GRYPHON GOLD CORP
Form S-1/A
April 28, 2011

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As filed with the Securities and Exchange Commission on April 27, 2011

File No. 333-172083

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

Form S-1/A
(Amendment No. 2)

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
GRYPHON GOLD CORPORATION
(Exact name of registrant as specified in its charter)

Nevada	**1041**	**92-0185596**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

611 N. Nevada Street
Carson City, Nevada 89703
(604) 261-2229

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Dorsey & Whitney LLP
1400 Wewatta Street
Suite 400
x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions 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 ¨ (Do not check if a smaller reporting company)	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 ¨ No x

The registrant had 54,963,008 shares of common stock, $0.001 par value, outstanding as of July 31, 2010.

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DOT HILL SYSTEMS CORP.

FORM 10-Q

For the Quarter Ended June 30, 2010

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Part I. Financial Information

Item 1. Financial Statements

DOT HILL SYSTEMS CORP.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)

	December 31, 2009	June 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 57,574	$ 42,636
Accounts receivable, net	34,197	35,524
Inventories	4,333	7,727
Prepaid expenses and other assets	5,314	5,957
Total current assets	101,418	91,844
Property and equipment, net	3,616	3,934
Intangible assets, net	3,029	8,624
Goodwill		4,140
Other assets	217	443
Total assets	$ 108,280	$ 108,985
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 28,411	$ 28,124
Accrued compensation	3,602	3,586
Accrued expenses	4,220	4,474
Deferred revenue	1,217	1,675
Restructuring accrual	1,697	2,429
Bank borrowings and current portion of long-term note payable	261	3,068
Total current liabilities	39,408	43,356
Long-term note payable	346	210
Other long-term liabilities	2,175	1,463
Total liabilities	41,929	45,029
Commitments and Contingencies (Note 11)		
Stockholders Equity:		
Preferred stock, $.001 par value, 10,000 shares authorized, no shares issued and outstanding at December 31, 2009 and June 30, 2010		
Common stock, $.001 par value, 100,000 shares authorized, 48,952 and 54,907 shares issued and outstanding at December 31, 2009 and June 30, 2010, respectively	49	55
Additional paid-in capital	303,841	313,740

Accumulated other comprehensive loss	(3,439)	(3,478)
Accumulated deficit	(234,100)	(246,361)
Total stockholders equity	66,351	63,956
Total liabilities and stockholders equity	$ 108,280	$ 108,985

See accompanying notes to unaudited condensed consolidated financial statements.

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DOT HILL SYSTEMS CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
NET REVENUE	$ 54,328	$ 65,493	$ 108,217	$ 125,467
COST OF GOODS SOLD	46,358	55,824	90,986	107,673
GROSS PROFIT	7,970	9,669	17,231	17,794
OPERATING EXPENSES:				
Research and development	6,934	8,447	14,086	16,220
Sales and marketing	2,519	3,379	5,085	6,740
General and administrative	2,473	2,225	5,242	5,301
Restructuring charge	326	1,413	411	1,702
Total operating expenses	12,252	15,464	24,824	29,963
OPERATING LOSS	(4,282)	(5,795)	(7,593)	(12,169)
OTHER INCOME:				
Interest income, net	42	4	115	7
Other (income) expenses, net	13	(8)	(7)	(15)
Total other income (expense), net	55	(4)	108	(8)
LOSS BEFORE INCOME TAXES	(4,227)	(5,799)	(7,485)	(12,177)
INCOME TAX EXPENSE	(39)	35	(6)	84
NET LOSS	$ (4,188)	$ (5,834)	$ (7,479)	$ (12,261)
NET LOSS PER SHARE:				
Basic and diluted	$ (0.09)	$ (0.11)	$ (0.16)	$ (0.23)
WEIGHTED AVERAGE SHARES USED TO CALCULATE NET LOSS PER SHARE:				
Basic and diluted	46,952	53,246	46,836	52,397
COMPREHENSIVE LOSS:				
Net loss	$ (4,188)	$ (5,834)	$ (7,479)	$ (12,261)
Foreign currency translation adjustment	(36)	(46)	90	(39)

Comprehensive loss	$ (4,224)	$ (5,880)	$ (7,389)	$ (12,300)

See accompanying notes to unaudited condensed consolidated financial statements.

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DOT HILL SYSTEMS CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2010
Cash Flows From Operating Activities:		
Net loss	$ (7,479)	$ (12,261)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,437	1,999
Provision for bad debt reserve	264	
Adjustment to contingent consideration		(285)
Stock-based compensation expense	1,553	1,763
Changes in operating assets and liabilities:		
Accounts receivable	11,216	(1,147)
Inventories	4,410	(3,327)
Prepaid expenses and other assets	545	(809)
Accounts payable	(9,268)	(875)
Accrued compensation and other expenses	(903)	(1,698)
Deferred revenue	(68)	458
Restructuring accrual	(193)	732
Other long-term liabilities	(351)	(459)
Net cash provided by (used in) operating activities	1,163	(15,909)
Cash Flows From Investing Activities:		
Acquisition, net of cash acquired		(625)
Purchases of property and equipment	(1,078)	(655)
Net cash used in investing activities	(1,078)	(1,280)
Cash Flows From Financing Activities:		
Principal payment of note and loan payable	(123)	(904)
Proceeds from bank borrowings		2,800
Proceeds from sale of stock to employees, exercise of stock options and other	277	334
Net cash provided by financing activities	154	2,230
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(15)	21
Net Increase (Decrease) in Cash and Cash Equivalents	224	(14,938)
Cash and Cash Equivalents, beginning of period	56,850	57,574
Cash and Cash Equivalents, end of period	$ 57,074	$ 42,636
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Common stock issued in connection with acquisition	$	$ 8,132
Capital assets acquired but not paid	$ 281	$ 249

See accompanying notes to unaudited condensed consolidated financial statements.

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DOT HILL SYSTEMS CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of Dot Hill Systems Corp. (referred to herein as Dot Hill, we, our or us) contained herein are unaudited and in the opinion of management contain all adjustments (consisting only of normal recurring adjustments, except for revisions made to our accrued restructuring liability) necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and with the instructions to Securities and Exchange Commission, or SEC, Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and disclosures required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for future quarters or the year ending December 31, 2010.

Use of Accounting Estimates

The preparation of our financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. The accounting estimates that require management s most significant and subjective judgments include revenue recognition, inventory valuation, the valuation and recognition of stock-based compensation expense, and the valuation of long-lived assets, goodwill and other intangibles, as well as any other assets and liabilities acquired and accounted for under the purchase method of accounting for business combinations. In addition, we have other accounting policies that involve estimates such as the determination of useful lives of long-lived assets, warranty reserves, accruals for restructuring and valuation allowance for deferred tax assets. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Concentration of Customers

A majority of our net revenue is derived from a limited number of customers. We currently have two customers that each account for more than 10% of our total net revenue: Hewlett Packard, or HP; and NetApp, Inc., or NetApp. Our agreements with our original equipment manufacturers, or OEM, partners do not contain any minimum purchase commitments, do not obligate our OEM partners to purchase their storage solutions exclusively from us and may be terminated at any time upon notice from the applicable partner.

We have experienced a decline in net revenue from Sun Microsystems, or Sun, primarily due to the products reaching the end of their lifecycle. We do not expect to generate significant net revenue from Sun in future periods.

A small number of customers account for a significant percentage of our net revenue. Net revenue by major customer is as follows (as a percentage of total net revenue):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
Sun	5%	0%	9%	0%
HP	51%	58%	47%	54%
NetApp	24%	27%	24%	29%
Other customers less than 10%	20%	15%	20%	17%
Total	100%	100%	100%	100%

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update or ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements , or ASU 2009-13. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence, or VSOE, if available, third-party evidence, or TPE, if VSOE is not available, or estimated selling price, or ESP, if neither VSOE nor TPE is available.

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Concurrently to issuing ASU 2009-13, the FASB also issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements , or ASU 2009-14. ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product s functionality.

We early adopted the provisions of ASU 2009-13 and ASU 2009-14 as of the beginning of fiscal 2010 for new and materially modified deals originating after January 1, 2010. The adoption of these provisions did not materially affect the results of operations for the three and six months ended June 30, 2010 and would not have materially impacted previously reported results had the adoption been applied retrospectively. We are not able to reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary based on the nature and volume of new or materially modified revenue transactions in any given period.

In March 2010, the FASB ratified a consensus of the FASB Emerging Issues Task Force that recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development arrangements. This consensus would require its provisions be met in order for an entity to recognize consideration that is contingent upon achievement of a substantive milestone as revenue in its entirety in the period in which the milestone is achieved. In addition, this consensus would require disclosure of certain information with respect to arrangements that contain milestones. This authoritative guidance is effective for interim and annual reporting periods on or after June 15, 2010 and will be effective for Dot Hill in the third quarter of fiscal 2010. Dot Hill is evaluating the potential impact of the implementation of this authoritative guidance on its consolidated financial statements.

2. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period and including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding warrants, stock options, share based compensation awards and other dilutive securities. No such items were included in the computation of diluted loss per share in the three and six months ended June 30, 2009 or 2010 because we incurred a net loss in each of these periods and the effect of inclusion would have been anti-dilutive.

As of June 30, 2009, options to purchase 6,266,395 shares of common stock with exercise prices ranging from $0.47 to $16.36 per share, 1,433,728 shares of unvested restricted stock awards, and a warrant to purchase 1,602,489 shares of common stock at a price of $2.40 per share, were outstanding, but were not included in the calculation of diluted net loss per share because their effect was anti-dilutive.

As of June 30, 2010 options to purchase 6,805,743 shares of common stock with exercise prices ranging from $0.47 to $16.36 per share, 1,645,920 shares of unvested restricted stock awards, and a warrant to purchase 1,602,489 shares of common stock at a price of $2.40 per share, were outstanding, but were not included in the calculation of diluted net loss per share because their effect was anti-dilutive.

3. Inventories

The components of inventories consist of the following (in thousands):

	December 31, 2009	June 30, 2010
Purchased parts and materials	$ 2,095	$ 7,089
Finished goods	2,238	

and/or operations. This is particularly the case in respect of those portions of the Borealis Property in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

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

There are differences in U.S. and Canadian practices for reporting reserves and resources.

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

Our reserve and resource estimates disseminated outside the United States are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC. In the United States, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will

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ever be converted into reserves. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report resources as in place tonnage and grade without reference to unit measures.

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

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

Mines have limited lives based on proven and probable mineral reserves that are depleted in the course of production. To ensure continued viability we must offset depleted reserves by replacing and expanding our mineral reserves, through further exploration at existing properties and/or the acquisition of new properties. Even if additional reserves are discovered, the process from exploration to production can take many years, during which the economic feasibility of production may change. Therefore, our ability to maintain or increase annual production of gold and other base or precious metals once the Borealis Property is restarted, if at all, will be dependent almost entirely on our ability to bring new mines into production.

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

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of

2002, we have furnished a report by management on our internal control over financial reporting in our annual report on Form 10-K for the year ended March 31, 2010. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective.

We are currently a smaller reporting company as defined under the rules and regulations of the SEC, and therefore, do not have to provide an auditor s report on the effectiveness of such internal control over financial reporting pursuant to recent changes to Section 404 of the Sarbanes-Oxley Act of 2002. However, if we lose our status as a smaller reporting company in the future, we would be required in our annual report on Form 10-K for the following fiscal year to provide an attestation report from our auditors on the effectiveness of such internal control over financial reporting.

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

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

Risks Related To Our Securities

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

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

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

In the event that your investment in our shares

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

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

Our historic stock price has been volatile and purchasers of our common stock could incur substantial losses.

Historically, our stock price has been volatile. The stock market in general, particularly recently, has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell our common stock at or above their respective purchase prices. The market price for our common stock may be influenced by many factors, including, but not limited to, variations in our financial results or those of companies that are perceived to be similar to us, investors perceptions

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of us, the number of our shares available in the market, future sales of our common stock and securities convertible into our common stock, and general economic, industry and market conditions. In addition, in the past two to three years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our Company, and these fluctuations could materially reduce our share price and cause you to lose all or part of your investment. Further, in the past, market fluctuations and price declines in a company s stock have led to securities class action litigations. If such a suit were to arise, it could have a substantial cost and divert our resources regardless of the outcome.

CAUTIONARY STATEMENT REGARDING

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concern our anticipated results and developments in our operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of our management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as expects or does not expect , is expected , antici 2010

Net revenue	$ 109,156	$ 125,544
Net loss	$ (10,840)	$ (12,247)
Basic and diluted net loss per share	$ (0.21)	$ (0.23)

5. Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, notes payable, bank borrowings and certain other long-term liabilities. The carrying values on our balance sheet of our cash and cash equivalents, accounts receivable, accounts payable and bank borrowings approximate their fair values due to their short maturities. The carrying value on our balance sheet of our notes payable approximates its fair value as our credit-adjusted interest rate continues to represent a market participant rate. Payments under the note are due in equal monthly installments over a 42 month period and commenced in October 2008 and end in March 2012. We have therefore excluded these financial instruments from the table below.

The carrying amounts and fair values of certain other long-term liabilities as of December 31, 2009 and June 30, 2010 were as follows (in thousands):

	December 31, 2009		June 30, 2010	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Liabilities:				
Ciprico contingent consideration	$ 421	$ 390	$ 126	$ 131

We estimated the fair value of Ciprico contingent consideration using a discounted cash flows approach and incorporated our credit risk for the liability measurement. The current portion of the Ciprico contingent consideration is classified within accrued expenses and the non-current portion is classified within Other long-term liabilities on our consolidated balance sheets.

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6. Intangible Assets

Identifiable intangible assets are as follows (in thousands):

	December 31, 2009			
	Estimated Useful Life	Gross	Accumulated Amortization	Net
RaidCore technology	4 years	$ 4,256	$ (1,350)	$ 2,906
NAS technology	3 years	214	(91)	123
Total intangible assets		$ 4,470	$ (1,441)	$ 3,029

	June 30, 2010			
	Estimated Useful Life	Gross	Accumulated Amortization	Net
RaidCore technology	4 years	$ 4,256	$ (1,883)	$ 2,373
NAS technology	3 years	214	(127)	87
Software	5 years	6,375	(378)	5,997
Trade name	7 years	181	(14)	167
Total intangible assets		$ 11,026	$ (2,402)	$ 8,624

Amortization expense related to intangible assets totaled $0.3 million, $0.6 million, $0.6 million and $1.0 million for the three and six months ended June 30, 2009 and 2010, respectively.

Estimated future amortization expense related to intangible assets as of June 30, 2010 is as follows (in thousands):

2010 (Remaining 6 months)	$ 1,043
2011	2,063
2012	1,724
2013	947
2014	947
Thereafter	1,900
Total	$ 8,624

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7. Goodwill

The changes in the carrying amount of goodwill are as follows (in thousands):

	Storage Systems	Standalone Storage Software	Total
Balance as of January 1, 2010			
Goodwill	$ 40,700	$	$ 40,700
Accumulated impairment losses	(40,700)		(40,700)
Goodwill acquired during the six months ended June 30, 2010		4,140	4,140
Impairment losses			
Balance as of June 30, 2010			
Goodwill	40,700	4,140	44,840
Accumulated impairment losses	(40,700)		(40,700)
	$	$ 4,140	$ 4,140

We review goodwill for impairment on an annual basis at November 30 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. There were no indicators that our goodwill was impaired at June 30, 2010.

8. Product Warranties Activity

We generally extend to our customers the warranties provided to us by our suppliers and, accordingly, the majority of our warranty obligations to customers are intended to be covered by corresponding supplier warranties. For warranty costs not covered by our suppliers, we provide for estimated warranty costs in the period the revenue is recognized. There can be no assurance that our suppliers will continue to provide such warranties to us in the future or that our warranty obligations to our customers will be covered by corresponding warranties from our suppliers, which could have a material adverse effect on our operating results and financial condition.

In the first half of 2010, we experienced quality issues associated with certain components provided by one of our suppliers that required us to make substantial repairs. Our supplier has agreed to reimburse us for the costs of the replacement parts and related damages. However, the magnitude of potential damages is currently unknown and to the extent that our supplier cannot or does not continue to reimburse us for any and all damages incurred by us or our customers we could incur material amounts of warranty claims and expenses.

Estimated liabilities for product warranties are included in accrued expenses. Our warranty cost activity is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
Balance, beginning of period	$ 1,425	$ 1,056	$ 1,560	$ 993
Charged to operations	323	704	876	1,529
Deductions for costs incurred	(579)	(527)	(1,267)	(1,289)
Balance, end of period	$ 1,169	$ 1,233	$ 1,169	$ 1,233

9. Restructuring Charge

In December 2008, our management approved, committed to, and initiated a restructuring plan, or the 2008 Plan to improve efficiencies in our operations, which was largely driven by our plan to consolidate our facility in Carlsbad, California into the Longmont, Colorado facility. As a result of this relocation, we terminated approximately 70 California employees whose positions have been relocated to Colorado and incurred approximately $1.5 million in severance-related costs, all of which has been recognized since the plan inception through June 30, 2010. Accrued severance-related costs are recorded in the restructuring accrual line on our consolidated balance sheets. With the exception of future minimum lease payments relating to the Carlsbad, California facility, we anticipate the remainder of the restructuring costs will be paid out during the third quarter of 2010.

As part of the 2008 Plan, we also incurred contract termination costs of $2.8 million since the plan inception through June 30, 2010. In the second quarter of 2010, we incurred additional contract termination costs of $0.8 million for facility lease costs that we continue to incur without economic benefit, as we exited an additional portion of our Carlsbad facility and revised our assumptions regarding the timing and amount of tenant sublease income. We have recorded charges for contract termination costs as restructuring expense, which is presented as a separate component within operating expenses. Accrued contract termination costs are recorded in the restructuring accrual line on our consolidated balance sheets. We expect to pay the majority of these contract lease termination costs over the remainder of the lease term ending in April 2013. Based on our revised estimates, we expect we will receive sublease income of approximately $0.9 million beginning in the first quarter of 2011 through the remainder of the lease term. To the extent that we are unable to find a tenant to sublease our unused space or if we do not sublease our unused space at a price per square foot that approximates our current estimate, we may incur additional cash restructuring charges up to the $0.9 million of sublease income we currently expect to receive.

