GRYPHON GOLD CORP
Form 10-Q/A
November 21, 2011

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

FORM 10-Q/A
Amendment No.1

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACTOF 1934**
For the quarterly period ended September 30, 2011

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	**92-0185596**
(State of other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
611 N Nevada Street **Carson City, Nevada**	**89703**
(Address of Principal Executive Offices)	*(Zip Code)*

(604) 261-2229
(Registrant s Telephone Number, including Area Code)

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

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

[X] 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).

[X] 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 [X]

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

[ ] Yes [X] No

Number of common shares outstanding at November 14, 2011: 193,769,882

Explanatory Note

This Amendment No.1 on Form 10-Q/A (Amendment No. 1) to the Company s Quarterly Report on Form 10−Q for the quarter ended September 30, 2011, originally filed with the Securities and Exchange Commission on November 14, 2011 (Form 10−Q), amends the Cover Page of the Form 10-Q to correct a typographical error that incorrectly identified the Reporting Issuer as a Shell Company . The Cover Page has been updated accordingly.

No other changes have been made to the Form 10−Q. This Form 10−Q/A does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the Form 10−Q.

GRYPHON GOLD CORPORATION
September 30, 2011

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
Gryphon Gold Corporation
Consolidated Balance Sheets
(Unaudited) (Stated in U.S. Dollars)

	As at September 30, 2011	As at March 31, 2011
ASSETS		
Current Assets		
Cash	$ 2,716,799	$ 837,457
Accounts receivable	56,890	29,892
Note receivable	-	2,975
Prepaid expenses	386,554	122,716
Inventories	638,184	-
Deferred issue costs	296,323	281,278
Total Current Assets	4,094,750	1,274,318
Property, plant and equipment	16,904,436	2,760,330
Deposit on plant	620,703	-
Reclamation bonds	2,259,393	225,893
Total Assets	$ 23,879,282	$ 4,260,541
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,957,463	$ 397,106
Current portion of the long term debt	265,208	-
Notes payable, net of discount	2,855,220	-
Total Current Liabilities	5,077,891	397,106
Asset retirement obligation	2,024,215	51,300
Long-term debt	3,244,292	-
Total Liabilities	10,346,398	448,406
Commitments & contingencies [*note 15*]		
Stockholders' Equity		
Common stock	193,770	96,984
Additional paid-in capital	52,677,837	41,665,952
Accumulated deficit	(39,338,723)	(37,950,801)
Total Stockholders' Equity	13,532,884	3,812,135
Total Liabilities & Stockholders' Equity	$ 23,879,282	$ 4,260,541

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
Consolidated Statements of Operations
(Unaudited) (Stated in US Dollars)

	Three months ended September 30, 2011	**Three months ended September 30, 2010**	**Six months ended September 30, 2011**	**Six months ended September 30, 2010**
Continuing operations:				
Exploration	$ 4,358	$ 192,789	$ 95,254	$ 578,429
Management salaries & consulting fees	238,761	228,203	472,168	542,131
General and administrative	234,577	208,098	374,610	347,931
Legal and audit	66,853	126,408	141,000	183,821
Travel and accommodation	42,788	35,755	93,261	69,293
Depreciation	13,953	14,213	17,462	27,622
Asset retirement obligation accretion	16,996	-	16,996	-
Foreign exchange loss	123,545	5,806	94,796	16,738
Interest income	(3,161)	(1,906)	(3,227)	(2,006)
Interest expense, net of capitalized interest	65,791	280	85,602	873
Unrealized loss on securities	-	-	-	104,293
Realized (gain) loss on sale of securities	-	2,656	-	(28,521)
Loss for the period from continuing operations	(804,461)	(812,302)	(1,387,922)	(1,840,604)
Discontinued operations:				
Loss from discontinued operations	-	-	-	(18,241)
Gain on sale of discontinued operations	-	-	-	653,949
Income from discontinued operations	-	-	-	635,708
Net loss for the period	$ (804,461)	$ (812,302)	$ (1,387,922)	$ (1,204,896)
Basic and diluted income (loss) per share:				
Loss from continuing operations	Nil	$ (0.01)	$ (0.01)	$ (0.02)
Income from discontinued operations	Nil	Nil	Nil	0.01
Total loss per share	Nil	(0.01)	$ (0.01)	$ (0.01)
Basic and diluted weighted average number of common shares outstanding	168,282,997	88,620,186	168,299,718	87,653,800

