full warrant is exercisable for a period of two years from the date of closing at a price of US\$0.30. Certain registered dealers were paid cash commission of C\$69,161. The net proceeds will be used for working capital purposes.

On February 4, 2011 the Company announced that it had filed a registration statement on Form S-1 with the Securities and Exchange Commission in the United States and has submitted for filing a preliminary short form prospectus with securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, Canada in relation to a proposed \$10,000,000 public offering of its common stock in both the United States and Canada. Roth Capital Partners, LLC, will act as sole book-running manager for the offering in the United States, with Acumen Capital Finance Partners Limited acting as sole Canadian agent in Canada. The number of shares to be sold in the proposed offering and the offering price have not yet been determined.

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

Forward-Looking Statements

The information in this quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of metals, commodities and precious metals, availability of funds, government regulations, common share prices, operating costs, capital costs, outcomes of ore reserve exploration and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue" terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports we file with the Securities and Exchange Commission (SEC), including, but not limited to our annual report on Form 10-K as filed on June 28, 2010. These factors may cause our actual results to differ materially from any forward-looking statement. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

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

**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.

## Overview

### *Business Objectives*

We are in the business of acquiring, exploring, and developing gold properties in the United States, our emphasis is 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 in the State of Nevada (which we refer to as the 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 submitted to the United States Forest Service (which we refer to as 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 Operations was based on the general economic concepts as presented in our Preliminary Assessment.

### *Borealis Property*

During the nine months ended December 31, 2010, three separate drilling programs were completed on the Borealis Property. The first program consisted of 21 holes for 5,795 feet of reverse circulation drilling, the second consisted of 3 holes for 110 feet of metallurgical core drilling, and the third was 28 holes of reverse circulation drilling for 1630 feet. As of December 30, 2010, we had completed approximately 252 holes and 149,430 feet of reverse circulation drilling and 3 holes and 110 feet of metallurgical core drilling have been completed on the Borealis Property. All the holes were in area of existing mineralization and were drilled to upgrade the 2008 resource model and confirm certain resources contained in the independent Feasibility study.

For a complete history of our Borealis Property, please see our 10-K for the fiscal year ended March 31, 2010 filed with the SEC.

### *Administration and Capital Resource Activities*

The Company had no changes in its Administrative and Capital resources during the three months ended December 31, 2010.

On January 21, 2011, we closed a private placement in which we issued 6,500,000 units at C\$0.20 per unit for gross proceeds of \$1,300,000. Each unit consisted of one share of common stock and one half purchase warrant, each full warrant is exercisable for a period of two years from the date of closing at a price of US\$0.30. Certain registered dealers were paid cash commission of C\$69,161. The net proceeds will be used for working capital purposes.

On February 4, 2011, we announced that we had filed a registration statement on Form S-1 with the Securities and Exchange Commission in the United States and has submitted for filing a preliminary short form prospectus with securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, Canada in relation to a proposed \$10,000,000 public offering of our common stock in both the United States and Canada. Roth Capital Partners, LLC, will act as sole book-running manager for the offering in the United States, with Acumen Capital Finance Partners Limited acting as sole Canadian agent in Canada. The number of shares to be sold in the proposed offering and the offering price have not yet been determined.

### **Fiscal 2011 Plan of Operations**

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

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

We recognize that additional resources are required to enable us to continue operations. Our objective is 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 our obligations and may have to suspend or cease operations.

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

The following activities are currently planned for the duration of fiscal 2011:

- Begin construction of Phase 1 of our oxide heap leach mining project on the Borealis Property and begin production within six months of completing this offering.
- Continue our drill program to expand the oxide mineralization within the permitted footprint of the Borealis Property.
- Continue our drill program on the three anomalies defined in the pediments of the Borealis Property for the purpose of potentially discovering additional oxide and sulphide resources.
- Raise additional capital, if required, to fund our exploration, development and working capital requirements.