All of the 2008 Plan activity relates to our storage systems operating segment.

The following table summarizes our 2008 Plan activities (in thousands):

2008 Plan

	Severance and Related Costs	Contract Termination and Other Associated Costs	Total
Accrued restructuring balance as of 12/31/09	$ 439	$ 1,258	$ 1,697
2008 restructuring plan charges	233	860	1,093
Cash payments	(295)	(517)	(812)
Accrued restructuring balance as of 6/30/10	$ 377	$ 1,601	$ 1,978

Also in the second quarter of 2010, our management approved, committed to, and initiated a restructuring and cost reduction plan, or the 2010 Plan, to better align our resources in order to lower our breakeven point. The 2010 Plan includes severance and related costs for the reduction of approximately 10% of our workforce, and fees associated with the acceleration of the closure of our Carlsbad, California facility. As a result of these actions, we intend to terminate approximately 27 employees located in the United States. We expect to incur approximately $0.4 million in severance-related costs, the majority of which was recognized in the second quarter of 2010. Accrued severance-related costs are recorded in the restructuring accrual line on our consolidated balance sheets. With the exception of future minimum lease payments relating to the Carlsbad, California facility, we anticipate the remainder of the restructuring costs will be paid out during the third and fourth quarters of 2010.

As part of the 2010 Plan, we also incurred contract termination costs of $0.2 million in the second quarter of 2010 for facility lease costs that we continue to incur without economic benefit, as we exited the remaining portion of our Carlsbad, California facility. We have recorded charges for contract termination costs as restructuring expense, which is presented as a separate component within operating expenses. Accrued contract termination costs are recorded in the restructuring accrual line on our consolidated balance sheets. We expect to pay the majority of these contract lease termination costs over the remainder of the lease term ending in April 2013. Based on our revised estimates, we expect we will receive sublease income of approximately $0.1 million beginning in the first quarter of 2011 through the remainder of the lease term. To the extent that we are unable to find a tenant to sublease our unused space or if we do not sublease our unused space at a price per square foot that approximates our current estimate, we may incur additional cash restructuring charges up to the $0.1 million of sublease income we currently expect to receive.

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The majority of the 2010 Plan activity relates to our storage systems operating segment.

The following table summarizes our 2010 Plan activities (in thousands):

2010 Plan

	Severance and Related Costs	Contract Termination and Other Associated Costs	Total
Accrued restructuring balance as of 12/31/09	$	$	$
2010 restructuring plan charges	349	153	502
Cash payments	(51)		(51)
Accrued restructuring balance as of 6/30/10	$ 298	$ 153	$ 451

We also incurred additional severance-related restructuring charges of approximately $0.1 million in the first quarter of 2010 related to the termination of a former employee of Cloverleaf. All of the severance-related costs were paid to this employee in the first quarter of 2010.

10. Credit Facilities

We maintain a credit facility with Silicon Valley Bank for cash advances and letters of credit of up to an aggregate of $30 million based upon an advance rate of 85% of eligible accounts receivable. The credit agreement expires three years from its effective date, or in the third quarter of 2011. Borrowings under the credit facility bear interest at the prime rate and are secured by substantially all of our accounts receivable, deposit and securities accounts. The agreement provides for a negative pledge on our inventory and intellectual property, subject to certain exceptions, and contains usual and customary covenants for an arrangement of its type, including an obligation that we maintain at all times a net worth, as defined in the agreement, of $50 million (subject to certain increases). The agreement also includes provisions to increase the financing facility by $20 million subject to our meeting certain requirements, including $40 million in borrowing base for the immediately preceding 90 days, and Silicon Valley Bank locating a lender willing to finance the additional facility. In addition, if our cash and cash equivalents net of the total amount outstanding under the credit facility fall below $20 million (measured on a rolling three-month basis), the interest rate will increase to prime plus 1% and additional restrictions will apply. Our credit facility also provides for a cash management services sublimit under the revolving credit line of up to $300,000. As of June 30, 2010 we had an outstanding letter of credit issued to our contract manufacturer in China in the amount of $5.0 million and had outstanding cash advances or borrowings of approximately $2.8 million.

11. Commitments and Contingencies

We may be involved in certain legal actions and claims from time to time arising in the ordinary course of business. Management believes that the outcome of such litigation and claims will likely not have a material adverse effect on our financial condition or results of operations.

12. Segment Information

Primarily as a result of our acquisition of Cloverleaf in January 2010, as well as our ongoing strategic development, planning and evaluation, we changed the structure of our internal organization to focus on our storage systems and standalone software products. As a result, we now have two operating segments, which include storage systems and standalone storage software. Our storage hardware operating segment consists predominantly of our business prior to the acquisition of Cloverleaf. Our standalone storage software operating segment consists primarily of the business we acquired from Cloverleaf and the intellectual property assets we purchased from Ciprico Inc., or Ciprico.

All prior period amounts have been adjusted to reflect the new operating segment structure.

The Chief Operating Decision Maker, or CODM, is our President and Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss).

The CODM does not evaluate operating segments using discrete asset information. Although the CODM uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. The accounting policies Dot Hill uses to derive operating segment results are substantially the same as those the consolidated company uses.

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Description of Segments

Storage Systems

We offer a flexible broad line of networked data storage solutions composed of standards-based hardware and embedded software for open systems environments including Fiber Channel, or FC, Internet Small Computer Systems Interface, or iSCSI, and Serial Attached SCSI, or SAS, storage markets. We incorporate many of the performance attributes and other features demanded by high-end/data center end-users into our products. Our end-users consist of entry-level and midrange users, requiring cost-effective, easily managed, high-performance, reliable storage systems. Our product lines range from approximately 146 gigabyte, or GB, to complete 192 terabyte, or TB, storage systems. These offerings allow our products to be integrated in a modular building block fashion or configured into a complete storage solution, increasing OEM flexibility in creating differentiated products. Modular products also allow our OEM partners to customize solutions, bundling our products with value-added hardware, software and services.

Our storage systems segment products and services are sold worldwide to facilitate server and storage area network, or SAN, storage implementations, primarily through OEMs, and supplemented by system integrators, or SIs, distributors and value added resellers, or VARs.

Stand Alone Storage Software

Dot Hill s new heterogeneous storage virtualization products or iSN provide a multi-vendor storage solution for growing enterprise and high performance computing needs. Providing both unified storage and advanced storage virtualization features, up to two petabytes of storage can be managed and protected both locally and remotely, supporting both network attach server, or NAS, file and storage area network, or SAN, block services under one integrated storage management interface.

Our Virtual RAID Adapter, or VRA, technology, or RAIDCore, was purchased in 2008 from Ciprico Inc. This product is a host-based software RAID solution that offers data protection services and a single RAID driver, RAID management and BIOS for multiple controller types, and allows volume server OEMs or ODMs to offer built-in, RAID functionality without the expense of a dedicated RAID-on-chip acceleration device.

Net revenue and operating loss were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
Storage Systems net revenue	$ 54,328	$ 65,201	$ 108,217	$ 125,017
Standalone Storage Software net revenue		366		602
Total segment net revenue	54,328	65,567	108,217	125,619
Elimination of intersegment net revenue		(74)		(152)
Total Dot Hill consolidated net revenue	54,328	65,493	108,217	125,467
Storage Systems operating loss	(3,259)	(3,217)	(5,557)	(7,624)
Standalone Storage Software operating loss	(1,023)	(2,578)	(2,036)	(4,545)
Total operating loss	(4,282)	(5,795)	(7,593)	(12,169)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Statement for Forward-Looking Information

Certain statements contained in this quarterly report on Form 10-Q, including, statements regarding the development, growth and expansion of our business, our intent, belief or current expectations, primarily with respect to our future operating performance and the products we expect to offer, and other statements regarding matters that are not historical facts, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the safe harbor created by these sections. Because such forward-looking statements are subject to risks and uncertainties, many of which are beyond our control, actual results may differ materially from those expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements can be found in Part II, Item 1A, Risk Factors and in our reports filed with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2009. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

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The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in the preceding pages in this quarterly report on Form 10-Q and our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

We are a provider of entry-level and midrange storage systems and enterprise server software for organizations requiring high reliability, high performance networked storage and data management solutions in an open systems architecture. Our storage solutions consist of integrated hardware, firmware and software products employing a modular system that allows end-users to add various capacity or data protection schemes as needed. Our broad range of products, from medium capacity stand-alone storage units to complete multi-terabyte storage area networks, or SANs, provide end-users with a cost-effective means of addressing increasing storage demands without sacrificing performance. Our current product family based on our Rapid Evolution, or R/Evolution, architecture provides high performance and large disk array capacities for a broad variety of environments, employing Fibre Channel, or FC, Internet Small Computer Systems Interface, or iSCSI or Serial Attached SCSI, or SAS, interconnects to switches and/or hosts. In addition, our Assured family of data protection software products provides additional layers of data protection options to complement our line of storage disk arrays. Our replacement products for the legacy SANnet II products, the 2000 series, have been distinguished by compliance with Network Equipment Building System, or NEBS, Level 3 (a telecommunications standard for equipment used in central offices) and are MIL-STD-810F (a military standard created by the U.S. government) compliant based on their ruggedness and reliability. In 2010, we launched a new line of products to address the need for higher speed storage which is delivered with faster controller processors, as well as 8Gb Fibre Channel and 6Gb SAS host connections and are targeted primarily at mainstream enterprise and small-to-medium businesses, or SMB, applications.

As a result of our ongoing strategic development, planning and evaluation, we are expanding our software offerings. Our investment in bringing software products to market will require significant future investment and development on our part, which will impact our cash and operating results until we generate sufficient revenues to recover our investment.

As part of this strategic development, in January 2010, we acquired Cloverleaf, a privately held software company focused on heterogeneous storage virtualization and unified storage technologies. The acquisition of Cloverleaf could broaden our market opportunities and help accelerate our transition from a provider of storage arrays to a provider of storage solutions and software. The Cloverleaf acquisition also provided us with a new team of software developers and other professionals located in Israel. The Cloverleaf Intelligent Storage Networking System, or iSN , is an intelligent, network resident, storage network management system that provides a combination of benefits, features and capabilities targeted at meeting the demands of mid to large-sized data centers. The iSN incorporates architecture that delivers linear scalability, strong fault tolerance and high levels of availability. The iSN s open software is integrated with off the shelf hardware components and provides interoperability and networking technology flexibility.

Our Virtual RAID Adapter, or VRA, technology, or RAIDCore was purchased in 2008 from Ciprico Inc. This product is a host-based software RAID solution that offers data protection services and a single RAID driver, RAID management and BIOS for multiple controller types, and allows volume server OEMs or ODMs to offer built-in, RAID functionality without the expense of a dedicated RAID-on-chip acceleration device.

We will continue to evaluate acquisition opportunities in the future.

We are also expanding our routes to market beyond our focus on OEMs, and in October of 2009, we launched a Dot Hill channel program targeted at selling through distributors and open storage partners, or OSPs. We believe this will provide Dot Hill with additional sales channels for all of our products.

Our agreements with our customers do not contain any minimum purchase commitments and may be terminated at any time upon notice from the applicable customer. Our ability to achieve profitability will depend on, among other things, the level and mix of orders we actually receive from such customers, the actual amounts we spend on marketing support, the actual amounts we spend for inventory support and incremental internal investment, our ability to reduce product cost, our product lead time, our ability to meet delivery schedules required by our customers, the quality of our products and the economic environment.

Our products and services are sold worldwide to facilitate server and SAN storage implementations, primarily through original equipment manufacturers, or OEMs, and supplemented by system integrators, or SIs, distributors and value added resellers, or VARs. Our OEM channel partners currently include, among others, Hewlett-Packard, or HP, NetApp, Inc., or NetApp, Motorola, Inc., or Motorola, Lockheed Martin Corporation, or Lockheed Martin, Fujitsu Technology Solutions GmbH, or FTS, and Oracle, formerly Sun Microsystems, or Sun. Although our products and services are sold worldwide, the majority of our net revenue is derived from our U.S. operations.

We began shipping products to HP in the fourth quarter of 2007. In January 2008, we amended our agreement with HP to allow for sales to additional divisions within HP. Our products are primarily sold within HP s MSA product line, which includes our Series 2000 products and next generation of Series 3000 products released in the first quarter of 2010. The agreement with HP does not contain any minimum purchase commitments and the term of the agreement was extended from one to five years. Net revenue from HP approximated 58% and 54% of our total net revenue during the three and six months ended June 30, 2010.

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Pursuant to our Development and OEM Supply Agreement with NetApp, we designed and developed general purpose disk arrays for a variety of products to be sold under private label by NetApp. We began shipping products to NetApp under the agreement for general availability in the third quarter of 2007, and net revenue from NetApp increased significantly during 2008. Net revenue from NetApp decreased slightly in 2009 primarily as a result of general economic conditions. Net revenue from NetApp approximated 27% and 29% of our total net revenue during the three and six months ended June 30, 2010. Under our agreement with NetApp, NetApp has the right to manufacture and sell, on a royalty and royalty-free basis, up to certain specified percentages of the products we currently manufacture and sell to them. The percentage of products that NetApp can elect to manufacture and sell on a royalty and royalty-free basis increases through April 1, 2011. On April 1, 2011 and thereafter, they have the right to manufacture and sell on a royalty-free basis all of the products we currently manufacture and sell to them. If NetApp were to exercise their rights to manufacture such products on a royalty or royalty-free basis and we are unable to identify an alternative source of revenue and margin to replace the reduced revenue and margin currently associated with such products, our financial results could be materially harmed.

We have experienced a decline in net revenue from Sun primarily due to the products reaching the end of their lifecycle. Net revenue from Sun was less than 1% of our total net revenue during the three and six months ended June 30, 2010. We do not expect to generate significant net revenue from Sun in future periods.

In addition, the demand for our products has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector, current general economic volatility and trends in the data storage markets in various geographic regions;

the inability of certain of our customers who depend on credit to have access to their traditional sources of credit to finance the purchase of products from us, particularly in the current global economic environment, which may lead them to reduce their level of purchases or to seek credit or other accommodations from us;

the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory; and

The introduction of new products by us or our competitors, including products with price and/or performance advantages.

For these and other reasons, our net revenue and results of operations in 2010 and prior periods may not necessarily be indicative of future net revenue and results of operations.

Our strategy includes outsourcing substantially all of our manufacturing to third-party manufacturers in order to reduce sales cycle times and manufacturing infrastructure, enhance working capital and improve margins by taking advantage of the third parties manufacturing and procurement economies of scale. We have historically outsourced substantially all of our manufacturing operations to Flextronics International Limited, or Flextronics MiTAC International Corporation, or MiTAC and SYNNEX Corporation, or SYNNEX. In September 2008, we entered into a manufacturing agreement with Foxconn Technology Group, or Foxconn. Under the terms of the agreement, Foxconn supplies us with manufacturing, assembly and test services from its facilities in China and final integration services including final assembly, testing and configure-to-order services, through its worldwide facilities. The agreement provides for an initial three-year term that is automatically renewed at the end of such three-year term for additional one-year terms unless and until the agreement is terminated by either party. Foxconn began manufacturing products for us in July 2009 and we began shipping products for general availability under the Foxconn agreement during the second half of 2009. A larger percentage of our products have been and are expected to continue to be manufactured by Foxconn in 2010.

We derive the majority of our net revenues primarily from sales of our Series 2000, 3000 and 5000 family of products and we are continuing to transition SANnet II customers to this family of products.

Cost of goods sold includes costs of materials, subcontractor costs, salary and related benefits for the production and service departments, depreciation of equipment used in the production and service departments, production facility rent and allocation of overhead as well as manufacturing variances and freight.

Sales and marketing expenses consist primarily of salaries and commissions, advertising and promotional costs and travel expenses.

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Research and development expenses consist primarily of project-related expenses and salaries for employees directly engaged in research and development.

General and administrative expenses consist primarily of compensation to officers and employees performing administrative functions, expenditures for administrative facilities as well as expenditures for legal and accounting services and fluctuations in currency valuations.

Other income is comprised primarily of interest income earned on our cash and cash equivalents and other miscellaneous income and expense items.

In December 2008, our management approved, committed to, and initiated a plan, or the 2008 Plan, to restructure and improve efficiencies in our operations. The restructuring was due to a combination of factors, primarily driven by the economic downturn, but also driven by our plan to consolidate a significant portion of our facilities in Carlsbad, California into the Longmont, Colorado facility. With the exception of contract lease termination costs that we will continue to make over the remainder of the Carlsbad facility lease term ending in April 2013, we have largely completed the activities related to the 2008 Plan as of June 30, 2010.

In the second quarter of 2010, our management approved, committed to, and initiated a restructuring and cost reduction plan, or the 2010 Plan, to better align our resources in order to lower our breakeven point. The 2010 Plan includes severance and related costs for the reduction of approximately 10% of our workforce, and fees associated with the acceleration of the closure of our Carlsbad, California facility. We expect to complete our 2010 Plan workforce reductions in the third quarter of 2010 and we completely exited our Carlsbad facility as of June 30, 2010.

Critical Accounting Policies and Estimates

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Except as noted below, management believes that there have been no significant changes during the three and six months ended June 30, 2010 to the items that we disclosed as our critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Revenue Recognition

We early adopted the provisions of ASU 2009-13 and ASU 2009-14 as of the beginning of fiscal 2010 for new and materially modified sales transactions originating after January 1, 2010. The adoption of these provisions did not materially affect our results of operations for the three and six months ended June 30, 2010. However, as our software sales increase, we will be required to make significant estimates including determining if our software is essential to the tangible product s functionality, establishing separate units of accounting in multiple element arrangements and, if applicable, allocating arrangement consideration to each deliverable based on estimates of the relative selling price.

Valuation of Goodwill

We perform an assessment of our goodwill for impairment annually at November 30, or more frequently if we determine that indicators of impairment exist. Our impairment review process compares the fair value of each reporting unit to its carrying value. All of our goodwill at June 30, 2010 has been assigned to our Israel reporting unit, which is a subset of our standalone storage software operating segment. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit s goodwill must be determined and compared to the carrying value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded.

We expect to utilize both a market approach and an income approach (discounted cash flows) to estimate the fair value of our reporting units.