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

Gryphon Gold Corporation
Consolidated Statements of Changes in Stockholder s Equity
(Unaudited) (Stated in US Dollars)

	Common stock Shares #	Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, March 31, 2010	**86,033,774**	**$ 86,034**	**$ 39,585,228**	**$ (35,202,910)**	**$ 4,468,352**
Shares issued:					
For private placements	7,964,429	7,964	1,500,593		1,508,558
Option consideration	1,500,000	1,500	268,500		270,000
Consultant compensation	550,000	550	125,950		126,500
Share issue costs			(104,729)		(104,729)
Settlement of accounts payable	436,929	437	59,563		60,000
Fair value of restricted stock units granted	275,000	275	41,923		42,198
Fair value of options granted			142,212		142,212
Exercise of warrants	223,500	224	46,712		46,935
Net loss for the period				(2,747,891)	(2,747,891)
Balance, March 31, 2011	**96,983,632**	**96,984**	**41,665,952**	**(37,950,801)**	**3,812,135**
Shares issued:					
For public offering	89,060,000	89,060	10,979,302		11,068,362
Exercise of option to reduce royalty	7,726,250	7,726	1,073,949		1,081,675
Share issue costs			(13,177)		(13,177)
Public offering costs			(1,466,723)		(1,466,723)
Fair value of options granted			98,652		98,652
Fair value of warrants issued on debt			339,882		339,882
Net loss for the period				(1,387,922)	(1,387,922)
Balance, September 30, 2011	**193,769,882**	**$ 193,770**	**$ 52,677,837**	**$ (39,338,723)**	**$ 13,532,884**

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

Gryphon Gold Corporation
Consolidated Statements of Cash Flows
(Unaudited) (Stated in US dollars)

	Six months ended September 30, 2011	Six months ended September 30, 2010
OPERATING ACTIVITIES		
Net loss for the period	$ (1,387,922)	$ (1,204,896)
Items not involving cash:		
Depreciation	17,642	27,622
Asset retirement obligation accretion	16,996	-
Write down of accrued liability	-	(124,008)
Share based compensation	98,651	99,210
Amortization of debt offering costs	65,409	-
Amortization of notes payable discount	69,376	
Non-cash interest expense on discontinued operations		10,364
Unrealized gain on foreign exchange	31,099	-
Realized (gain) on sale of securities	-	(28,521)
Unrealized (gain) on sale of securities		104,293
Gain on sale of discontinued operations	-	(653,949)
Changes in non-cash working capital items:		
Accounts receivable	(26,998)	29,960
Accounts payable and accrued liabilities	363,297	(313,857)
Inventories	(638,184)	-
Prepaid expenses	(263,838)	(10,040)
Cash provided by (used) in operating activities	(1,654,472)	(2,063,822)
INVESTING ACTIVITIES		
Reclamation bonds purchased	(2,033,500)	(54,578)
Option payment received	-	100,000
Purchase of equipment	(595,618)	(58,307)
Payments on construction in progress	(5,567,464)	-
Deposits on ADR plant	(620,703)	
Cash received from sale of discontinued operations	-	2,250,000
Mineral property expenditures	(79,512)	(11,003)
Option payment to amend and reduce royalty	(175,000)	(150,000)
Proceeds from sales of held for trading securities	-	116,195
Proceeds from note receivable	2,975	4,757
Cash used in investing activities	(9,068,822)	2,197,064
FINANCING ACTIVITIES		
Proceeds from notes payable	3,169,514	-
Shares and warrants issued for cash net of offering costs	11,068,362	200,000
Share issue costs	(13,177)	(12,486)
Public offering costs	(1,185,444)	-
Debt offering costs	(405,520)	-
Cash provided by financing activities	12,633,735	187,514
Effect of foreign exchange on cash	(31,099)	-

Increase in cash during the period		1,879,342		320,756
Cash, beginning of period		837,457		937,056
Cash, end of period	**$**	**2,716,799**	**$**	**1,257,812**

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

Gryphon Gold Corporation
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 has historically reported as an exploration and development company. On June 6, 2011, the Company began constructing an oxide heap leach mine and related processing facility on its Borealis property (the Borealis Oxide Heap Leach Project). During to the period ended September 30, 2011, the Company commenced mining operations, and management has determined the Company is no longer in the exploration/development stage. Accordingly, the Company has ceased its financial reporting in accordance with Accounting Standards Codification (ASC) 915 Development Stage Entities, during the three months ended September 30, 2011.