## 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.

### *Three months ended December 31, 2010 compared to three months ended December 31, 2009*

For the three months ended December 31, 2010, we had a net loss of \$655,013 or \$0.007 per share from continuing operations compared to a net loss of \$712,465 or \$0.010 per share from continuing operations and \$141,568 net loss or \$0.002 per share from discontinued operations in the same period in the prior year.

Exploration expenses during the quarter ended December 31, 2010 were \$115,930 or 18% of our total expenses compared to \$252,245 or 35% of our total expenses in the same period in the prior year. The majority of exploration expenses in the current quarter were from property lease payments and ongoing water monitoring on the Borealis property. Our exploration expenses decreased compared to the same period in the prior year primarily due to reduced engineering work.

Management salaries and consulting fees in the quarter ended December 31, 2010 were \$303,421 compared to \$207,461 incurred in the quarter ended December 31, 2009. Total non-cash compensation expense due to the recognition of costs related to stock options was \$65,255 in the quarter ended December 31, 2010 compared to the prior year's fiscal third quarter of \$49,656. Management salaries and consulting fees during the quarter increased due to the hiring of an investor relations consultant, the additional of geological and engineering staff. General and administrative costs decreased to \$135,336 compared to \$168,264 the prior year's quarter. Legal and audit fees for the period were \$48,865, a decrease from the prior year's quarter of \$71,989. Travel and accommodation costs during the quarter ended December 31, 2010 were \$36,366, compared to \$56,819 expended on travel in the prior year's comparable quarter.

### *Nine months ended December 31 2010 compared to nine months ended December 31, 2009*

For the nine-month period ended December 31, 2010 we incurred a net loss of \$2,495,617 or \$0.028 per share from continuing operations and a net income of \$635,708 or \$0.007 per share from discontinued operations compared to a net loss of \$2,331,595 or \$0.036 per share from continuing operations and a net loss of \$579,523 or \$0.009 per share from discontinued operations incurred during the same period in the prior year.

Exploration expenses during the nine-month period ended December 31, 2010 were \$694,358 or 37% of our net expenses compared to \$1,107,289 or 47% of net expenses in the same period in the prior year. The decrease is due to significantly less engineering work compared to the prior year.

Management salaries and consulting fees in the nine months ended December 31, 2010 were \$845,552 compared to \$456,673 for the same period in the prior year. The increase is due to the CEO returning to full time employment, the hiring of an investor relations consultant, and the addition of two employees and two part time contractors. Total non-cash compensation costs included in the nine months ended December 31, 2010 were \$142,022 versus \$121,735 in the prior year's comparable period.

Legal and audit fees for the nine month period increased to \$232,686 from \$215,434 incurred in the prior year's comparable period. Travel and accommodation during the nine months ended December 31, 2010 was \$105,659 compared to \$85,385 reported in prior year nine-month period ended December 31, 2009. The increase resulted from increased travel surrounding the Sage Option Agreements well as financing activities. General and administrative expenses were \$483,267, versus \$357,154 in the prior year's comparable period. The increase is due to increased investor relations activity, opening of new office in Carson City and increased activity in the field office in Hawthorne, Nevada.

### **Liquidity and Capital Resources**

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

#### ***Borealis Mine***

#### ***Sage Option Agreement***

The Sage Option Agreement was terminated by both parties on August 16, 2010. For full disclosure on the Option Agreement, please refer to our 10K filed on June 28, 2010.

### *Royalty Obligations*

The leased portion of the Borealis Property is currently subject to advance royalty payments of approximately \$9,762 per month, payable to each of Richard J. Cavell TTTEE F/T Richard J. Cavell Trust dated 02/23/1994, Hardrock Mining Company, a Nevada corporation, and John W. Whitney (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. On August 11, 2010, the option was extended until February 22, 2011 for a cash payment of \$150,000.

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% .