Under the market approach, we expect to estimate the fair value of our reporting units using an in-exchange valuation premise based upon the market capitalization of Dot Hill using quoted market prices, adding an estimated control premium, and then assigning that fair market value to the reporting units. The most significant estimates and assumptions under the market approach are expected to be estimating an appropriate control premium and allocating the estimated enterprise fair value to each of our reporting units.

Under the income approach, we expect to estimate the fair value of our reporting units based on the present value of estimated future cash flows. The most significant estimates and assumptions under the income approach are expected to be future cash flows, discount rates, period of cash flows and the determination of terminal value.

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Business Combinations

We allocate the purchase price of acquired companies to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. The significant purchased intangible assets recorded by us include acquired software, developed technologies and a trade name.

Critical estimates in valuing certain intangible assets include but are not limited to: future expected cash flows from acquired software and developed technologies; expected costs to internally develop acquired software, as well as assumptions about the period of time that acquired software, developed technologies and an acquired trade name will continue to be used and generate cash flows; and discount and royalty rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Results of Operations

The following table sets forth certain items from our statements of operations as a percentage of net revenue for the periods indicated (percentages may not aggregate due to rounding):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold:				
Product cost of goods sold	85.3	84.4	84.1	85.0
Amortization of intangible assets		0.8		0.8
Total cost of goods sold:	85.3	85.2	84.1	85.8
Gross profit	14.7	14.8	15.9	14.2
Operating expenses:				
Research and development	12.8	12.9	13.0	12.9
Sales and marketing	4.6	5.2	4.7	5.4
General and administrative	4.6	3.4	4.8	4.2
Restructuring charge	0.6	2.2	0.4	1.4
Total operating expenses	22.6	23.7	22.9	23.9
Operating loss	(7.9)	(8.8)	(7.0)	(9.7)
Other income, net	0.1		0.1	
Loss before income taxes	(7.8)	(8.8)	(6.9)	(9.7)
Income tax expense (benefit)	(0.1)	0.1		0.1

Net loss	(7.7)%	(8.9)%	(6.9)%	(9.8)%

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Three and Six Months Ended June 30, 2009 Compared to the Three and Six Months Ended June 30, 2010

Net Revenue

	Three Months Ended June 30,			
	2009	2010	Increase	% Change
	(in thousands, except percentages)			
Net Revenue	$ 54,328	$ 65,493	$ 11,165	20.6%

	Six Months Ended June 30,			
	2009	2010	Increase	% Change
	(in thousands, except percentages)			
Net Revenue	$ 108,217	$ 125,467	$ 17,250	15.9%

The increase in net revenue for the three and six months ended June 30, 2010 was substantially due to an increase in sales to HP. Sales to HP totaled $37.7 million for the three months ended June 30, 2010 compared to $27.9 million for the three months ended June 30, 2009 and $67.8 million for the six months ended June 30, 2010 compared to $50.5 million for the six months ended June 30, 2009. The increase in HP net revenue is due to the growth in the HP MSA product line, which includes our Series 2000 products and Series 3000 products. Our Series 2000 products are in the maturity phase of the product life cycle, however, demand remains strong. We released our next generation Series 3000 products in the first quarter of 2010 and sales of these products increased significantly in the second quarter of 2010.

In addition, sales to NetApp increased during the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 based on the success of NetApp s FAS 2000 product line. Sales to NetApp totaled $17.7 million for the three months ended June 30, 2010 compared to $13.1 million for the three months ended June 30, 2009 and $35.9 million for the six months ended June 30, 2010 compared to $25.7 million for the six months ended June 30, 2009. However, under our agreement with NetApp, NetApp has the right to manufacture and sell, on a royalty and royalty-free basis, up to certain specified percentages of the products we currently manufacture and sell to them. The percentage of products that NetApp can elect to manufacture and sell on a royalty and royalty-free basis increases through April 1, 2011. On April 1, 2011 and thereafter, they have the right to manufacture and sell on a royalty-free basis all of the products we currently manufacture and sell to them. If NetApp were to exercise their rights to manufacture such products on a royalty or royalty-free basis and we are unable to identify an alternative source of revenue and margin to replace the reduced revenue and margin currently associated with such products, our financial results could be materially harmed.

Network Engines Inc., or NEI, sales increased to $1.5 million for the three months ended June 30, 2010 from $0.4 million for the three months ended June 30, 2009 and to $4.8 million for the six months ended June 30, 2010 from $1.1 million for the six months ended June 30, 2009. The increase in NEI net revenue is due to NEI becoming the contract manufacturer for Sepaton Inc. and as a result of better global economic conditions in the first half of 2010 compared to the first half of 2009.

We also expanded our routes to market and launched a channel sales program in the fourth quarter of 2009 targeted at selling our products through distributors and OSP s. Channel sales approximated 3% of net revenue for both the three and six months ended June 30, 2010.

These increases were partially offset by a decrease in net revenue from Sun, FTS, and other smaller customers. Sun sales decreased to $0.1 million for the three months ended June 30, 2010 compared to $2.5 million for the three months ended June 30, 2009 and to $0.5 million for the six months ended June 30, 2010 compared to $9.3 million for the six months ended June 30, 2009. The decline in Sun net revenue is due to the products we sell to Sun reaching the end of their product life cycle. FTS sales decreased to $0.8 million for the three months ended June 30, 2010 compared to $3.6 million for the three months ended June 30, 2009 and to $1.7 million for the six months ended June 30, 2010 compared to $6.9 million for the six months ended June 30, 2009. The decrease in net revenue from FTS is due to its decision to internally source the product we sell to FTS. We also experienced declines in sales to other smaller customers primarily as a result of product transition.

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Cost of Goods Sold and Gross Profit

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Cost of Goods Sold	$ 46,358	85.3%	$ 55,824	85.2%	$ 9,466	20.4%
Gross Profit	$ 7,970	14.7%	$ 9,669	14.8%	$ 1,699	21.3%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Cost of Goods Sold	$ 90,986	84.1%	$ 107,673	85.8%	$ 16,687	18.3%
Gross Profit	$ 17,231	15.9%	$ 17,794	14.2%	$ 563	3.3%

Cost of goods sold increased for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 primarily as a result of an increase in sales; however, gross profit margin increased to 14.8% from 14.7% for these same periods. Although we experienced a more favorable mix of product sales during the three months ended June 30, 2009, as a higher percentage of our sales were to Sun and a lower percentage of our sales were to HP and Net App, we did incur a $0.7 million inventory reserve charge during the second quarter of 2009, which resulted in a lower gross profit. Partially offsetting the increase in gross profit during the three months ended June 30, 2010 compared to the three months ended June 30, 2009 were higher amortization expense, which increased $0.5 million due to the inclusion of Ciprico amortization in cost of goods sold as a result of the RAIDCore product now generating revenue and the additional amortization resulting from the Cloverleaf acquisition. Prior to 2010, Ciprico amortization was included in research and development expense.

Gross profit margin for the six months ended June 30, 2010 approximated 14.2% compared to 15.9% for the six months ended June 30, 2009. The decrease in gross profit margin was primarily due to product mix, as the products we sell to HP and NetApp typically have a higher product cost and a lower gross profit than the products we sell to Sun. Sales to HP and NetApp approximated 83% of our net revenues for the six months ended June 30, 2010 compared to 71% of our net revenues for the six months ended June 30, 2009 while sales to Sun were less than 1% of our net revenue for the six months ended June 30, 2010 compared to 9% of net revenues for the six months ended June 30, 2009. We expect that the mix of products we sell, in particular, the products we sell to HP and NetApp, will continue to affect our cost of goods sold and gross profit margin. For example, sales of products to HP have higher gross margins than sales of products to NetApp. Therefore, a higher percentage of sales to HP compared to NetApp will have a positive effect on our gross margin. Conversely, a higher percentage of sales to NetApp compared to HP will have a negative effect on our gross margin.

Also contributing to the decrease in gross profit were higher amortization expense and freight costs for the six months ended June 30, 2010 compared to the same period in 2009. Freight costs increased as a result of the increase in revenue and overall shipment volume as well as from expedite charges.

Research and Development Expenses

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Research and Development Expenses	$ 6,934	12.8%	$ 8,447	12.9%	$ 1,513	21.8%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Research and Development Expenses	$ 14,086	13.0%	$ 16,220	12.9%	$ 2,134	15.1%

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Research and development expense increased $1.5 million to $8.4 million for the three months ended June 30, 2010 compared to $6.9 million for the three months ended June 30, 2009. This increase was primarily due to an increase in salaries and payroll related expenses of $0.9 million, an increase in consulting costs of $0.4 million, an increase in engineering materials and tooling related expenses of $0.3 million, and an increase in facilities and depreciation expense of $0.2 million. These increases were partially offset by a decrease in Ciprico intangible asset amortization expense of $0.3 million as the RAIDCore product is now generating revenue. The increase in salary and payroll related expenses is primarily a result of an increase in employees engaged in research and development activities, most of which were associated with the Cloverleaf acquisition. Consulting costs increased primarily as a result of certain engineering functions being performed by consultants in India, which commenced in the second quarter of 2009, and an increase in the use of domestic engineering consultants to assist with certain strategic development projects. The increase in engineering materials and tooling related expenses was primarily the result of new product development activities. The increase in facilities and depreciation expense was largely the result of the Cloverleaf acquisition and also due to additional capital expenditures for our Longmont engineering labs.

Research and development expense increased $2.1 million to $16.2 million for the six months ended June 30, 2010 compared to $14.1 million for the six months ended June 30, 2009. This increase was primarily due to an increase in salaries and payroll related expenses of $1.5 million, an increase in consulting costs of $0.8 million, an increase in facilities and depreciation expense of $0.4 million and increases in various other items such as travel, rental equipment and training programs, which approximated $0.2 million. Salaries and payroll related expenses, consulting costs and facilities and depreciation costs increased for the same reasons as outlined above. These increases were partially offset by a decrease in Ciprico intangible asset amortization expense of $0.5 million. In addition, during the first quarter of 2010, we determined it was probable that the amount of contingent consideration due to Ciprico would be lower based on lower actual and projected sales of products eligible for the contingent consideration through the end of the contingent consideration period. Accordingly, we reduced the contingent consideration liability and research and development expense in the statement of operations to reflect the $0.3 million reduction in estimated contingent consideration liability.

Sales and Marketing Expenses

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Sales and Marketing Expenses	$ 2,519	4.6%	$ 3,379	5.2%	$ 860	34.1%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Sales and Marketing Expenses	$ 5,085	4.7%	$ 6,740	5.4%	$ 1,655	33%

Sales and marketing expense increased $0.9 million to $3.4 million for the three months ended June 30, 2010 compared to $2.5 million for the three months ended June 30, 2009. This increase was primarily due to an increase in salaries and payroll related expenses of $0.4 million, an increase in customer-related evaluation product expenses of $0.2 million, an increase in marketing and promotional materials of $0.2 million and increases in other items such as travel, professional services and consulting costs, which approximated $0.1 million. The increase in salary and payroll related expenses is primarily a result of an increase in employees engaged in sales and marketing activities, as we launched a Dot Hill channel program targeted at selling through distributors and OSPs in the second half of 2009. Customer-related valuation product expenses and marketing and promotional materials increased due to the introduction of our new Series 3000 and the newly acquired products from Cloverleaf.

Sales and marketing expense increased $1.7 million to $6.7 million for the six months ended June 30, 2010 compared to $5.1 million for the six months ended June 30, 2009. This increase was primarily due to an increase in salaries and payroll related expenses of $0.7 million, an increase in customer-related evaluation product expenses of $0.5 million, an increase in marketing and promotional materials of $0.2 million, an increase in travel expenses of $0.1 million and increases in other items such as trade shows, professional services and consulting costs, which approximated $0.2 million. Salaries and payroll related costs, customer-related evaluation product expenses, marketing and promotional expensed materials increased for the same reasons as outlined above. The increase in travel expenses was primarily the result of an increase in headcount and customer visits.

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General and Administrative Expenses

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase (Decrease)	% Change
	(in thousands, except percentages)					
General and Administrative Expenses	$ 2,473	4.6%	$ 2,225	3.4%	$ (248)	-10.0%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
General and Administrative Expenses	$ 5,242	4.8%	$ 5,301	4.2%	$ 59	1.1%

General and administrative expenses decreased $0.2 million to $2.2 million for the three months ended June 30, 2010 compared to $2.5 million for the three months ended June 30, 2009. This decrease was primarily attributable to foreign currency gains of $0.3 million and a reduction in professional services fees of $0.2 million. The foreign currency gains were primarily the result of the strengthening of the United States dollar compared to the Euro. The reduction in professional services fees were primarily the result of negotiating lower fees with many of our administrative service providers. These decreases were partially offset by an increase in salaries and payroll related expenses of $0.2 million, which increased primarily as a result of duplicative personnel to insure an effective transition of certain of our administrative functions to Longmont, Colorado from Carlsbad, California.

General and administrative expenses increased $0.1 million to $5.3 million for the six months ended June 30, 2010 compared to $5.2 million for the six months ended June 30, 2009. This increase was primarily attributable to an increase in salaries and payroll related expenses of $0.4 million, travel expenses of $0.1 million and consulting fees of $0.1 million. Salaries and payroll related expenses, travel expenses and consulting fees increased primarily as a result of the transition of certain of our administrative functions to Longmont, Colorado from Carlsbad, California. These increases were partially offset by foreign currency gains of $0.5 million as a result of the strengthening of the United States dollar compared to the Euro.

Restructuring Charge

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Restructuring Charge	$ 326	0.6%	$ 1,413	2.2%	$ 1,087	333.4%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(in thousands, except percentages)					
Restructuring Charge	$ 411	0.4%	$ 1,702	1.4%	$ 1,291	314.1%

The increase in restructuring charges for the three months and six months ended June 30, 2010 is primarily the result of $0.8 million of additional contract termination costs incurred in the second quarter of 2010 related to our 2008 Plan for facility lease costs that we continue to incur without economic benefit, as we exited an additional portion of our Carlsbad facility and revised our assumptions regarding the timing and amount of tenant sublease income. In addition, in the second quarter of 2010, our management approved, committed to, and initiated the 2010 Plan to better align our resources in order to lower our breakeven point. The 2010 Plan includes severance and related costs for the reduction of approximately 10% of our workforce, and fees associated with the acceleration of the closure of our Carlsbad, California facility. As a result of these actions we incurred a restructuring charge of $0.5 million under our 2010 Plan, of which $0.3 million related to severance and related costs and $0.2 million related to contract termination costs.

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Other Income, net

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	(Decrease)	% Change
	(in thousands, except percentages)					
Other Income/(loss), net	$ 55	0.1%	$ (4)	0.0%	$ (59)	-107.3%

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	(Decrease)	% Change
	(in thousands, except percentages)					
Other Income/(loss), net	$ 108	0.1%	$ (8)	0.0%	$ (116)	-107.4%

The decrease in other income, net for the three and six months ended June 30, 2010 is primarily attributable to a decrease in interest income primarily due to declining interest rates and lower cash balances.

Income Taxes

We recorded an income tax provision of $0.0 million for the three months ended June 30, 2009, $0.0 million for the three months ended June 30, 2010, $0.0 million for the six months ended June 30, 2009 and $0.1 million for the six months ended June 30, 2010. Our effective income tax rate differs from the U.S. federal statutory rate primarily due to our U.S. and foreign deferred tax asset valuation allowance position, foreign taxes and state taxes.

Liquidity and Capital Resources

The primary drivers affecting cash and liquidity are working capital requirements, net losses, and capital expenditures, as well as the acquisition of Cloverleaf in the first quarter of 2010. Historically, the payment terms we have had to offer our customers have been relatively similar to the terms received from our creditors and suppliers. We typically bill customers on an open account basis subject to our standard credit quality and payment terms ranging between net 30 and net 45 days. If our net revenue increases, it is likely that our accounts receivable balance will also increase. Our accounts receivable could further increase if customers delay their payments or if we grant extended payment terms to customers.

As of June 30, 2010, we had $42.6 million of cash and cash equivalents and $48.5 million of working capital. Cash equivalents include highly liquid investments purchased with an original maturity of 90 days or less and consist principally of money market funds. In addition, we had $3.1 million in short-term debt and $0.2 million in long-term debt at June 30, 2010, consisting of bank borrowings against our line of credit and a note payable issued in connection with the acquisition of certain intangible assets from Ciprico.

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2010 was $15.9 million compared to $1.2 million of cash provided by operations for the six months ended June 30, 2009. The operating activities that affected cash consisted primarily of increase in our net loss, which totaled $12.3 million for the six months ended June 30, 2010 compared to $7.5 million for the six months ended June 30, 2009. The increase in our net loss was primarily attributable to higher operating expenses as a result of the additional costs associated with the acquired Cloverleaf business, additional restructuring costs related to our 2008 Plan as well as our 2010 Plan, which was implemented in the second quarter of 2010 and lower interest income due to lower interest rates and cash balances. Partially offsetting the increase in our net loss was a higher gross profit, which was largely due to an increase in revenue and lower excess inventory charges.

The adjustments to reconcile net loss to net cash used in operating activities for the six months ended June 30, 2010 that did not affect cash consisted of depreciation and amortization of $2.0 million, stock-based compensation expense of $1.8 million, and a gain associated with an adjustment to our contingent consideration liability to Ciprico.

Cash flows from operations reflects the negative impact of $1.1 million related to an overall increase in accounts receivable, which was primarily due to higher net revenue in the second quarter of 2010 compared to the fourth quarter of 2009 and the timing of shipments during the quarter. Cash collection efforts remained strong as our days sales outstanding remained at 49 days for both of the three month periods ended June 30, 2010 and December 31, 2009. Cash flows from operations also reflects the negative impact of $3.3 million related to an overall increase in inventories at June 30, 2010 compared to December 31, 2009, as we had contractual purchase obligations for certain components with some of our contract manufacturing partners and we also built inventory related to the products we acquired from Cloverleaf and for service inventory requirements. In addition, cash flows from operations reflects the negative impact of a decrease in accounts payable of $0.9 million at June 30, 2010 compared to December 31, 2009 due to the timing of payments to our vendors. In particular, we made a $3.5 million early payment at the end of the second quarter to one of our suppliers to take advantage of better pricing terms in future periods.