Going Concern

The audit opinion for the Company s financial statements for the fiscal year ended March 31, 2011 includes a going concern qualification. During the quarter ended June 30, 2011, the Company was successful in raising a net of $9,869,741 in cash from financing activities, and in the quarter ended September 30, 2011, the Company added an additional $3,169,514 in cash from a debt financing and as of September 30, 2011, had cash on hand of $2,716,799. These funds are earmarked to complete the construction of the Company s Borealis Oxide Heap Leach Project and the Adsorption, Desorption, Recovery Plant (the ADR). Additional financing will be required to complete the ADR and provide working capital until cash from sales of gold begins to flow to the Company. Management is conducting negotiations with multiple parties to obtain the needed financing. If future revenues do not result in positive cash flow, and management is unable to raise additional capital, the Company will not be able to meet its obligations and may have to suspend or cease operations. No assurance can be given that the Company will be successful in achieving profitability, generating positive cash flow or raising additional capital through placements of debt or equity The Company has an accumulated deficit of $39,338,723 as at September 30, 2011, ($37,950,801 as at March 31, 2011), and without positive operating cash flow or additional financing, the Company does not have sufficient cash on hand to fund normal operations for the next twelve months. These conditions raise substantial doubt about the Company s ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of amounts shown for mineral property interests in the Company s consolidated balance sheets is 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 properties. The timing of such events occurring, if at all, is not yet determinable. 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.

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 six month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2012.

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, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loss per share

Loss per common share is determined based on the weighted average number of common shares outstanding during the period. 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.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Loss per share, continued:

In addition, 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.

Fair value measurements

Accounting principles require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1: applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2: applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3: applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Our financial instruments consist principally of cash, reclamation bond, long-term debt and notes payable. The table below sets forth our assets and liabilities measured at fair value, on a recurring basis and the fair value calculation input hierarchy level that management has determined applies to each asset and liability category.

	Balance September 30, 2011		Balance March 31, 2011		Input Hierarchy level
Cash and cash equivalents	$	2,716,799	$	837,457	Level 1
Reclamation bonds	$	2,259,393	$	225,893	Level 1

The long-term debt and notes payable, less discount, are measured on a recurring basis and their fair values approximated their carrying amount at September 30, 2011.

Inventories

Ore on Heap Leach Inventory

The Company records gold in process, gold doré and gold in concentrate form at average cost, less provisions required to reduce inventory to market value. Average cost is calculated based on the cost of inventory at the beginning of a period, plus the cost of inventory produced in a period. Costs capitalized to in process and finished goods inventory include the cost of ore processed; direct and indirect materials and consumables; direct labor; repairs and maintenance; utilities; amortization of property, plant and equipment; and local mine administrative expenses.

Supplies Inventory

Mine operating supplies are recorded at the lower of purchase cost or market value. The Company records provisions to reduce inventory to net realizable value to reflect changes in economic factors that impact inventory value or to reflect present intentions for the use of slow moving and obsolete supplies inventory.

Reclassifications

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

Gryphon Gold Corporation
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 six months ended September 30, 2010; Nevada Eagle s results have been classified and presented as Discontinued Operations.

4. INVENTORIES

The recovery of gold and silver from certain oxide ores is achieved through the heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution, which dissolves the gold or silver contained in the ore. The resulting pregnant solution is further processed in a plant where gold and silver are recovered. For accounting purposes, costs are added to ore on leach pads based on current mining and leaching costs, including applicable depreciation, depletion and amortization relating to mining operations. Costs are removed from ore on leach pads as ounces are recovered based on the average cost per recoverable ounce of gold or silver on the leach pad.

Estimates of recoverable gold or silver on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tons added to the leach pads), the grade of ore placed on the leach pads (based on assay data) and an estimated recovery percentage (based on ore type). Although the quantities of recoverable gold or silver placed on the leach pads are reconciled by comparing the grades of ore placed on pads to the quantities of gold or silver actually recovered (metallurgical balancing), the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is regularly monitored and estimates are refined based on actual results over time.

Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis. The ultimate recovery of gold or silver from a leach pad will not be known until the leaching process is concluded. The quantification of ore inventory on the leach pad is based on estimates of the quantities of gold or silver at each balance sheet date that the Company expects to recover during the next 12 months.

At September 30, 2011, our inventories were as follows:

		September 30, 2011
Ore inventory on leach pad	$	483,088
Supplies inventory		155,096
Total inventory costs	**$**	**638,184**

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

During the six months ended September 30, 2011, the Company acquired assets in connection with the construction of the Borealis Heap Leach Oxide Project. The Company also began construction of the ADR plant through the debt financing that was completed on July 27, 2011.