There can be no assurance that the Company will be able to exercise the option to buy down the royalty or negotiate a further extension of the agreement before February 22, 2011. If the Company is unable to exercise the option or obtain an extension, the Company's ability to put the Borealis Mine into production would be adversely affected by the current royalty structure as discussed above. This may make the Borealis Mine less profitable or prevent the Company from putting the Borealis Mine into production, which would adversely affect the Company's future results of operations.

### *Capital Resources*

At December 31, 2010, we had working capital of \$487,645 with an average cash expenditure rate of \$200,000 per month in a typical month based on our current level of business activity. This level of activity is subject to change based upon future events. Current assets consisted of \$474,076 in cash, \$13,997 in accounts receivable, \$4,938 in the note receivable, and \$272,122 in prepaid expenses. We had \$277,488 in accounts payable and accrued liabilities, a long term asset retirement obligation liability of \$48,254, and a long term liability to issue shares for \$88,000.

As we expect our reliance on equity financings to continue into the future, 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.

We recognize that additional resources are required to enable us to 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.

During the nine months ended December 31, 2010, we used cash in operating activities of \$2,839,748 which included our net loss during the nine months of \$1,859,909 off-set by depreciation of \$40,767, \$99 gain on the disposal of assets, non-cash compensation of \$142,022, non-cash interest expense of \$10,364, unrealized loss of \$104,292 and a \$28,521 realized gain on the valuation of marketable securities, \$653,949 gain on sale of discontinued operations, and changes in non-cash working capital of a \$22,416 decrease in accounts receivable, a \$371,481 decrease in accounts payable, a \$121,642 increase in prepaid expenses.

We received cash from investing activities of \$2,190,504 including \$65,116 increase in reclamation bond, \$100,000 from the Sage Option Agreement, \$58,307 in purchase of equipment, \$2,250,000 in sale of discontinued operations, \$11,003 in mineral property expenditures, \$150,000 option payment to amend royalty, \$116,195 from the sale of securities, \$8,634 from the payments on the note receivable and \$100 from the sale of equipment.

We received cash from financing activities of \$186,264 including \$200,000 from the sale of common shares, and \$13,736 in share issue costs for the nine months ended December 31, 2010. Cash decreased during the period by \$462,980 to \$474,076 as at December 31, 2010.

Updated share capital as of February 11, 2010:

Basic Common Stock Issued and Outstanding	96,760,132
Warrants, Options and other Convertible Securities	15,908,892
Fully Diluted Common Stock	112,669,024

### **Critical Accounting Policies and Estimates**

Please see the notes to our audited financial statements included in our 10-K for the fiscal year ended March 31, 2010 for a complete list of our critical accounting policies and estimates.

### ***Recent Accounting Pronouncements***

Please see the notes to our unaudited financial statements for a complete list of recent accounting pronouncements.

### ***Reclassification***

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

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

Not Applicable.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

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

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

#### **Changes in Internal Controls over Financial Reporting**

With the exception of the reported change in Chief Financial Officers, 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 quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company has not been involved in any new legal proceedings during the three or nine-month period ended December 31, 2010. For more information on past legal proceedings please see our 10-K for the fiscal year ended March 31, 2010 filed with the SEC.

**ITEM 1A. Risk Factors**

There have been no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended March 31, 2010 which was filed with Securities and Exchange Commission on June 28, 2010.

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

During the nine months ended December 31, 2010, all transactions in which we have offered and sold unregistered securities pursuant to exemptions under the Securities Act of 1933, as amended, have been reported on current reports on Form 8K.

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

None.

**Item 4. [REMOVED AND RESERVED]**

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

Number Description

10.1 Business Consulting and Services Agreement dated October 21, 2010

31.1 CEO Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.

31.2 CFO Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.

32.1 CEO Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.

32.2 CFO Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.

**SIGNATURES**

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

**GRYPHON GOLD CORPORATION (Registrant)**

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

Date: February 11, 2010

By: /s/ Matthew A Fowler  
Matthew A. Fowler  
Interim Chief Financial Officer  
(On behalf of the registrant and as  
Principal financial and accounting officer)

Date: February 11, 2010