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Additional uses of cash flows from operations include $0.8 million related to an increase in prepaid and other assets, which is primarily the result of an increase in other receivables from our contract manufacturing partners due to component parts we procured and shipped to them. We also used $1.7 million of cash from operations related to a decrease in accrued compensation and other expenses, which was the result of the payment of $1.4 million of accrued Cloverleaf liabilities assumed in the business combination, $0.5 million of various bonus program payments that were made in 2010 and the payment of $0.3 million for tax liabilities related to employee stock awards. This was partially offset by an increase in our accrued vacation liability of $0.4 million and an increase in our warranty accrual of $0.2 million. In addition, we used $0.5 million of cash from operations for long-term liabilities resulting from $0.2 million of amortization related to a customer prepayment and $0.3 million of deferred rent amortization.

Cash flows from operations include sources of cash of $0.5 million related to an increase in deferred revenue as we received up-front payments for engineering services and maintenance contracts. Additional sources of cash flows from operations include a net increase in our restructuring accrual of $0.7 million, which is primarily the result of $1.7 million of additional restructuring charges incurred during the six months ended June 30, 2010 for contract termination and severance costs partially offset by cash payments of $1.0 million. We expect to make future restructuring payments for severance of approximately $0.7 million during the remainder of 2010 and future restructuring payments for contract termination and other associated costs of approximately $1.8 million through the remainder of our Carlsbad, California lease term, which ends in April 2013.

Investing Activities

Cash used in investing activities for the six months ended June 30, 2010 was $1.3 million compared to $1.1 million for the six months ended June 30, 2009. Cash used in investing activities during the six month ended June 30, 2010 was due to the acquisition of Cloverleaf, net of cash acquired, of $0.6 million and purchases of $0.7 million of additional property and equipment primarily associated with engineering laboratory expansion and equipment as well as additional equipment for our newly acquired Cloverleaf business.

Financing Activities

Cash provided by financing activities for the six months ended June 30, 2010 was $2.2 million compared to $0.2 million for the six months ended June 30, 2009. Cash provided by financing activities for the six months ended June 30, 2010 is attributable to the drawdown of $2.8 million against our credit facility in the second quarter of 2010 and cash received from the sale of stock to employees under our employee stock purchase plan of $0.3 million. This was partially offset by a $0.7 million payment related to a Cloverleaf loan obligation and $0.2 million for the ongoing pay-down of our note payable associated with our 2008 acquisition of certain intangible assets from Ciprico.

Based on current macro-economic conditions and conditions in the state of the data storage systems markets, our own organizational structure and our current outlook for 2010, we presently expect our cash and cash equivalents will be sufficient to fund our operations, working capital and capital requirements for at least the next 12 months.

Cloverleaf s historical expenses have exceeded their net revenue, which is a trend we expect to continue in 2010. For example, Cloverleaf generated net revenue of $1.2 million and incurred a net loss of $3.9 million in 2009. In addition, our Cloverleaf business generated net revenue of $0.3 million and incurred a net loss of $2.7 million during the six months ended June 30, 2010. As a result, we expect that the acquisition of Cloverleaf will be dilutive to our results of operations and also result in a significant net cash outflow through the remainder of 2010 as we continue to invest in new product development. The amount of cash needed to support the business we acquired from Cloverleaf in 2010 will depend primarily on new customer installations, the timing of capital expenditures, product development costs and additional headcount needed to support customer requirements and improving the existing infrastructure of Cloverleaf s operations.

We generally extend to our customers the warranties provided to us by our suppliers and, accordingly, the majority of our warranty obligations to customers are intended to be covered by corresponding supplier warranties. There can be no assurance that our suppliers will continue to provide such warranties to us in the future or that our warranty obligations to our customers will be covered by corresponding warranties from our suppliers, which could have a material adverse effect on our operating results and financial condition. In the first half of 2010, we experienced quality issues associated with certain components provided by one of our suppliers that required us to make substantial repairs. Our supplier has agreed to reimburse us for the costs of the replacement parts and related damages. However, the magnitude of potential damages is currently unknown and to the extent that our supplier cannot or does not continue to reimburse us for any and all damages incurred by us or our customers we could incur material amounts of warranty claims and expenses.

The actual amount and timing of working capital and capital expenditures that we may incur in future periods may vary significantly and will depend upon numerous factors, including the timing and extent of net revenue and expenditures from our core business and strategic investments, including the acquisition of Cloverleaf, the overall level of net profits or losses, our ability to manage our relationships with our contract manufacturers, the potential growth or decline in inventory to support our customers, costs associated with product quality issues and the recovery, if any, of such costs by a supplier, the status of our relationships with key customers, partners and suppliers, the timing and extent of the introduction of new products and services, growth in operations and the economic environment.

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We maintain a credit facility with Silicon Valley Bank for cash advances and letters of credit of up to an aggregate of $30 million based upon an advance rate of 85% of eligible accounts receivable. The credit agreement expires three years from its effective date, or in the third quarter of 2011. Borrowings under the credit facility bear interest at the prime rate and are secured by substantially all of our accounts receivable, deposit and securities accounts. The agreement provides for a negative pledge on our inventory and intellectual property, subject to certain exceptions, and contains usual and customary covenants for an arrangement of its type, including an obligation that we maintain at all times a net worth, as defined in the agreement, of $50 million (subject to certain increases). The agreement also includes provisions to increase the financing facility by $20 million subject to our meeting certain requirements, including $40 million in borrowing base for the immediately preceding 90 days, and Silicon Valley Bank locating a lender willing to finance the additional facility. In addition, if our cash and cash equivalents net of the total amount outstanding under the credit facility fall below $20 million (measured on a rolling three-month basis), the interest rate will increase to prime plus 1% and additional restrictions will apply. Our credit facility also provides for a cash management services sublimit under the revolving credit line of up to $300,000. As of June 30, 2010 we had an outstanding letter of credit issued to our contract manufacturer in China in the amount of $5.0 million and had outstanding cash advances or borrowings of approximately $2.8 million.

Off Balance Sheet Arrangements

At June 30, 2010, we did not have any relationship with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance variable interest, or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we did not engage in trading activities involving non-exchange traded contracts. As a result, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have relationships and transactions with persons and entities that derive benefits from their non-independent relationship with us or our related parties except as disclosed herein.

Recent Accounting Pronouncements

Please see Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Risk

We place our cash equivalents with high-credit-quality financial institutions, investing primarily in money market accounts. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Our investment strategy generally results in lower yields on investments but reduces the risk to principal in the short term prior to these funds being invested in our business. Our interest income is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates can affect the interest earned on our cash equivalents. A 10% unfavorable change in the interest rate would not materially impact our June 30, 2010 balance sheet.

We have a line of credit agreement, which accrues interest on any outstanding balances at the prime rate. As of June 30, 2010, $2.8 million remained outstanding under this line. If we make additional borrowings under this line for extended periods of time, we will be exposed to interest rate risk on such debt.

Indicated changes in interest rates are based on hypothetical movements and are not necessarily indicative of the actual results that may occur. Future earnings and losses will be affected by actual fluctuations in interest rates.

Foreign Currency Exchange Rate Risk

We conduct a portion of our business in currencies other than the U.S. dollar, the currency in which our consolidated financial statements are reported. The most significant foreign currencies that subjected us to foreign currency exchange rate risk for the six months ended June 30, 2010 were the Euro, Japanese yen and the Israeli New Shekel. Correspondingly, our operating results could be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar. Although we continue to evaluate strategies to mitigate risks related to the effect of fluctuations in currency exchange rates, we will likely continue to recognize gains or losses from international transactions and foreign currency changes. Although foreign currency transaction gains and losses have not historically been material, we incurred $0.5 million in foreign currency transaction gains during the six months ended June 30, 2010, primarily resulting from the remeasurement process of certain of our European subsidiaries that maintain their books of record in a currency other than the functional currency. Future changes in foreign currency rates could adversely impact our operating results.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of June 30, 2010. On the basis of this review, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

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Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. *Legal Proceedings*

We may be involved in certain legal actions and claims from time to time arising in the ordinary course of business. Historically the outcome of such litigation and claims has not had a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

The following sets forth risk factors that may affect our future results, including certain revisions to the risk factors included in our annual report on Form 10-K for the fiscal year ended December 31, 2009. Our business, results of operations and financial condition may be materially and adversely affected due to any of the following risks. We face risks described but not limited to those detailed below. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. The trading price of our common stock could decline due to any of these risks. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this quarterly report on Form 10-Q, including our financial statements and related notes.

We are dependent on sales to a relatively small number of customers and a disruption in sales to any one of these customers could materially harm our financial results.

Our business is highly dependent on a limited number of OEM customers. For example, sales to HP accounted for 51% and 54% of our net revenues for the year ended December 31, 2009 and six months ended June 30, 2010, respectively. In addition, sales to NetApp accounted for 25% and 29% of our net revenues for the year ended December 31, 2009 and six months ended June 30, 2010, respectively. We expect HP and NetApp will each represent greater than 10% of our overall revenues for the year ending December 31, 2010. If our relationships with HP and NetApp or certain of our other OEM customers were disrupted or significantly cut back, we would lose a significant portion of our anticipated net revenue and our business could be materially harmed. We cannot guarantee that our relationship with HP, NetApp or our other OEM customers will expand or not otherwise be disrupted. For example, under our agreement with NetApp, NetApp has the right to manufacture and sell, on a royalty and royalty-free basis, up to certain specified percentages of the products we currently manufacture and sell to them. The percentage of products that NetApp can elect to manufacture and sell on a royalty and royalty-free basis increases through April 1, 2011. On April 1, 2011 and thereafter, they have the right to manufacture and sell on a royalty-free basis all of the products we currently manufacture and sell to them. If NetApp were to exercise their rights to manufacture such products on a royalty or royalty-free basis and we are unable to identify an alternative source of revenue and margin to replace the reduced revenue and margin currently associated with such products, our financial results could be materially harmed.

Factors that could influence our relationship with our significant OEM customers include:

- our ability to maintain our products at prices that are competitive with those of other hardware storage system suppliers;
- our ability to maintain quality levels for our products sufficient to meet the expectations of our OEM customers;
- our ability to produce, ship and deliver a sufficient quantity of our hardware products in a timely manner to meet the needs of our OEM customers;

our ability to continue to develop and launch new products that our OEM customers feel meet their needs and requirements, with respect to cost, timeliness, features, performance and other factors;

our ability to provide timely, responsive and accurate customer support to our OEM customers; and

the ability of our OEM customers to effectively launch, ramp, ship, sell and market their own solutions based on our products.

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Product recalls, epidemic failures, post-manufacture repairs of our products liability claims, absence or cost of insurance, and associated costs could harm our reputation, divert resources, reduce sales and increase costs and could have a material adverse effect on our financial condition.

Our new integrated storage systems and newly acquired products obtained in the Cloverleaf acquisition, as well as our legacy products, may contain undetected errors, or failures that become epidemic failure, which may be discovered after shipment, resulting in a loss of net revenue, an increase in costs to rework or replace failed products, product liability claims, a tarnished reputation, a loss of customers, or a loss or delay in market acceptance of our products, which could harm our business. The product failure or recall could be the result of components purchased from our suppliers not meeting the required specifications or containing undetected quality errors and manufacturing defects or from our own design deficiencies. For example, during the first half of 2007, we experienced several product quality issues associated with our then recently introduced Series 2000 products. The cost of rectifying these issues had a negative impact on gross margins during the first half of 2007. In addition, in the first half of 2010, we experienced quality issues associated with certain components provided by one of our suppliers that required us to make substantial repairs. Our supplier has agreed to reimburse us for the costs of the replacement parts and related damages, but to the extent our supplier is unable or does not do so, our results of operations and liquidity could be significantly harmed.

Even if the errors are detected before shipment, such errors could result in the halting of production, the delay of shipments, recovery costs, loss of goodwill, tarnishment of reputation and/or a substantial decrease in net revenue. Our standard warranty provides that if our systems do not function to published specifications, we will repair or replace the defective component or system without charge generally for a period of about three years. We generally extend to our customers the warranties provided to us by our suppliers and, accordingly, the majority of our warranty obligations to customers are intended to be covered by corresponding supplier warranties. There can be no assurance that our suppliers will continue to provide such warranties to us in the future or that our warranty obligations to our customers will be covered by corresponding warranties from our suppliers, which could have a material adverse effect on our operating results and financial condition. Significant warranty costs could decrease our gross margin and negatively impact our business, financial condition and results of operations. In addition, defects in our products could result in our customers claiming property damages, consequential damages, or bodily injury, which could also result in our loss of customers and goodwill. There can be no assurance that our customers will not assert claims that our products have failed to meet agreed-to specifications or that they have sustained injuries from our products, and we may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of our insurance coverage. Any such claim could distract management s attention from operating our business and, if successful, result in damage claims against us that might not be covered by our insurance.

Recent turmoil in the global economy, credit markets and the financial services industry may negatively impact our revenues, access to capital, our customers access to capital and ability to pay for their purchases in a timely manner, and our suppliers access to capital and ability to provide us with goods and timely delivery, or willingness to provide credit terms to us.

The current global economic condition could continue to affect the demand for our products and negatively impact net revenues and operating profit. We are unable to predict changes in general macroeconomic conditions and when, or if, global IT spending rates will be affected and to what degree they will be impacted. Furthermore, even if IT spending rates increase, we cannot be certain that the market for external storage solutions will be positively impacted. If there are future reductions in either domestic or international IT spending rates, or if IT spending rates do not increase, our net revenues, operating results and financial condition may be adversely affected. In addition, the recent economic crisis could also adversely impact our customers, and/or their customers, ability to finance the purchase of storage systems from us or our suppliers ability to provide us with product, any of which may negatively impact our business, financial condition and results of operations.

Our smaller OEM customers may not be as well capitalized as, nor do they have the financial resources of, our larger customers. In addition, our sales to all our customers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment may be delayed, because of their liquidity constraints, or because they are awaiting payment from their customers, or other factors beyond our control, which could increase our exposure to losses from bad debts, or increase accounts receivable, and thus reduce cash.

Our third-party manufacturers rely on other third parties to supply key components of our storage products. Some of these components are available only from one or limited sources in the quantities and quality we require. Should any of the component suppliers cease to operate due to the current economic conditions or otherwise, we would have to qualify and locate alternative suppliers. We estimate that replacing key components we currently use in our products with those of another supplier could involve several months of hardware and software modification, which could significantly harm our ability to meet our customers orders for our products, damage our customer relationships and result in a loss of sales.

Our manufacturing suppliers provide us with credit terms that have in some cases been negotiated and documented in our manufacturing agreements. The credit terms we receive from these suppliers vary amongst our manufacturing partners but they all provide for adequate credit limits and credit terms. Should any of our manufacturing partners reduce our credit limits or shorten payment terms, due to their inability to purchase credit insurance or due to uncertainty regarding our financial position, our cash resources and working capital could be significantly impacted.

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Our contracts with our OEM customers do not include minimum purchase requirements and are not exclusive, and we cannot assure you that our relationship with these major customers will not be terminated or will generate significant sales.

None of our contracts with our existing customers, including HP and NetApp, contain any minimum purchasing commitments and our customers may cancel purchase orders at any time, cease making purchases or elect not to renew the applicable contract upon the expiration of the current term. Consequently, our customers generally order only through written purchase orders. Further, we do not expect that future contracts with customers, if any, will include any minimum purchase commitments. Changes in the timing, or volume of purchases by our major customers, could result in lower net revenue. For example, we cannot be certain that our sales to any of our OEM customers will continue at historical levels or will ramp to expected levels. In addition, our existing contracts do not require our OEM customers to purchase our products exclusively or on a preferential basis over the products of any of our competitors. Consequently, to the extent they are not sole sourced, our OEM customers may sell the products of our competitors. The decision by any of our OEM customers to cancel purchase orders, cease making purchases or terminate their respective contracts could cause our net revenues to decline substantially, and our business, financial condition and results of operations could be significantly harmed.

We sell on a purchase order basis, making us subject to uncertainties and variability in demand by our customers, and our component suppliers may make obsolete certain components we incorporate into our products, either of which could decrease revenue and adversely affect our operating results.

We sell to our customers on a purchase order basis rather than pursuant to long-term contracts or contracts with minimum purchase requirements. Consequently, our sales are subject to demand variability by our customers. The level and timing of orders placed by our customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Customers submitting a purchase order may cancel, reduce or delay their orders. If we are unable to anticipate and respond to the demands of our customers, we may lose customers because we have an inadequate supply of products, or we may have excess inventory, either of which may harm our business, financial position and operating results.

In addition, there are occasions when some of our component suppliers make obsolete certain components that we incorporate into our products. In these situations we may be required to purchase such components on a last time buy basis, based on our forecasts of customer demand. If we incorrectly forecast customer demand or if our OEMs over or under forecast demand, we may have an inadequate supply of products, or we may have excess inventory which may have to be sold in the open market at a deep discount, if at all possible, either of which may harm our business, financial position and operating results.

Our sales cycle varies substantially from customer to customer and future net revenue in any period may be lower than our historical revenues or forecasts.

Our sales are difficult to forecast because the open systems storage market is rapidly evolving and our sales cycle varies substantially from customer to customer. Customer orders for our products can range in value from a few thousand dollars to over a million dollars. The length of time between initial contact with a potential customer and the sale of our product may last from 6 to 36 months. This is particularly true during times of economic slowdown for sales to OEM customers and for the sale and installation of complex solutions.

Additional factors that may extend our sales cycle, particularly orders for new products, include:

- the amount of time needed for technical evaluations by customers;
- customers budget constraints and changes to customers budgets during the course of the sales cycle;
- customers internal review and testing procedures;
- our engineering work necessary to integrate a storage solution with a customer s system;

- the complexity of technical challenges that need to be overcome during the development, testing and/or qualification process for new products and/or new customers;

- meeting unique customer specifications and requirements; and

- difficulties by our customers in integrating our products and technologies into their own products.

Our net revenue is difficult for us to predict since it is directly affected by the timing of large orders. We may ship products representing a significant portion of our net sales for a quarter during the last month of that quarter. In addition, our expense levels are based, in part, on our expectations as to future sales. As a result, if sales levels are below expectations, our operating results may be disproportionately affected. We cannot assure you that our sales will not decline in future periods.

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Our recent acquisition of Cloverleaf may not be successfully integrated or produce the results we anticipate.