September 30, 2011	Cost	Accumulated Depreciation	Net Book Value
Mineral properties	$ 7,448,501	$ -	7,448,501
Borealis asset retirement obligation	2,004,173	-	2,004,173
Plant	167,114	-	$ 167,114
Equipment	769,288	249,165	520,123
Construction in progress	6,764,525	-	6,764,525
Property, plant and equipment total costs	**$ 17,153,601**	**$ 249,165**	**$ 16,904,436**

The majority of these assets will be amortized using units of production once place in service

March 31, 2011	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 340,963	$ 231,702	$ 109,261
Mineral properties	2,651,069	-	2,651,069
Property, plant and equipment total costs	**$ 2,992,032**	**$ 231,702**	**$ 2,760,330**

On June 6, 2011, the Company commenced construction of Phase 1A of the Borealis Oxide Heap Leach Project, of which $6,764,525 was incurred during the six months ended September 30, 2011. The majority of construction of Phase 1A was completed late in the second quarter. Construction activities included building a new leach pad, barren and pregnant solution ponds, carbon columns, roads and infrastructure. Direct costs of materials, labor, equipment and supplies used in construction activities are capitalized during the period they are incurred. Additionally, certain indirect costs are capitalized during the period. Interest expense of $164,902 was capitalized during the period ended September 30, 2011 in construction in progress.

6. RECLAMATION BONDS

At September 30, 2011 and March 31, 2011, reclamation bonds and deposits were as follows:

	September 30, 2011	March 31, 2011
Reclamation bonds & deposits	$ 2,259,393	$ 225,893
Total	**$ 2,259,393**	**$ 225,893**

On September 30, 2011 the Company had $2,250,385 (March 31, 2011 - $216,885) on deposit to support performance bonds with the United States Forest Service. The Company also has a deposit with the Bureau of Land Management (BLM) for $9,008 (March 31, 2011 - $9,008), which partially supports its potential future obligations for reclamation during the Company s exploration activities within the BLM area. The United States Forest Service reclamation bonds were increased during the six months ended September 30, 2011, by $2,033,500. This bond is required in connection with the construction of the Borealis Oxide Heap Leach Project and perform infill drilling.

9

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

7. NOTES PAYABLE

On July 27, 2011, the Company closed a $3.17 million debt offering of units (Units) of the company (the Offering). The Offering was led by Acumen Capital Finance Partners Limited in Canada and by Roth Capital Partners in the United States. Each Unit consists of $1,000 CAD principal amount of 10% secured subordinated debentures maturing July 28, 2012 (the "Debentures") and 1,500 warrants (the "Warrants"). Each Warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.20 USD per share. The Warrants expire on January 27, 2013.

The Debentures bear interest from the date of issue at 10.0% per annum, payable quarterly on March 31, June 30, September 30 and December 31, commencing on September 30, 2011. The Debentures will mature 12 months from the closing date of the Offering. Acumen and Roth Capital were paid a cash commission of 6% of the gross proceeds of the Offering and received 112,500 warrants each exercisable at a price of $0.20 USD per share. The Warrants expire on January 27, 2013.

The fair value of the warrants issued to note holders and brokers was $383,670, which was calculated using Black-Scholes model with a risk free interest rate of 0.30%, volatility of 86.59%, 549 days expected term and an exercise and market price of $0.20 per share. This valuation was recorded as a discount to the notes payable and will be amortized over the twelve-month term of the notes and as at September 20, 2011 $69,376 had been amortized and charged to interest expense.

8. DEBT OFFERING COSTS

The debt offering costs in connection with the notes payable [See Note 7] totaled $405,520 paid in cash, of which $43,788 was accounted for in additional paid in capital, netting $361,732 in debt offering costs. These costs will be amortized over the twelve-month term of the notes and as at September 30, 2011, $65,409 was amortized and charged to interest expense.