In January 2010, we acquired Cloverleaf, a privately held software company. The Cloverleaf acquisition also provided us with a new team of software development and other professionals, primarily based primarily in Israel. Cloverleaf s products provide heterogeneous storage virtualization and unified storage technologies that can simplify data center management, eliminate downtime and reduce storage costs. The Cloverleaf Intelligent Storage Networking System - iSN trade name is an intelligent, network resident, storage network management system that provides a combination of benefits, features and capabilities targeted to meet the demands of mid to large-sized data centers. Cloverleaf was our first acquisition involving significant international operations. We expect that the integration of Cloverleaf s operations with our own will be a complex, time-consuming and costly process involving typical acquisition risks and related challenges, some of which are discussed below:

operating as a larger combined company with operations in Israel, where we have limited operational experience;

managing geographically dispersed personnel with diverse cultural backgrounds and organizational structures;

the greater cash management, exchange rate, legal and income taxation risks associated with the combined company s new multinational character and the movement of cash between Dot Hill and its domestic and foreign subsidiaries;

assessing and maintaining the combined company s internal control over financial reporting and disclosure controls and procedures as required by U.S. securities laws;

diversion of management s attention from normal daily operations of our business;

potential incompatibility of business cultures and/or loss of key personnel;

difficulties in integrating the personnel, operations, technology or products and service offerings of Cloverleaf;

products derived from this acquisition may not meet the needs of customers or their expectations with respect to reliability;

insufficient net revenues to offset increased expenses associated with the Cloverleaf acquisition;

increased professional advisor fees related to the new profile of the combined company;

the costs and effects of the purchase accounting associated with this acquisition;

the possibility that we may incur unanticipated expenses in connection with this transaction or be required to expend material sums on potential contingent intellectual property, tax, environmental or other liabilities associated with Cloverleaf s prior operations or facilities;

increased difficulty in financial forecasting due to our limited familiarity with Cloverleaf s operations, customers and markets or their impact on the overall results of operations of the combined company;

our ability to sell and support installations of the iSN product;

market and customer receptivity to the iSN family of product; and

the ability of our open storage partners to sell and support iSN.

In addition, the accounting treatment for the Cloverleaf acquisition resulted in significant amortizable intangible assets, which when amortized negatively affects our consolidated results of operations. The accounting treatment for the Cloverleaf acquisition also resulted in significant goodwill, which, if impaired, will negatively affect our consolidated results of operations.

Failure to successfully address one or more of the above risks may result in unanticipated liabilities and cash outlays, lower than expected net revenue, losses from operations, failure to realize any of the expected benefits of the acquisition, and potentially related declines in our stock price.

Our inability to further develop and increase sales from our RAIDCore software may significantly impact our ability to increase net revenue, gross margin and operating income.

In September 2008, we bought certain assets from Cirprico including RAIDCore. We have an agreement with one primary partner to market or integrate RAIDCore into their solutions. While we restructured the agreement in the third quarter of 2010 so that

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the revenue generated under the agreement should exceed the costs of developing, manufacturing and marketing these products, we cannot be assured that revenues will exceed costs in the future, which could cause, our financial results to be negatively impacted and could also result in an impairment of our related intangible assets.

The common stock we issued in the acquisition of Cloverleaf in 2010 and charges associated with this acquisition may negatively impact our earnings per share.

Based on the increase in our number of common shares outstanding in connection with our Cloverleaf acquisition, projected amortization charges and the additional costs associated with integrating Cloverleaf, the acquisition may result in lower earnings per share than would have been earned by us in the absence of the transaction. We expect that over time this acquisition will yield benefits to the combined company that will ultimately be accretive to earnings per share. However, there can be no assurance that an increase in earnings per share will be achieved. In order to achieve increases in earnings per share as a result of this acquisition, management will, among other things, need to successfully manage the combined company s operations, increase revenue and compete effectively in its end-markets. Failure to achieve any of these objectives could cause our stock price to decline.

The open systems storage market is rapidly changing and we may be unable to keep pace with or properly prepare for the effects of those changes and if we fail to develop and market new software and hardware products that meet customer requirements, our business will be harmed.

The open systems data storage market in which we operate is characterized by rapid technological change, frequent new product introductions, new interface protocol, evolving industry standards and consolidation among our competitors, suppliers and customers. Customer preferences in this market are difficult to predict and changes in those preferences and the introduction of new products by our competitors or us could render our existing products obsolete or uncompetitive. Our success will depend upon our ability to address the increasingly sophisticated needs of customers, to enhance existing products, and to develop and introduce on a timely basis, new competitive products, including new software and hardware, and enhancements to existing software and hardware that keep pace with technological developments and emerging industry standards. If we cannot successfully identify, manage, develop, manufacture or market product enhancements or new products, our business will be harmed. In addition, consolidation among our competitors, suppliers and customers may harm our business by increasing the resources of our competitors, reducing the number of suppliers available to us for our product components and increasing competition for customers by reducing the number of customer-purchasing decisions.

We believe that to remain competitive, we will need to continue to develop new hardware and software products, which will require a significant investment in new product development. Our competitors may be developing alternative technologies, which may adversely affect the market acceptance of our products. If alternative technologies and interface protocols are adopted by the industry that we have not incorporated into our products, we may become uncompetitive and not have product offerings for select market segments. Even if our new products are developed on time, we may not be able to manufacture them at competitive prices or in sufficient volumes.

A significant percentage of our expenses are fixed, and if we fail to generate targeted net revenues or gross margins in associated periods, our operating results will be harmed.

We primarily sell to OEMs and thus do not need to make substantial investments in sales and marketing to generate demand for our products. These investments are typically made by our OEMs. Additionally we outsource our manufacturing to very large contract manufacturing partners in Asia. Hence, there is little incremental cost to increase our production capacity. Furthermore, we have an adopted modular architecture to our storage systems products and consequently if our customers do not require substantial customization, we are able to launch products based on existing product platforms for new OEMs or channel partners at modest incremental expenditures. As a result a significant percentage of our expenses are relatively fixed.

In the past we have taken and may have to take further measures to reduce expenses if net revenues or gross margins decline and we experience greater operating losses or do not achieve profitable results. A number of factors could preclude us from successfully bringing variable costs and expenses in line with our net revenue, such as the fact that our variable expense levels are based in part on our expectations as to future sales. This limits our ability to reduce expenses quickly in response to any shortfalls in net revenue or gross margin. Consequently, if net revenues do not generate enough gross margin to cover operating expenses, our operating results may be negatively affected.

The market for storage products is intensely competitive and subject to substantial pricing pressure that may harm our net revenues, gross margins and operating results.

The storage market is intensely competitive and is characterized by rapidly changing technology. We compete primarily against independent storage system suppliers, including EMC, NetApp, Hitachi, LSI, Infortrend and Xyratex, but also against server companies such as HP, IBM and Sun, some of whom are our customers. We also compete with smaller storage software and hardware companies such as Nexsan Corporation, or Nexsan, Compellent and Falconstor. The server companies and independent storage systems suppliers are also potential customers as well and as indicated we have established a relationship with HP and NetApp. Future competitors could include original design manufacturers and contract manufacturers, some of whom we partner with today.

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Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources than us. As a result, they may have more advanced technology, larger distribution channels, stronger brand names, better customer service and access to more customers than we do. Other large companies with significant resources could become direct competitors, either through acquiring a competitor or through internal efforts. Additionally, a number of new, privately held companies are currently attempting to enter the storage market, some of which may become significant competitors in the future. Any of these existing or potential competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion and sale of products or deliver competitive products at lower prices than us.

We could also lose current or future business to certain of our suppliers or manufacturers, some of which directly and indirectly compete with us. Currently, we leverage our supply and manufacturing relationships to provide a significant share of our products. Our suppliers and manufacturers are very familiar with the specific attributes of our products and may be able to provide our customers with similar products.

We also expect that competition will increase as a result of industry consolidation and the creation of companies with new, innovative product offerings. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers.

Accordingly, it is possible that new competitors, or alliances among competitors, may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, and may reduce operating margins and create a potential loss of market share, any of which could harm our business. We believe that the principal competitive factors affecting the storage systems market include: performance, features, scalability and reliability; price; product breadth; product availability and quality; timeliness of new product introductions; and interoperability and ease of management.

We cannot assure you that we will be able to successfully incorporate these factors into our products and compete against current or future competitors or that competitive pressures we face will not harm our business. If we are unable to cost effectively develop and market products to compete with the products of competitors, our business will be materially and adversely affected. In addition, if major OEM customers who are also competitors cease purchasing our products in order to concentrate on sales of their own products, our business will be harmed.

Additional pricing pressures are due, in part, to continuing decreases in component prices, such as those of disks, memory, semiconductors and RAID controllers. Decreases in component prices are typically passed on to customers by storage companies through a continuing decrease in the price of storage hardware systems.

Pricing pressures could also result when we cannot pass increased material costs onto our customers. For example, if fuel prices were to increase significantly again, this could result in higher steel and freight costs which we may not be able to pass onto our customers.

Pricing pressures also exist from our significant OEM customers that may attempt to change the terms, including pricing and payment terms of their agreements, with us. As our OEM customers are pressured to reduce prices as a result of competitive factors, we may be required to contractually, or otherwise, commit to price reductions for our products prior to determining if we can implement corresponding cost reductions. If we are unable to achieve such cost reductions, or are unable to pass along cost increases to our customers, and have to reduce the pricing of our products, our gross margins may be negatively impacted which could have a material adverse effect on our business, financial condition and results of operations.

Our inability to lower product costs or changes in the mix of products we sell may significantly impact our gross margins and results of operations.

Our gross margins are determined in large part based on our manufacturing costs, our component costs, our timing and magnitude of product cost reductions, and our ability to include RAID controllers and value added features into our products, such as DMS, as well as the prices at which we sell our products. The amount of revenue recognized from software and service sales and the relative mix of such sales in comparison to sales of our other products will also impact our gross margins, as the gross margin on sales of software and services is higher than that of our other products. If we are unable to lower production costs to be consistent with our projections or any decline in selling prices, our gross margins and results of operations may suffer. Several of the new products we are currently shipping or expect to begin shipping are in the early stages of their lifecycle. Our historical experience indicates that gross margins on new products are low initially and increase over time as a result of maturing manufacturing processes, component cost reductions and re-engineering the products to reduce costs. If we fail to achieve these improvements, our gross margins will be negatively impacted and our business, financial condition and results of operations could be significantly harmed.

In addition, we typically plan our production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. Our customer s forecasts have not historically demonstrated a high degree of accuracy. From time to time, in response to anticipated long lead times to obtain inventory and materials from our outside suppliers, we may order materials in advance of anticipated customer demand. This advance ordering may result in excess inventory levels or unanticipated inventory write-downs due to expected orders that fail to materialize.

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Additional factors which could adversely impact gross margin dollars and gross margin percentage include:

- changes in the mix of products we sell to our customers;
- increased price competition;
- introduction of new products by us or our competitors, including products with price performance advantages;
- our inability to reduce production or component costs;
- entry into new markets or the acquisition of new customers;
- sales discounts and marketing development funds;
- increases in material or labor costs;
- excess inventory, inventory shrinkages and losses and inventory holding charges;
- purchase price variances resulting from reductions in component costs purchased on our behalf by our contract manufacturers or owned by us in inventory versus the original cost of those components;
- increased warranty costs and costs associated with any potential future product quality and product defect issues;
- our inability to sell our higher performance Series 5000, 3000 and 2000 products, our DMS software and our RAIDCore software;
- component shortages which can result in expedite fees, overtime or increased use of air freight; and
- increased freight costs resulting from higher fuel prices, or from the need to expedite shipments of components to our contract manufacturer or finished goods to some of our customers and their hub locations.

Our OEM customers may have very aggressive product launch and ramp schedules and our efforts to accommodate these schedules may divert our management s attention, cause component shortages and force us to allocate products across many customers, all of which could harm our customer relations.

Our efforts to accommodate our customers aggressive launch and ramp schedules can divert management s attention from the rest of our business and force us to allocate product volumes across many customers due to component shortages, all of which could harm our relations with customers. In addition, we could incur overtime, expedite charges, and other charges such as shipping products by air as opposed to by ocean as a result of efforts to meet such schedules. Any of these factors could result in lower net revenue and gross margin as well as increased operating expenses which could have an impact on our business, financial condition and results of operations.

Our inability to grow and manage our indirect sales channel may significantly impact our ability to increase net revenue, gross margin and operating income.

We have recently expanded our indirect sales model to access end-user markets primarily through our distributors and OSPs and are investing significant monetary and human resources in order to grow this indirect sales channel. If we cannot successfully identify, manage, develop, and generate sufficient net revenue through our indirect sales channel, our business could be harmed. In addition, even if we are able to grow our indirect sales channel, managing the interaction of our OEMs , distributors , and OSPs efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each channel method has distinct risks and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our net revenue and gross margin and our profitability.

Manufacturing and supplier disruptions could harm our business.

We rely on third parties to manufacture substantially all of our products. If our agreements with Foxconn, Flextronics, MiTAC or SYNNEX are terminated, or if they do not perform their obligations under our agreement, or if we otherwise determine to transition manufacturing of our products to another third party manufacturer, it could take several months to establish and qualify alternative manufacturing for our products and we may not be able to fulfill our customers orders in a timely manner. If our agreements with Foxconn, Flextronics, MiTAC or SYNNEX terminate, we cannot be certain that we will be able to identify a suitable alternative manufacturing partner that meets the requirements of our OEM customers and one that is cost competitive. Failure to identify a suitable alternative manufacturing partner could impact our customer relationships and our financial condition.

Due to our use of third-party manufacturers, our ability to control the timing of shipments could decrease. Delayed shipment could result in the deferral or cancellation of purchases of our products. Any significant deferral or cancellation of these sales would harm our results of operations in any particular quarter. Net revenue for a period may be lower than predicted if large orders forecasted for that period are delayed or are not realized, which could also impact cash flow or result in a decline in our stock price. To the extent we establish a relationship with an alternative manufacturer for our products, we may be able to partially mitigate potential disruptions to our business. We may also suffer manufacturing disruptions as we ramp up manufacturing processes for our new integrated storage systems, which could result in delays in delivery of these products to our OEM customers and adversely affect our results of operations. Additionally, production of our products could be disrupted as a result of geo-political events in Asia and other manufacturing locations.

We also generally extend to our customers the warranties provided to us by our suppliers and, accordingly, the majority of our warranty obligations to customers are covered by supplier warranties. For warranty costs not covered by our suppliers, we reserve for estimated warranty costs in the period the net revenue is recognized. There can be no assurance that our suppliers will continue to provide such warranties to us in the future, or that we have estimated these costs correctly, which could have a material adverse effect on our business, financial condition and results of operations.

Any shortage of disk drives, memory or other components could increase our costs or harm our ability to manufacture and deliver our storage products to our customers in a timely manner.

From time to time there is significant market demand for disk drives, semiconductors, memory and other components, and we may experience component shortages, selective supply allocations and increased prices of such components. In such event, we may be required to purchase our components from alternative suppliers, and we cannot be certain that alternative sources of supplies will be available at competitive terms. Even if alternative sources of supply for critical components such as disk drives and memory become available, incorporating substitute components into our products could delay our ability to deliver our products in a timely manner.

Demand for disk drives and memory has at times surpassed supply, forcing drive, memory and component suppliers, including those who supply the components that are integrated into many of our storage products, to manage allocation of their inventory. If such a shortage were prolonged, we may be forced to pay higher prices for disk drives, memory or components or may be unable to purchase sufficient quantities of these components to meet our customers demand for our storage products in a timely manner or at all. Similar circumstances could occur with respect to other necessary components.

We may continue to experience losses in the future, and may have difficulty forecasting future operating results, which could result in revenue and earnings volatility, which could cause our stock price to decline.

For the year ended December 31, 2009 and for the six months ended June 30, 2010, we incurred net losses of $13.6 million and $12.3 million, respectively. For the remainder of 2010, we expect our business to remain volatile as we are often unable to reliably predict net revenues from our major customers including NetApp, HP and our other customers. Our ability to reliably predict net revenues has become more challenging as a result of our recent acquisition of Cloverleaf. Net revenue levels achieved from NetApp, HP and our other customers, the mix of products sold to our customers, our ability to introduce new products as planned and our ability to reduce product costs and manage our operating expenses and manufacturing variances will continue to affect our financial results for the remainder of 2010. Consequently, we cannot assure you that we will be profitable in any future period.

Our future operating results and profitability will depend on, and could vary substantially as a result of many factors, including:

- our ability to implement and achieve targeted gross margin cost reduction objectives and;

- our ability to contain operating expenses and manufacturing variances;

- our ability to meet product delivery schedules for HP and other customers which could result in increased air freight, expedite and overtime charges;

the extent to which we invest in new initiatives such as channel sales and software development;

our plans to maintain and enhance our engineering, research, development and product testing programs;

the extent to which we consolidate our facilities and relocate employees and assets;

the success of our manufacturing strategy and the move of the manufacturing of some of our products to a newer contract manufacturing partner;

the success of our sales and marketing efforts;

the amount of field failures resulting in product replacements or recalls;

- the extent and terms of any development, marketing or other arrangements;
- changes in economic, regulatory or competitive conditions, including the current worldwide economic crisis;
- increased intangible amortization and other costs associated with our recent acquisition of Cloverleaf;
- costs of filing, prosecuting, defending and enforcing intellectual property rights; and
- costs of litigating and defending law suits.

Our success depends significantly upon our ability to protect our intellectual property and to avoid infringing the intellectual property of third parties, which has already resulted in costly, time-consuming litigation and could result in the inability to offer certain products.

We rely primarily on patents, copyrights, trademarks, trade secrets, nondisclosure agreements and common law to protect our intellectual property. Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In addition, the laws of foreign countries may not adequately protect our intellectual property rights. Our efforts to protect our intellectual property from third party discovery and infringement may be insufficient and third parties may independently develop technologies similar to ours, duplicate our products or design around our patents.