9. ASSET RETIREMENT OBLIGATION

At September 30, 2011, and March 31, 2011, our asset retirement obligation was as follows:

	Six months ended September 30, 2011	Year ended March 31, 2011
Asset retirement obligation , beginning of period	$ 51,300	-
Incurred	1,928,733	$ 48,254
Accretion	20,042	3,046
Additions and changes in estimates	24,140	-
Settlements	-	-
Asset retirement obligation, end of period	**$ 2,024,215**	**$ 51,300**

The asset retirement obligation at March 31, 2011 was calculated based on responsibilities the Company had to reclaim certain disturbed acreage relating to exploration on the Borealis property. The asset retirement obligation at September 30, 2011 includes the Company s estimate of reclamation costs for Phase 1A of the Borealis Heap Leach Project. The estimated reclamation and abandonment costs were discounted using credit adjusted, risk-free interest rates ranging from 2% to 4% from the time the Company incurred the obligation to the time it is expected to pay the retirement obligation.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

10. OPTION TO REDUCE ROYALTY

Effective May 20, 2011, the Company exercised the option to fix the Net Smelter Return (NSR) royalty on its Borealis property at 5%. In August 2008, Gryphon and its wholly-owned subsidiary, Borealis Mining Company, entered into an option agreement with the lessors of the Borealis property to amend the mining lease for the Borealis Property to fix the gold price based sliding scale royalty at a 5% Net Smelter Royalty.

Under the terms of the option agreement, as amended, Gryphon exercised the option by paying the lessors aggregate consideration of $7,000,000 (less the $250,000 previously paid by Gryphon to the lessors upon execution of the option agreement) as follows:

(a) $150,000 in cash;

(b) 7,726,500 shares of common stock at an agreed value of $0.40 per share (an agreed value of $3,090,500, and a fair value of $1,081,675 based on the market price of the Company s common shares at the date the option was exercised);

(c) 5% promissory notes in the aggregate principal amount of $1,600,000, due May 20, 2013, with installment payments due upon commencement of production on the Borealis property; and

(d) 5% convertible notes in the aggregate principal amount of $1,909,500, due May 20, 2014, convertible into shares of Gryphon common stock at $0.70 per share through May 20, 2012, $0.80 per share through May 20, 2013 and $0.90 per share through May 20, 2014.

Accordingly, at September 30, 2011 and at March 31, 2011, the Company s mineral properties include the following payments made to the Borealis Property lessors:

		Six months ended September 30, 2011		Year ended March 31, 2011
Balance, beginning of period	$	760,903	$	560,903
Cash paid		175,000		200,000
Promissory notes payable		1,600,000		-
Convertible notes payable		1,909,500		-
Common stock issued		1,081,675		-
Balance, end of period	**$**	**5,527,078**	**$**	**760,903**

11. LONG TERM DEBT

In connection with the exercise of the option to reduce the royalty [note 10], the Company entered into a series of convertible and promissory notes.

Promissory notes

The promissory notes bear interest at 5% per annum payable monthly. Principal installments are due monthly, commencing on the date in which Borealis Mining is required to commence production royalty payments. Payments on the notes are interest only until production commences. All unpaid principal and accrued interest, if any, is due and payable on May 21, 2013. The aggregate balance due on the notes as of September 30, 2011 is $1,600,000 and interest payable of $6,575 was paid on October 1, 2011.

Convertible notes

The convertible notes bear interest at 5% per annum payable monthly. Monthly payments on the notes are interest only for a period of 12 months from the commencement of the construction of the mine. Subsequent to the twelvemonth period, the notes are payable in monthly installments of principal and interest. All unpaid principal and accrued interest, if any, is due and payable on May 21, 2014. The aggregate balance due on the notes as of September 30, 2011 is $1,909,500 and interest payable of $7,847 was paid on October 1, 2011.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

12. 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 May 20, 2011, the Company issued 7,726,250 common shares in connection with the exercise of the option to reduce the royalty [Note 10]. The shares were valued at $1,081,675, which was based upon the market value of the shares on the date of exercise.

On May 24, 2011, the Company issued 89,060,000 common shares in connection with a public offering for net cash proceeds of $9,601,639, after offering costs of $1,466,723.

[b] Warrants:

The following table summarizes information about warrants outstanding and exercisable as at September 30, 2011:

Warrants Outstanding and Exercisable

Warrants	**Avg Remaining Life in Years**		**Exercise Price**	**Expiry Date**
5,448,677	0.4	$	0.25	February 18, 2012
732,215	0.7	$	0.21	June 16, 2012
3,250,000	1.2	$	0.30	January 21, 2013
4,725,000	1.2	$	0.20	January 27, 2013
2,226,500	2.1	$	0.30	November 13, 2013
16,382,392	**1.1**	**$**	**0.25**	

[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. The Company s total employees are relatively few in number and turnover is considered minimal, therefore the Company currently estimates forfeitures to be 20%. Estimate of forfeitures is reviewed on a quarterly basis. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