In addition, third parties may assert infringement claims against us, which would require us to incur substantial license fees, legal fees and other expenses, and distract management from the operations of our business. For example, in 2003, Crossroads filed a lawsuit against us alleging that our products infringe two United States patents assigned to Crossroads. In 2006, we entered into a Settlement and License Agreement with Crossroads that settled the lawsuit and licensed to us the family of patents from which it stemmed. We incurred significant legal expenses in connection with these matters. Other third parties may assert additional infringement claims against us in the future, which would similarly require us to incur substantial license fees, legal fees and other expenses, and distract management from the operations of our business.

We expect that providers of storage products will increasingly be subject to infringement claims as the number of products and competitors increases. We receive, from time to time, letters from third parties suggesting that we may require a license from such third parties to manufacture or sell our products. We evaluate all such communications to assess whether to seek a license from the patent owner. We may be required to purchase licenses that could have a material impact on our business, or, we may not be able to obtain the necessary license from a third party on commercially reasonable terms, or at all. Consequently, we could be prohibited from marketing products that incorporate the protected technology or incur substantial costs to redesign our products in a manner to avoid infringement of third party intellectual property rights.

Our success depends on our ability to attract and retain key personnel.

Our performance depends in significant part on our ability to attract and retain talented senior management and other key personnel. Our key personnel include Dana Kammersgard, our Chief Executive Officer and President, Hanif Jamal, our Senior Vice President and Chief Financial Officer, James Kuenzel, our Senior Vice President of Engineering and Ernest Hafersat, our Senior Vice President of World-Wide Manufacturing, Operations, and Supply Base Management. If any of these individuals were to terminate his employment with us, we would be required to locate and hire a suitable replacement. Competition for attracting talented employees in the technology industry can be intense. We may be unable to identify suitable replacements for any employees that we lose. In addition, even if we are successful in locating suitable replacements, the time and cost involved in recruiting, hiring, training and integrating new employees, particularly key employees responsible for significant portions of our operations, could harm our business by delaying our production schedule, our research and development efforts, our ability to execute on our business strategy and our client development and marketing efforts.

In the second quarter of 2010, our management approved, committed to, and initiated a restructuring and cost reduction plan, or the 2010 Plan, to better align our resources in order to lower our breakeven point. The 2010 Plan included, among other things, severance and related costs for the reduction of approximately 10% of our workforce, a 10% salary reduction for all employees at or above the vice-president level and a 5% salary reduction for certain other employee groups. As a result of these actions, we may experience higher employee attrition rates, which would require us to locate and hire suitable replacements and could cause our business to be harmed.

Many of our customer relationships are based on personal relationships between the customer and our executives or sales representatives. If these representatives terminate their employment with us, we may be forced to expend substantial resources to attempt to retain the customers that the sales representatives serviced. Ultimately, if we were unsuccessful in retaining these customers, our net revenue would decline.

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Protective provisions in our charter and bylaws and the existence of our stockholder rights plan could prevent a takeover which could harm our stockholders.

Our certificate of incorporation and bylaws contain a number of provisions that could impede a takeover or prevent us from being acquired, including, but not limited to, a classified board of directors, the elimination of our stockholders ability to take action by written consent and limitations on the ability of our stockholders to remove a director from office without cause. Our board of directors may issue additional shares of common stock or establish one or more classes or series of preferred stock with such designations, relative voting rights, dividend rates, liquidation and other rights, preferences and limitations as determined by our board of directors without stockholder approval. In addition, we adopted a stockholder rights plan in May 2003 that is designed to impede takeover transactions that are not supported by our board of directors. Each of these charter and bylaw provisions and the stockholder rights plan gives our board of directors, acting without stockholder approval, the ability to prevent, or render more difficult or costly, the completion of a takeover transaction that our stockholders might view as being in their best interests.

Unanticipated changes in our tax provisions or adverse outcomes resulting from examination of our income tax returns could adversely affect our results of operations.

We are subject to income taxes in the United States and various foreign jurisdictions. Our effective income tax rates have recently been and could in the future be adversely affected by changes in tax laws or interpretations of those tax laws, by changes in the mix of earnings in countries with differing statutory tax rates, by discovery of new information in the course of our tax return preparation process, or by changes in the valuation of our deferred tax assets and liabilities. Our effective income tax rates are also affected by intercompany transactions for licenses, services, funding and other items. Additionally, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities which may result in the assessment of additional income taxes. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. However, there can be no assurance that the outcomes from these continuous examinations will not have a material adverse effect on our business, financial condition and results of operations.

The exercise of outstanding warrants may result in dilution to our stockholders.

Dilution of the per share value of our common stock could result from the exercise of outstanding warrants. As of June 30, 2010 there was an outstanding warrant to purchase 1,602,489 shares of our common stock. The warrant has an exercise price of $2.40 per share, which at June 30, 2010 exceeded the trading price of our common stock. The warrant is exercisable for a period of five years from the date of issuance, or five years from January 2008. When the exercise price of the warrant is less than the trading price of our common stock, exercise of the warrant would have a dilutive effect on our stockholders. The possibility of the issuance of shares of our common stock upon exercise of the warrant could cause the trading price of our common stock to decline.

Furthermore, it is also possible that future large customers or suppliers, make our relationship with them contingent on receiving warrants to purchase shares of our common stock. The impact of potentially issuing additional warrants can have a dilutive effect on our stockholders.

Our stock price may be highly volatile and could decline substantially and unexpectedly, which can and has in some cases resulted in litigation.

The market price of our common stock has fluctuated substantially, and there can be no assurance that such volatility will not continue. Several factors could impact our stock price including, but not limited to:

- differences between our actual operating results and the published expectations of analysts;
- quarterly fluctuations in our operating results;
- introduction of new products or changes in product pricing policies by our competitors or us;

conditions in the markets in which we operate;

changes in market projections by industry forecasters;

changes in estimates of our earnings by industry analysts;

overall market conditions for high technology equities;

rumors or dissemination of false information; and

general economic and geopolitical conditions.

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It is often the case that securities class action litigation is brought against a company following periods of volatility in the market price of its securities. Securities litigation could result in the expenditure of substantial funds, divert management s attention and resources, harm our reputation in the industry and the securities markets and reduce our profitability.

Future sales of our common stock may hurt our market price.

A significant portion of our common stock is owned by a few institutional stockholders. As a result, a substantial number of shares of our common stock may become available for resale. If these or other of our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decline. These sales might also make it more difficult for us to sell equity securities in the future at times and prices that we deem appropriate.

Our system of internal controls may be inadequate.

We maintain a system of internal controls in order to ensure we are able to collect, process, summarize, and disclose the information required by the Securities and Exchange Commission within the time periods specified. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Due to these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Additionally, public companies in the United States are required to review their internal controls under the Sarbanes-Oxley Act of 2002. If the internal controls put in place by us are not adequate or fail to perform as anticipated, errors could occur that would not be detected, which could require us to restate our consolidated financial statements, receive an adverse audit opinion on the effectiveness of our internal controls, and/or take other actions that will divert significant financial and managerial resources, as well as be subject to fines and/or other government enforcement actions. Furthermore, the price of our stock could be adversely affected.

Environmental compliance costs could adversely affect our results of operations.

Many of our products are subject to various laws governing chemical substances in products, including those regulating the manufacture and distribution of chemical substances and those restricting the presence of certain substances in electronic products. We could incur substantial costs, or our products could be restricted from entering certain countries, if our products become non-compliant with environmental laws.

We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and certain other substances that apply to specified electronic products put on the market in the European Union as of July 1, 2006 (Restriction of Hazardous Substances Directive, or RoHS). We design our products to ensure that they comply with these requirements as well as related requirements imposed by our OEM customers. We are also working with our suppliers to provide us with compliant materials, parts and components. If our products do not comply with the European substance restrictions, we could become subject to fines, civil or criminal sanctions, and contract damage claims. In addition, we could be prohibited from shipping non-compliant products into the European Union, and required to recall and replace any products already shipped, if such products were found to be non-compliant, which would disrupt our ability to ship products and result in reduced net revenue, increased obsolete or excess inventories and harm to our business and customer relationships. Various other countries and states in the United States have issued, or are in the process of issuing, other environmental regulations that may impose additional restrictions or obligations and require further changes to our products. These regulations could impose a significant cost of doing business in those countries and states.

The European Union has enacted the Waste Electrical and Electronic Equipment Directive, which makes producers of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The deadline for the individual member states of the European Union to enact the directive in their respective countries was August 13, 2004. Producers participating in the market became financially responsible for implementing these responsibilities beginning in August 2005. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan, the cumulative impact of which could be significant.

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Item 6. Exhibits

The following exhibits are included as part of this quarterly report on Form 10-Q:

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of January 4, 2010, among Dot Hill Systems Corp., Telluride Acquisition Sub, Inc., Cloverleaf Communications Inc., Cloverleaf Communications (Israel) Ltd., Cloverleaf Communications Corporation (BVI) and E. Shalev Management 2000 (1999) Ltd. (1)
3.1	Certificate of Incorporation of Dot Hill Systems Corp. (2)
3.2	Amended and Restated Bylaws of Dot Hill Systems Corp. (3)
4.1	Certificate of Incorporation of Dot Hill Systems Corp. (2)
4.2	Amended and Restated Bylaws of Dot Hill Systems Corp. (3)
4.3	Form of Common Stock Certificate. (4)
4.4	Certificate of Designation of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of Delaware on May 19, 2003. (5)
4.5	Form of Rights Certificate. (5)
4.6	Warrant to Purchase Shares of Common Stock dated January 4, 2008. (6)
31.1	Certification pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 5, 2010 and incorporated herein by reference.
(2) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on September 19, 2001 and incorporated herein by reference.
(3) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on December 26, 2007 and incorporated herein by reference.
(4) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 14, 2003 and incorporated herein by reference.
(5) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on May 19, 2003 and incorporated herein by reference.
(6) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 7, 2008 and incorporated herein by reference.

Dot Hill s Current Reports on Form 8-K have a Commission File Number of 001-13317.

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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.

	Dot Hill Systems Corp.
Date: August 12, 2010	
	By: /s/ DANA W. KAMMERSGARD Dana W. Kammersgard *Chief Executive Officer and President* *(Principal Executive Officer)*
Date: August 12, 2010	
	By: /s/ HANIF I. JAMAL Hanif I. Jamal *Chief Financial Officer and Treasurer* *(Principal Financial and Accounting Officer)*

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s Property we have drilled 265 holes totaling 158,601 feet. The majority of these holes were drilled in, and around, known gold deposits. Fewer than 30 holes can be considered purely exploration.

Sampling and Analysis

General

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

Previous Mining Operations Sampling, Analysis, Quality Control and Security

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

Echo Bay Mines performed quality checks on their drill cuttings, sampling and assaying methods as part of their evaluation of the property prior to and following its purchase from Tenneco Minerals, indicating that the original assays were reliable and representative. During their exploration and development programs they also drilled a number of core hole twins of reverse circulation rotary drill holes to compare assay results in the same areas.

Houston Oil and Minerals, Tenneco, and Echo Bay Mines are reported to have used standard sample preparation and analytical techniques in their exploration and evaluation efforts, but detailed descriptions of the procedures have not been found. Most of the drill-hole assaying was accomplished by major laboratories that were in existence at the time of the drilling programs. Various labs including Monitor Geochemical, Union Assaying, Barringer, Chemex, Bondar-Clegg, Metallurgical Laboratories, Cone Geochemical, the Borealis mine lab and others were involved in the assaying at different phases of the exploration and mining activity.

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

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

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

Gryphon Gold Operations Sampling, Analysis, Quality Control and Security

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

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

For the hard rock drilling program, started in 2005 and continuing through 2007, reverse circulation drilling services were provided by two international drilling contractors, Diversified Drilling LLC of Missoula, Montana and Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 41/2 inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by drill contractor employees, placed in bins, and delivered to a secure storage. American Assay Laboratories in Sparks, Nevada picked up the sample bins from secure storage. AAL is ISO/IEC 17025 certified and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

In the period between April 2006 and November 2007, reverse circulation drilling services were provided Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 41/2 inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by the drill contractor employees, placed in bins, and delivered to a secure storage. Inspectorate America Corporation (IAC) in Sparks, Nevada picked up the sample bins from secure storage. IAC is ISO 9001:2000 certified (Certificate number: 37295) and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with an AA finish. Assays greater than 0.10 opt Au were re-assayed by 1-assay ton fire assay with a gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

Borealis Mineralization Estimate

The Technical Report was completed April 28, 2008. The Technical Report states that the recommended course of action for Gryphon Gold is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralized material on the Borealis Property. Cautionary Note to U.S. Investors: The Technical Report uses the terms mineral resource, measured mineral resource, indicated mineral resource and inferred mineral resource . We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The Preliminary Assessment was completed September 2, 2008. The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property. Cautionary Note to U.S. Investors: The Preliminary Assessment uses the terms mineral resource, measured mineral resource, indicated mineral resource and inferred mineral resource . We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The 2009 Study was completed on September 17, 2009. The 2009 Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The 2009 Study is not a bankable feasibility study. Cautionary Note to U.S. Investors: The 2009 Study use the terms mineral reserve , proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The 2009 Study uses the terms mineral resource, measured mineral resource, indicated mineral resource and inferred mineral resource . We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The Pre-Feasibility Study was completed on April 25, 2011 and authored by John D. Welsh, P.E. of Reno, Nevada. The Pre-Feasibility Study was also co-authored by Jonathan M. Brown, CPG, MBA, Douglas Willis, CPG, and Dr. Thom Seal, Ph.D., P.E. The mineralization data and the economic analysis data contained in the Pre-Feasibility Study supercedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The Pre-Feasibility Study is not a bankable feasibility study. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management s Discussion and Analysis of Financial Condition and Operating Results Liquidity and Capital Resources and Risk Factors . Cautionary Note to U.S. Investors: The Pre-Feasibility Study uses the terms mineral reserve , proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101

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of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Pre-Feasibility Study uses the terms mineral resource, measured mineral resource, indicated mineral resource and inferred mineral resource . We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

Historical Mining and Metallurgical Operations

The historical mining operations processed both a run-of-mine ore and an ore that was crushed to a nominal 11/2-inch product as the primary feed material that was placed on the heap for leaching. The fines fraction was agglomerated with cement, mixed with the coarse fraction, and leached with sodium cyanide solution. Gold mineralization is finely disseminated and/or partially bonded with pyrite, and although there are very little ore mineralogy data available, historical operating reports suggest that some coarse gold may exist. Gold that is bound in pyrite or pyrite-silica is not easily recovered by simple heap leach cyanidation, however gold recovery in oxide ores is reported to average about 80% for the ore treated. There are no reports of carbonaceous refractory components within the old heap or dump materials. The previous mine operators employed a Merrill Crowe circuit to enhance ease of silver recovery, followed by a retort to remove mercury.

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

Based on limited test work, gold bearing sulfide material appears to respond to conventional flotation concentration and cyanidation of oxidized concentrates. In the laboratory testing, chemical oxidation and bioxidation treatment of the sulfide material yield a high level of oxidation and correspondingly high gold recoveries after cyanidation of the oxidized material. Aeration of concentrate slurries may be a suitable oxidation method for the sulfide material.

Exploration and Development

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

Permitting Process

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

The following is a summary and status of the permits required for the Borealis Property heap leach mine project:

> An Approved Plan of Operations from the USFS, Humboldt-Toiyabe National Forest has been received. The Environmental Assessment (EA) was approved for the Plan of Operations with a Finding of No Significant Impact (FONSI) on June 19, 2006. The Decision Notice was published on June 22 and 23, 2006 and is not appealable. Final revisions to the Plan of Operations were submitted to the USFS on June 23, 2006 and the USFS signed the Plan on June 29, 2006. The Plan of Operations can be implemented as soon as a reclamation bond of $4,205,377 is posted with the USFS.

A Water Pollution Control Permit (WPCP) from the NDEP-Bureau of Mining Regulation & Reclamation (BMRR) was approved and granted to Borealis Mining on January 28, 2006. The permit allows Borealis Mining to construct and operate a 10-million ton capacity heap leach pad and processing plant as a zero-discharge facility.

A Reclamation Permit from the NDEP-BMRR and reclamation bond amount were approved on June 23, 2006. This permit is the State of Nevada s approval of the Plan of Operations and is effective with the posting of the reclamation bond with the USFS.

A Tentative Permanent Closure Plan to be administered by the NDEP-BMRR was submitted with the WPCP application and accepted by NDEP-BMRR. A Final Permanent Closure Plan will not need to be developed until 2 years prior to project closure.

NDEP-Bureau of Air Pollution Control (BAPC) issued the Air Quality Operating Permit on April 28, 2006 for the Borealis processing facilities. The State of Nevada adopted regulations regarding mercury emissions, and an application was filed under this new State program on September 14, 2006, as a compliance order pursuant to the approved air quality permit. Because Gryphon was not able to move the project into construction within the air permit time frame, NDEP kept this old permit in force while a new air quality and mercury permit application was being developed and approved. The new air quality permit was approved in 2010. Meanwhile, a draft mercury emissions permit has been prepared by BAPC and is expected to be approved by July of 2011.

A Surface Area Disturbance Permit from the NDEP-BAPC was approved and granted to Borealis Mining on April 3, 2006 for disturbances associated with construction and mining activities.

The Storm Water Pollution Prevention Plan (SWPPP) has been prepared for the project. A Notice of Intent, filing fee, and the SWPPP will be submitted to the Bureau of Water Pollution Control (BWPC) 2 days prior to the start of mining operations to obtain coverage under the general National Pollutant Discharge Elimination System (NPDES) permit for Nevada mines.

A Spill Prevention, Control, and Countermeasure (SPCC) Plan, under the jurisdiction of the U.S. Environmental Protection Agency (EPA), will be prepared and implemented before starting operations. The SPCC Plan will provide methods for storing, transporting, and using petroleum products as well as emergency response measures in the event of a release.

A preliminary Emergency Release, Response and Contingency Plan (ERRCP) was submitted with the Plan of Operations. The ERRCP provides methods for storing, using, and transporting process chemicals on site as well as emergency response measures in the event of a release. A final ERRCP will be prepared prior to the start of leaching and processing activities. Both the USFS and the NDEP-BMRR require the ERRCP.

Threatened & Endangered Species Act: No known threatened or endangered species have been identified within or near the project area. A Biological Assessment and Biological Evaluation (BA/BE) and a Wildlife Specialist Report were approved by the USFS on June 6, 2006. These reports identified three USFS sensitive plants and two other plant species of concern within the project area. Mitigation measures were developed for these plants and incorporated into the EA and Plan of Operations. The USFS concluded that the project may impact individual plants and plant habitat but will not likely contribute to a trend towards listing or cause a loss of viability to the population or species.