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

		Three months ended September 30, 2011		**Three months ended September 30. 2010**		**Six months ended September 30, 2011**		**Six months ended September 30, 2010**
Management salaries	$	80,143	$	59,071	$	91,330	$	99,210
Consulting expense		-		-		7,321		-
Total	$	80,143	$	59,071	$	98,651	$	99,210

Stock option activity

The following table summarizes the Company s stock option activity (excluding options issued a consultant, above) for the six months ended September 30, 2011:

	Number of Stock Options	Weighted Average Exercise Price	
Outstanding, April 1, 2011	4,917,500	$	0.42*
Granted	1,655,000	$	0.26
Forfeited	(245,000)	$	0.83*
Total outstanding at September 30, 2011	**6,327,500**	**$**	**0.35***
Vested and exercisable at September 30, 2011	**5,086,250**	**$**	**0.35***

** Based on the September 30, 2011 exchange rate of Cdn$1 equals US$0.954.*

During the six months ended September 30, 2011 the total value of options granted was $313,522 of which $97,534 was expensed.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

12. CAPITAL STOCK, CONTINUED:

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:

	Six months ended September 30, 2011	**Six months Ended September 30, 2010**
Dividend yield	0%	0%
Expected volatility	87%-112%	99% -119%
Risk free interest rate	0.31%-0.78%	0.52% -1.62%
Expected lives	1.5-3 years	2-3 years

The risk-free interest rate was 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 was based on the stock option s exercise price and expected annual dividend rate at the time of grant. Volatility was 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 Company uses a Black-Scholes option-pricing model for fair value measurement of options. This model was independently 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 (RSUs):

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.

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 September 30, 2011:

	RSUs Granted	**RSUs Vested**	**RSUs Forfeited**	**RSUs Cancelled and Cash in lieu of issued**	**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	650,000	488,750	118,750	42,500		Cdn$0.82
Issued September 6, 2007	154,170	154,170				Cdn$0.77
Issued September 20, 2010	275,000	275,000			$	0.16
Outstanding at September 30, 2011 .	**1,116,170**	**940,920**	**132,750**	**42,500**		

All issued restricted stock units have vested.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

13. COMMITMENTS & CONTINGENCIES

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make advanced royalty payments of $9,869, 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 was and 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 two year term. The following are the remaining rental lease commitments in relation to the office leases:

		September 30,
FY2012	$	60,165
FY2013		107,130
FY2014		67,447
FY2015		9,907
Total	**$**	**244,649**

[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.

14. SUBSEQUENT EVENTS

Mining operations and properties in the United States are subject to regulation by the Federal Mine Safety and Health Administration (MSHA) under the Federal Mine Safety and Health Act of 1977 (the Mine Act). Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), issuers are required to disclose specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During our fiscal quarter ended September 30, 2011, the Company had no such specified health and safety violations, orders or citations, and paid no penalties to the MSHA and there were no legal actions, mining-related fatalities, or similar events in relation to the Company s United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act.

On October 22, 2011, a worker was injured at the Borealis oxide gold heap leach worksite. The Company took immediate actions to mitigate risks of future actions and terminated 3 employees, who failed to comply with mine safety regulations at Borealis. On November 2, 2011, MSHA inspected our Borealis operation following the accident and issued the Company three Section 104(a) citations and three Section 104(d) citations. Section 104(a) citations, include citations for health or safety standards that could significantly and substantially contribute to a serious injury if left unabated, and Section 104(d) citations, include citations for unwarrantable failure to comply with mandatory health or safety standards. When the MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the alleged violation, that the operator is ordered to pay. No such penalty or fine has yet been proposed. Citations and orders can be contested and appealed, and as part of that process, are often reduced in severity and amount, and are sometimes dismissed.

Gryphon Gold Corporation
Notes to Consolidated Financial Statements (Unaudited)

15. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the six months ended September 30, 2011 and 2010, the Company engaged in the following non-cash investing and financing activities:

		September 30, 2011	September 30, 2010
Issuance of 7,726,500 shares at a fair value of $0.14 per share related to exercise of the option to fix the royalty at 5%	$	1,081,675	-
Promissory and convertible notes issued related to exercise of the option to fix the royalty at 5%		3,509,500	-
Capitalized construction in progress purchased with accounts payable		1,197,060	
Debt offering costs paid by issuing 18-month warrants at a grant date exercise price of $0.20 per warrant		383,670	