Historical Preservation Act (Section 107): Consultation with the USFS and the State Historical Preservation Officer (SHPO) has occurred in conjunction with the preparation of the EA. The Heritage Research Final Report, Gryphon Gold, USA, Mining and Exploration Project, Borealis Mine Area was submitted to the USFS in March 2006. The report identifies prehistoric cultural resources located within and near the project area. This report was approved by the USFS and forwarded to SHPO for their review and comment on April 17, 2006. The SHPO approved the report in early May 2006. Mitigation measures consisting of avoidance and protection were incorporated into the EA and the Plan of Operations.

Water Rights: Water Rights have been granted by the Nevada Division of Water Resources (NDWR) for two production wells located approximately 3 miles south of the project, in the same vicinity as the supply wells from the previous mining operation. Based on historic well productivity records, this water right and point of diversion has the capacity and productivity to meet project needs. A second set of water rights were obtained for a site about 10 miles to the south of the planned operation as a contingency; however, this water right has been forfeited as it has been deemed extraneous.

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Industrial Artificial Pond Permit: The Department of Wildlife, State of Nevada, has issued an Industrial Artificial Pond permit to use and store industrial waters in lined containers on the Borealis Property project site. This permit was granted on December 1, 2009 and expires on November 30, 2014.

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

Drilling and Feasibility

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

Future Mine Development

The business plan for the Borealis Property is to advance the development of the oxide heap leachable gold and silver to the production stage and to further expand and develop the significant sulphide resource through exploration, metallurgical design and sulphide project permitting and development. Our plan is based on the Plan of Operations filed with the U.S. Forest Service and could change based on additional information as it is acquired and analyzed in our ongoing engineering studies and feasibility study.

The Plan of Operations was the basis for the 2009 Study as at September 17, 2009 and the Pre-Feasibility Study as at April 25, 2011. The Pre-Feasibility Study presents an economic analysis, and provides capital expenditures, operating costs, ore grade, anticipated revenues, and projected cash flows. The 2009 Study and the Pre-Feasibility Study are not bankable feasibility studies. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management s Discussion and Analysis of Financial Condition and Operating Results Liquidity and Capital Resources and Risk Factors . Cautionary Note to U.S. Investors: The 2009 Study and the Pre-Feasibility Study use the terms mineral reserve , proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The 2009 Study and the Pre-Feasibility Study 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

Mineralized Material Expansion and Drilling Program

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

In addition to the district program, the Borealis Property embraces numerous areas with potential for discovery of mineable gold deposits. The defined target areas can be grouped into categories based on our expectation for deposit expansion or potential for discovery. Past emphasis was focused on targets which are the extensions of previously mined deposits, specifically within the previously disturbed areas the East Ridge-Gold View-Northeast Ridge mineralized trend, and around the margins of the Borealis, Freedom Flats, and Deep Ore Flats/Polaris

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deposits. Each has the potential to add to the material that can be developed as part of the initial mine plan. Drilling programs from 2005 through 2007 were completed primarily in areas where mineralization is known to exist. In addition to advancing existing mineralization to a higher level of confidence, this drilling program has further information gathering objectives for metallurgical assessment, waste characterization, and hydrological analyses that are required in support of our operating permit applications, environmental assessment, and engineering design. Results from drilling of heap leachable material will be incorporated into the feasibility study, should a feasibility study be completed.

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

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

(Source: Gryphon Gold, 2005)

United States Mining Laws

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

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

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

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

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

Permitting

Permit Acquisition and Fundamental Environmental Permitting Considerations

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

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

The approved Plan of Operations focuses on the approximately 460 acre area previously disturbed by mining operations. Deposits within this boundary, subject to permit applications generally, include the oxidized and partially oxidized portions of Borealis, Deep Ore Flats (also known as Polaris), East Ridge, Freedom Flats, and Northeast Ridge which are amenable to a conventional hydrometallurgical gold recovery process such as heap leaching. Also included in the Plan of Operations is the option for development of underground access to the Graben

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deposit to be used for exploration and future development activities, although no production plan has been submitted for consideration in this mineralized zone at this date. Crocodile Ridge, Middle Ridge, and other deposits within the study area boundaries of the Borealis Property will be added to the permit applications if warranted based on ongoing engineering and in-fill drilling results.

Permitting Process Overview

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

Environmental Inventories

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

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

Permitting Requirements

U.S. Forest Service Requirements

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

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

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

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significantly increased time period for review and public comment for an EIS versus an EA. Approvals of Gryphon Gold s site exploration activities to date were authorized under a CE.

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

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

Nevada Division of Water Resources Requirements

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

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

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

NDEP Bureau of Mining Regulation and Reclamation Requirements

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

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

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

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

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

Nevada Division of Environmental Protection Bureau of Air Quality Requirements

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

United States Regulatory Matters

General

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

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

U.S. Federal and State Environmental Law

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

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

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

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

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

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

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

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

U.S. Federal and State Reclamation Requirements

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

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

LEGAL PROCEEDINGS

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

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

We, like most private water right owners, intend to have only minimal involvement in the merits of the lawsuit. We do not believe that this civil action, which will determine the extent and priority of federally reserved water rights in the area, will have any effect on our potential business operations.

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MANAGEMENT

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

The following table and information that follows sets forth, as of April 26, 2011, the names, and positions of our directors and executive officers:

Name and Municipality of Residence	Current Office with Gryphon Gold	Principal Occupation Last Five Years	Director Since
John L. Key Gardnerville, Nevada	Chief Executive Officer, Director	Chief Executive Officer appointed July 21, 2008, General Manager Projects for the Teck Cominco organization from 1973 to 2004.	July 21, 2008
Donald W. Gentry Bella Vista, Arkansas	Director	President, Chief Executive Officer, Chairman and Director of PolyMet Mining Corporation, 1998 to 2003	July 18, 2005
Marvin K. Kaiser Mayfield, Kentucky	Director	Consultant to natural resource industry, Whippoorwill Consulting 2006 Present, CFO, Executive VP, Chief Administrative Officer Doe Run Company 1993- 2006, CFO AMAX Gold, Inc 1989 to 1993, CFO, Senior VP Ranchers Exploration and Development Corporation 1969 to 1984.	Nov. 18, 2008
Terence J. Cryan Bronxville, NY	Director	Managing director at Paine Webber (Kidder,Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Currently, Mr. Cryan serves as the Managing Director to Concert Energy Partners, LLC.	Sep. 3, 2009
Lisanna M. Lewis Vancouver, BC	Vice President, Treasurer	Vice President appointed August 1, 2010, formerly Controller and Treasurer of the	

		Company.
Matthew A. Fowler(1) Spokane, WA	Interim Chief Financial Officer	Interim Chief Financial Officer appointed May 28, 2010. Leadership roles with Strata Partners, LLC, Octavius Capital Management, LLC, and Sharp Executive Associates, Inc.
Steve Craig Carson City, Nevada	Vice President of Exploration	VP of Exploration appointed April 1, 2010. Vice President of Corporate Development of Golden Phoenix Minerals Company

(1) Effective May 28, 2010, R. William Wilson resigned as consulting Chief Financial Officer and was replaced by Matthew A. Fowler (who serves on an interim basis).

The following is a description of the business background of the directors, executive officers and key employees of the Company.

John L. Key, 60, was appointed February 5, 2008 as Chief Operating Officer and has since been appointed President, CEO, and Director (July 21, 2008). Mr. Key is a graduate of the University of Missouri Rolla with an M.S. in Mining Engineer. He possesses 32 years of extensive mining experience. He worked for the Teck Cominco organization from 1973 to 2004 during which time he was directly responsible for running, in succession, the Magmont, Polaris, and Red Dog mines and also served as General Manager Projects. Mr. Key oversaw over $300 million in capital expansions at Red Dog. His primary duties at Gryphon Gold are to review the potential for an oxide mine on the Borealis Property, to work on the longer term opportunities for the sulphide ore resources and to review opportunities available to Gryphon Gold.

Donald W. Gentry, 68, Director, joined our board of directors in July 2005 after retiring from PolyMet Mining Corporation as its President, Chief Executive Officer, Chairman and Director from 1998 to 2003. He is a retired Professor Emeritus of the Colorado School of Mines, having served that institution from 1972 to 1998 as Professor, Department Head and Dean of Engineering. He has an international reputation as a consulting mining engineer, professional educator and mining executive. His primary interests center on the financial aspects of project evaluation, investment decision analysis, project financing, and corporate investment strategies. He previously served as a Director of Santa Fe Pacific Gold Corporation, Newmont Mining Corporation, and Newmont Gold Company and currently is a Director of Golden Gryphon Explorations (a company which is unrelated to Gryphon Gold Corporation). He was elected President of the Society for Mining, Metallurgy and Exploration, Inc. in 1993 and the American Institute of Mining, Metallurgical and Petroleum Engineers in 1996 and to the National Academy of Engineering in 1996. He holds B.S., M.S. and PhD. degrees in mining engineering from the University of Illinois, Mackay School of Mines, and University of Arizona, respectively.

Marvin K. Kaiser, 69, was appointed to our board of directors on November 18, 2008. Mr. Kaiser graduated from Southern Illinois University-Carbondale and began his career in the field of public accounting becoming a Certified Public Accountant in 1965. His career in the natural resources industry began in 1969 with Ranchers Exploration and Development Corporation where he held various positions including Chief Financial Officer and Senior Vice President until the company was combined with Hecla Mining Company in 1984. Mr. Kaiser also served as Chief Financial Officer of AMAX Gold, Inc from 1989 until 1993 when AMAX Inc was combined with Cyprus Mining. Subsequent to leaving AMAX, Mr. Kaiser joined The Doe Run Company as Chief Financial Officer. At the time of his retirement from Doe Run in 2006, he held the positions of Executive Vice President and Chief Administrative Officer. Following his retirement, Mr. Kaiser formed Whippoorwill Consulting, LLC, which provides financial advisory services to the natural resources industry. He presently serves as a director of several publicly traded mining/exploration companies as well as The Southern Illinois University Foundation.

Terence J. Cryan, 48, was appointed to our board of directors on September 3, 2009. Mr. Cryan graduated with honors from Tufts University in Medford, Massachusetts with a Bachelor of Arts degree in Economics/Political Science. He then attended the London School of Economics to earn his Masters of Science degree in Economics in December 1984. Mr. Cryan began his career in 1985 as a Portfolio Manager/Investment Officer for Chase Investment Management Corp in New York, NY. In 1987 he located to London, England with Lazard where he gained extensive knowledge of cross border corporate finance as well as mergers and acquisitions. Mr. Cryan s career continued as a managing director at Paine Webber (following its acquisition of Kidder, Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Mr. Cryan was also President & CEO to Medical Acoustics LLC from April 2007 to April 2010. Currently, Mr. Cryan serves as the Managing Director of Concert Energy Partners, LLC, an investment banking and private equity firm based in New York. Mr. Cryan has extensive experience as a director of a number of publicly traded companies.

Lisanna M. Lewis, 37, was appointed as a Vice President on August 1, 2010. Ms. Lewis continues to serve as Controller, Treasurer and Secretary. Ms. Lewis has been with Gryphon Gold Corporation since October 2005, and was originally hired as the Office Manager of the Company. In August 2007 Ms. Lewis was promoted to Controller of the Company and later in November 2008 as Secretary and Treasurer. As Vice President of the Company, Ms. Lewis will continue to be responsible for the all administrative functions, financial reporting and investor relations activity. Ms. Lewis has a Commercial Accounting Certificate, an Accounting Technician Diploma, and is currently enrolled in the Certified General Accountants of British Columbia program.

Matthew A. Fowler, 32, was appointed as our Interim Chief Financial Officer effective May 28, 2010. Mr. Fowler has six years of investment, corporate finance and Securities and Exchange Commission (SEC) accounting experience. Over his career he has held leadership roles with Strata Partners, LLC a boutique Investment bank in Seattle, Washington, Octavius Capital Management, LLC a registered Investment adviser serving high net worth individuals and Sharp Executive Associates, Inc., an International Financial Consultancy assisting private, SEC and Toronto Stock Exchange (***TSX***) listed public companies with their accounting and regulatory compliance needs. During his career, Mr. Fowler has raised approximately $25 million of institutional capital for private equity investments, invested in numerous private equity transactions and drafted and finalized SEC and TSX documents for publicly listed companies. Mr. Fowler received an AB degree in economics and a Certificate in Accounting from the University of Washington.

Steven Craig, 63, has served as Vice President of Exploration from January 2006 to November 2008 and has been reappointed Vice President of Exploration on April 1, 2010. Previous to his current position with Gryphon Gold, he was Vice President of Corporate Development of Golden Phoenix Minerals Company in Reno Nevada. He also served as the Company s Chairman, Director and Corporate Secretary. In this capacity he had numerous corporate responsibilities, but his main focus was to develop business opportunities for the company. This was done through property evaluation and acquisition and developing new ore deposits on the properties held. Mr. Craig received his M. S. degree in Economic Geology from Colorado State University in 1980 and a B. S. degree in Geology from Western State College in 1974.

Arrangements between Directors and Officers

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

Family Relationships

There are no family relationships between, or among any of our directors or executive officers

Legal Proceedings, Cease Trade Orders and Bankruptcy

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

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

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

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

Other than as described above, no director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

(b) has, within 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;

(c) has, within 10 years before the date of this prospectus, been the subject of, or a party to, any U.S. federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any U.S. federal or state securities or commodities law or regulation; or (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

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(d) has, within 10 years before the date of this prospectus, been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C.78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C.1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

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

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Marvin K. Kaiser, one of our directors, was a director of Constellation Copper Corporation, which filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) in December, 2008.

EXECUTIVE COMPENSATION

The following table sets forth compensation paid to each of the individuals who served as our Principal Executive Officer our Principal Financial Officer and our two other most highly compensated employees (the named executive officers) for the fiscal year ended March 31, 2011.

During the fiscal year ended March 31, 2011, the Board authorized salary adjustments for directors, officers, and employees. These adjustments are indicated in the compensation table below. Further, the Board made stock and option grants to certain directors and executives to provide additional compensation, and the calculated value of such grants are indicated in the compensation table below.

Name and Principal Position	Year	Salary $	Bonus $	Stock Awards $	Options Awards $	Non-Equity Incentive Plan Compensation $	Non-Qualified Deferred Compensation Earnings $	All Other Compensation	Total
John Key, CEO	2011	222,000	97,500	23,317	35,121				377,938(1)
	2010	152,000			67,482				219,482(2)
Matthew A Fowler, Interim CFO	2011	NIL			9,590			25,663	35,283(3)
Lisanna Lewis,	2011	104,510*		11,658	10,941				127,109(4)
VP, Treasurer & Secretary	2010	86,634*	10,314*		14,670				111,618(5)
Steven D Craig, VP Exploration	2011	163,000		7,772	13,561				184,333(6)
R. William Wilson,	2011	33,100			NIL				33,100
former CFO	2010	84,051			2,407				86,458(7)

(1) $319,500 of grand total was received as cash, $35,121 was recorded as non-cash stock compensation expense, and $23,317 in stock granted.

(2) $152,000 of grand total was received as cash, remaining $67,482 was recorded as non-cash stock compensation expense.

(3) Matthew Fowler is employed by Sharp Executive Associates, Inc., which is a contract CFO firm. $10,000 was paid to Sharp Executive Associates, Inc. as a retainer and $25,693 was billed by Sharp Executive Associates, Inc. for CFO duties. $9,590 was recorded as non-cash compensation for Sharp Executive Associates, Inc.

(4) $104,510 of grand total was received in cash, $10,941 was recorded as non-cash stock compensation expense, and $11,658 in stock granted.

(5) $96,948 of grand total was received in cash, $14,670 recorded in non-cash stock compensation expense.

(6) $163,000 of grand total was received in cash, $13,561 recorded in non-cash stock compensation expense, and $7,772 in stock granted.

(7) $84,051 of grand total was received as cash, remaining $2,407 was recorded as non-cash stock compensation expense.

* Based on the March 31, 2011 exchange rate of Cdn$0.9696 equals US$1.

Executive Compensation Agreements and Summary of Executive Compensation

Report on Executive Compensation

During the year ended March 31, 2011, the Company s Compensation Committee was responsible for establishing compensation policy and administering the compensation programs of our executive officers.

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

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

Executive Compensation Agreements

Gryphon Gold is a party to an employment contract with each of John Key, Lisanna Lewis and Steven Craig. Pursuant to each of their respective agreements, all three officers are entitled to compensation for termination of their employment in certain circumstances, including termination without cause and termination due to a change of control. These employment agreements provide for the payment of compensation that will be triggered by a termination of the executive officer s employment by either Gryphon Gold or the executive officer following a change of control of Gryphon Gold, or by Gryphon Gold at any time, other than for cause.

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

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the stock options and stock appreciation rights granted to our named executive officers as of the fiscal year ended March 31, 2011.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (1) (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have not Vested (#)	Market Value of Shares or Units of Stock that Have not Vested ($)	Equity Incentive Plan Awards: Number of Securities Unearned Shares, Units or Other Rights That Have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have not Vested ($)
John L Key(1) Chief Executive	150,000			Cdn$ 0.62	11-Feb-13				
Officer	350,000			Cdn$ 0.41	1-Aug-13				
	200,000			US$ 0.22	16-Sept-14				
	300,000	100,000		US$ 0.10	24-Aug-15				
Lisanna Lewis(2)	40,000			Cdn$ 0.81	10-Jan-12				
VP, Treasurer,	50,000			Cdn$ 0.41	8-Apr-13				
Secretary	50,000			Cdn$ 0.38	8-Jul-13				
	100,000			US$ 0.22	16-Sept-14				
	112,500	37,500		US$ 0.10	24-Aug-15				
Matthew Fowler Interim Chief Financial Officer	50,000			US$ 0.14	12-May-15				
Steven Craig(3)	50,000			Cdn$ 0.80	26-Feb-12				
VP Exploration	85,000			Cdn$ 0.90	21-Sept-12				

	150,000		Cdn$	0.38	8-Jul-13
	100,000		US$	0.15	19-Apr-15
	37,500	12,500	US$	0.10	24-Aug-15
R. William Wilson former CFO	NIL	NIL			

(1) 100,000 to vest June 30, 2011.

(2) 37,500 to vest June 30, 2011.

(3) 12,500 to vest June 30, 2011

Retirement, Resignation or Termination Plans

We sponsor no plan, whether written or verbal, that would provide compensation or benefits of any type to an executive upon retirement, or any plan that would provide payment for retirement, resignation, or termination as a result of a change in control of our Company or as a result of a change in the responsibilities of an executive following a change in control of our Company, provided however that as described above each of John Key, Lisanna Lewis and Steve Craig have employment contracts that provide, in each case, for the payment of twelve (12) months of salary upon termination as a result of change in control of our Company.

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Director Compensation

The following table sets forth director compensation as of March 31, 2011.

Name	Fees Earned or Paid in Cash ($)($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Donald Gentry	18,000		5,670			35,000	58,670(1)
Marvin Kaiser	18,000		5,670			35,000	58,670(2)
Terence Cryan	18,000		5,670			40,000	63,670(3)

(1) $18,000 of fees has been paid in cash. 100,000 stock options, 75,000 have vested; 25,000 vest on June 30, 2011. $35,000 was accrued for special committee fees of which $17,500 was paid on March 31, 2010 and the remainder was paid in April 2010.

(2) $18,000 of fees has been paid in cash. 100,000 stock options, 75,000 have vested; 25,000 vest on June 30, 2011. $35,000 was accrued for special committee fees of which $17,500 was paid on March 31, 2010 and the remainder was paid in April 2010.

(3) $18,000 of fees has been paid in cash. 100,000 stock options, 75,000 have vested; 25,000 vest on June 30, 2011. $40,000 was accrued for special committee fees of which $20,000 was paid on March 31, 2010 and the remainder was paid in April 2010.

Compensation of Directors

Beginning April 1, 2008, each independent board member shall receive $1,500 per month. The fees cover attendance for all meetings, irrespective of the number of audit, compensation and board meetings. All fees have been paid through March 31, 2011.

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

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

Officer Compensation Agreements

Gryphon Gold is a party to an employment contract with each of John Key, Lisanna Lewis and Steven Craig. Pursuant to each of their respective agreements all three officers are entitled to compensation for termination of their employment in certain circumstances, including termination without cause and termination due to a change of control. These employment agreements provide for the payment of compensation that will be triggered by a termination of the executive officer s employment by either Gryphon Gold or the executive officer following a change of control of Gryphon Gold, or by Gryphon Gold at any time, other than for cause.

Gryphon Gold is a party to a financial consulting agreement with Sharp Executive Associates, Inc. (which we refer to as Sharp). Pursuant to the agreement, Matthew A. Fowler has been named our Interim Chief Financial Officer and Mr. Fowler will act in all normal capacities of the office to which he is appointed or elected. Gryphon Gold paid Sharp a retainer of $10,000 upon execution of the agreement and awarded 50,000 stock options to Mr. Fowler and 50,000 stock options to Sharp at an exercise price of $0.14 for a term of 5 years. Mr. Fowler s hours will be billed to the Company at a rate of $105 per hour.

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EQUITY COMPENSATION PLANS

On March 29, 2005, our board of directors adopted a stock option plan which was approved by our shareholders on May 13, 2005. As of April 16, 2011 all options granted under this stock compensation plan have been forfeited or exercised (107,500) and the plan is not longer in effect.

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

On September 8, 2009, at the special meeting of the shareholders, the shareholders approved an increase in the number of shares of common stock issuable pursuant to the grant of stock options under the Omnibus Incentive Plan. After the shareholders approved increase, the 2006 Omnibus Incentive Plan authorizes the Company to grant 6,000,000 options and 1,000,000 restricted stock units. As of April 26, 2011 we had granted 9,707,000 stock options, of which 4,904,500 were forfeited, pursuant to the terms of our omnibus incentive plan as described below with expiry dates to 2015; 1,126,170 restricted stock units had been granted as of April 26, 2011, of which 142,750 have been forfeited and the equivalent of 42,500 were issued in cash pursuant to the terms of our omnibus incentive plan.

We have no equity compensation plans in place that have not been approved by our shareholders. The table below shows securities issued under our equity compensation plans as of March 31, 2011

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	4,917,500(1)	$ 0.42*	1,214,080(2)
Equity compensation plans not approved by security holders			
TOTAL	4,917,500		1,214,080

(1) Consists of 115,000 outstanding options granted from the Stock Option Plan, and 4,802,500 outstanding options granted from the Omnibus Incentive Plan.

(2) Consists of 1,197,500 options and 16,580 restricted stock units remaining under the Omnibus Incentive Plan.

* Based on the March 31, 2011 exchange rate of Cdn$0.9696 equals US$1

Omnibus Incentive Plan

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

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

Certain restrictions contained in the Plan include:

the number of shares of common stock which may be issued pursuant to the Plan (or any other employee related plan or options for service) to any one person may not exceed 5% of all the common shares issued and outstanding on a non-diluted basis from time to time; and

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

the number of shares of common stock which may be reserved for issuance in respect of options granted to insiders pursuant to the Plan (or any other employee-related plan or options for service) may not exceed 10% of the common stock issued and outstanding on a non-diluted basis from time to time unless approval of disinterested shareholders has been obtained in accordance with the rules of the Toronto Stock Exchange).

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Securities Ownership

The following tables set forth information as of April 27, 2011 regarding the ownership of our common stock by:

each person who is known by us to own more than 5% of our shares of common stock; and

each named executive officer, each director and all of our directors and executive officers as a group.

The number of shares beneficially owned and the percentage of shares beneficially owned are based on 96,983,632 shares of common stock outstanding as of April 27, 2011.

For the purposes of the information provided below, shares subject to options and warrants that are exercisable within 60 days following April 27, 2011 are deemed to be outstanding and beneficially owned by the holder for the purpose of computing the number of shares and percentage ownership of that holder but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to these tables, and as affected by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them.

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Principal Stockholders

Name and Address of Beneficial Owner(1)	Before this Offering		After this Offering	
	Shares	Percent	Shares	Percent
Gerald W. & Fabiola Baughman(2) 197 North Argyle Court Reno, Nevada 89511	9,000,000(2)	9.28%		
Top Gold AG M V K(3) Landstrasse 14 9496 Balzers Principality of Liechtenstein	11,350,000(3)	11.70%		

(1) Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in this table have sole voting and sole investment control with respect to all shares beneficially owned. Figures shown are on a non-diluted basis.

(2) Includes 8,750,000 shares of common stock beneficially owned by the Baughmans, as joint tenants with rights of survivorship.

(3) The Investment Advisor with ultimate voting and dispositive power is Luxor Asset Management Trust reg., Balzers, which is represented by Mr. Martin Frick, Balzers.

Security Ownership of Management

Name and Address of Beneficial Owner(1)	Before this Offering		After this Offering	
	Shares	Percent	Shares	Percent
John L. Key Chief Executive Officer, Director 611 N Nevada Street Carson City, NV 89703	1,150,000	1.19%(2)		
Donald W. Gentry Director 611 N Nevada Street Carson City, NV 89703	467,500	0.48%(3)		
Marvin K. Kaiser Director 611 N Nevada Street Carson City, NV 89703	325,000	0.33%(4)		
Terence J. Cryan Director 611 N Nevada Street	250,000	0.26%(5)		

Carson City, NV 89703		
Lisanna M. Lewis	429,100	0.44%(6)
Vice President, Treasurer, Secretary		
711-675 West Hastings Street		
Vancouver, BC V6B 1N2		
Mathew A. Fowler	50,000	0.05%(7)
Interim Chief Financial Officer		
3028 W Grace Avenue		
Spokane, WA 99205		
Gerald W. Baughman	9,000,000	9.28%
Former Officer and Director		
5490 Longley Lane, Reno, NV 89511		

Name and Address of Beneficial Owner(1)	Before this Offering Shares	Percent	After this Offering Shares	Percent
Michael K. Longinotti Former Chief Financial Officer Suite 711, 675 West Hastings Street Vancouver, BC V6B 1N2	533,000(2)	0.55%(8)		
Steven Craig VP Exploration 611 N Nevada Street Carson City, NV 89703	497,500	0.51%(9)		

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

(2) Includes vested options exercisable to acquire 1,000,000 shares of common stock.

(3) Includes vested options exercisable to acquire 350,000 shares of common stock.

(4) Includes vested options exercisable to acquire 250,000 shares of common stock and warrants exercisable to acquire 25,000 shares of common stock..

(5) Includes vested options exercisable to acquire 250,000 shares of common stock.

(6) Includes vested options exercisable to acquire 352,500 shares or common stock.

(7) Includes vested options exercisable to acquire 50,000 shares of common stock.

(8) Includes vested options exercisable to acquire 350,000 shares of common stock.

(9) Includes vested options exercisable to acquire 422,500 shares of common stock.

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

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

As of April 27, 2011, we had approximately 2,100 shareholders of record of our common stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE

Except for the transactions described below, none of our directors, senior officers or principal shareholders, nor any associate or affiliate of the foregoing have any interest, direct or indirect, in any transaction, since the beginning of the fiscal year ended March 31, 2011, or in any proposed transactions, in which such person had or is to have a direct or indirect material interest.

Related party transactions are reviewed and approved by the board of directors.

Purchases Of Securities

During and subsequent to the fiscal year ended March 31, 2011, officers, directors and 10% shareholders of Gryphon Gold purchased securities of Gryphon Gold on the following terms:

Officer, Director, 10% Shareholder	**Type of Security**	**Price of Security**	**Date of Purchase**
Lisanna Lewis	300 units	Cdn$0.175	May 6, 2010
Lisanna Lewis	500 units	Cdn$0.155	September 20, 2010
Lisanna Lewis	200 units	Cdn$0.21	October 15, 2010

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

Director Independence

Our board of directors has determined that the following directors are independent based on the standards for director independence for the NYSE Amex Equities:

Donald W. Gentry;
Marvin K. Kaiser; and
Terence J. Cryan.

DESCRIPTION OF SECURITIES

Our authorized capital stock of Gryphon Gold consists of two hundred fifty million (250,000,000) shares of common stock, par value $0.001 per share and fifteen million (15,000,000) shares of Preferred Stock, par value $0.001 per share. No other class or series of capital stock is currently authorized under the Corporation s articles of incorporation.

Common Stock

As of April 27, 2011, we had 96,983,632 shares of common stock outstanding, 5,352,500 shares of common stock issuable upon exercise of outstanding options and 9,430,892 shares of common stock issuable upon exercise of outstanding warrants.

Holders of common stock are entitled to one vote per share on all matters subject to stockholder vote. The common stock has no preemptive or other subscription rights. All of the presently outstanding shares of common stock are fully paid and non assessable. If the corporation is liquidated or dissolved, holders of shares of common stock will be entitled to share ratably in assets remaining after satisfaction of liabilities and subject to the rights, if any, of the holders of our preferred stock.

The holders of the common stock are entitled to receive dividends when and as declared by the board of directors, out of funds legally available therefore. The corporation has not paid cash dividends with respect to its common stock in the past. No share of common stock of the corporation which is fully paid is liable to calls or assessment by the corporation.

Preferred Stock

Our articles of incorporation authorize our board of directors to issue, by resolution and without any action by our stockholders, one or more series of preferred stock and to establish the designations, dividend rights, dividend rate, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms and all other preferences and rights of any series of preferred stock, including rights that could adversely affect the voting power of the holders of our common stock.

One of the effects of undesignated preferred stock may be to enable the board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of our management. The issuance of shares of preferred stock pursuant to the board of directors authority described above may adversely affect the rights of holders of common stock. For example, preferred stock issued by us may rank prior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the common stock at a premium or may otherwise adversely affect the market price of the common stock.

Nevada Laws

The Nevada Business Corporation Law contains a provision governing acquisition of controlling interest. This law provides generally that any person or entity that acquires 20% or more of the outstanding voting shares of a

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publicly-held Nevada corporation in the secondary public or private market may be denied voting rights with respect to the acquired shares, unless a majority of the disinterested shareholders of the corporation elects to restore such voting rights in whole or in part. The control share acquisition act provides that a person or entity acquires control shares whenever it acquires shares that, but for the operation of the control share acquisition act, would bring its voting power within any of the following three ranges:

- 20 to 331/3%;
- 331/3 to 50%; or
- more than 50%.

A control share acquisition is generally defined as the direct or indirect acquisition of either ownership or voting power associated with issued and outstanding control shares. The shareholders or board of directors of a corporation may elect to exempt the stock of the corporation from the provisions of the control share acquisition act through adoption of a provision to that effect in the articles of incorporation or bylaws of the corporation. Our articles of incorporation and bylaws do not exempt our common stock from the control share acquisition act.

The control share acquisition act is applicable only to shares of Issuing Corporations as defined by the Nevada law. An Issuing Corporation is a Nevada corporation, which:

- has 200 or more shareholders, with at least 100 of such shareholders being both shareholders of record and residents of Nevada; and
- does business in Nevada directly or through an affiliated corporation.

At this time, we do not have 100 shareholders of record resident of Nevada. Therefore, the provisions of the control share acquisition act do not apply to acquisitions of our shares and will not until such time as these requirements have been met. At such time as they may apply, the provisions of the control share acquisition act may discourage companies or persons interested in acquiring a significant interest in or control of us, regardless of whether such acquisition may be in the interest of our shareholders.

The Nevada Combination with Interested Shareholders Statute may also have an effect of delaying or making it more difficult to effect a change in control of us. This statute prevents an interested shareholder and a resident domestic Nevada corporation from entering into a combination, unless certain conditions are met. The statute defines combination to include any merger or consolidation with an interested shareholder, or any sale, lease, exchange, mortgage, pledge, transfer or other disposition, in one transaction or a series of transactions with an interested shareholder having:

- an aggregate market value equal to 5 percent or more of the aggregate market value of the assets of the corporation;
- an aggregate market value equal to 5 percent or more of the aggregate market value of all outstanding shares of the corporation; or
- representing 10 percent or more of the earning power or net income of the corporation.

An interested shareholder means the beneficial owner of 10 percent or more of the voting shares of a resident domestic corporation, or an affiliate or associate thereof. A corporation affected by the statute may not engage in a combination within three years after the interested shareholder acquires its shares unless the combination or purchase is approved by the board of directors before the interested shareholder acquired such shares. If approval is not obtained, then after the expiration of the three-year period, the business combination may be consummated with the approval of the board of directors or a majority of the voting power held by disinterested shareholders, or if the consideration to be paid by the interested shareholder is at least equal to the highest of:

- the highest price per share paid by the interested shareholder within the three years immediately preceding the date of the announcement of the combination or in the transaction in which he became an interested shareholder, whichever is higher;

- the market value per common share on the date of announcement of the combination or the date the interested shareholder acquired the shares, whichever is higher; or

- if higher for the holders of preferred stock, the highest liquidation value of the preferred stock.

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UNDERWRITING

Subject to the terms and conditions in the underwriting agreement, dated , 2011, by and among us and Roth Capital Partners, LLC, which we refer to as the U.S. underwriter, acting as sole book-running manager in the United States, and Acumen Capital Finance Partners Limited, which we refer to as the Canadian underwriter, acting as sole book-running manager in Canada, pursuant to which the U.S. underwriter and the Canadian underwriter have agreed to purchase from us, and we have agreed to sell to the them, on a firm commitment basis, the number of shares of common stock provided below opposite each of their names, at the public offering price, less the underwriting discount set forth on the cover page of this prospectus.

Underwriter	Number of Shares
Roth Capital Partners, LLC	
Acumen Capital Finance Partners Limited	
Total	

The Canadian underwriter has agreed in the underwriting agreement to solicit offers for shares of our common stock in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, Canada and, if considered advisable by the U.S. underwriter and the Canadian underwriter, from purchasers outside of Canada and the United States, subject to certain conditions. The U.S. underwriter will not be distributing shares of our common stock in Canada.

The offering is being made concurrently in the United States and Canada in the Provinces of British Columbia, Alberta, Saskatchewan and Ontario. We may also make offers on a private placement basis in other jurisdictions where permitted under applicable law.

The public offering price on the cover page of this prospectus was determined following arm s length negotiations between us and the U.S. underwriter and the Canadian underwriter.

The U.S. underwriter and the Canadian underwriter are obligated to purchase all of the shares of common stock offered hereby if any of the shares are purchased. However, the U.S. underwriter and the Canadian underwriter are not required to take or pay for the shares of common stock covered by their over-allotment option described below. The underwriting agreement provides that the obligation of the U.S. underwriter and the Canadian underwriter to purchase all of the shares being offered to the public is subject to the approval of certain legal matters by their respective counsel and to certain other conditions. The underwriting agreement provides that the U.S. underwriter s and the Canadian underwriter s obligations to purchase shares of common stock depend on the satisfaction of the conditions contained in the underwriting agreement, including:

- the representations and warranties made by us to the U.S. underwriter and the Canadian underwriter are true;
- there is no adverse material change in our business; and
- we deliver customer closing documents to the U.S. underwriter and the Canadian underwriter.

Additionally, the obligations of the U.S. underwriter or the Canadian underwriter under the underwriting agreement may be terminated at the discretion of the U.S. underwriter or the Canadian underwriter, as applicable, upon the occurrence of certain stated events.

Over-Allotment Option

We have granted to the U.S. underwriter and the Canadian underwriter an over-allotment option. This option, which is exercisable for up to days after the date of this prospectus, permits the U.S. underwriter and the Canadian underwriter to purchase a maximum of additional shares in the aggregate from us to cover over-allotments, if any. If the U.S. underwriter or the Canadian underwriter exercises all or part of this option, that party will purchase a number of additional shares of common stock, approximately proportionate to such party s initial commitment amount reflected in the above table, covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount and commission.

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Commissions and Expenses

The U.S. underwriter and the Canadian underwriter have advised us that they propose to offer the shares to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. The U.S. underwriter and the Canadian underwriter may allow, and certain dealers may reallow, a discount from the concession not in excess of $ per share to certain brokers and dealers. After this offering, the public offering price, concession and reallowance to dealers may be changed by the U.S. underwriter and the Canadian underwriter. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The shares are offered by the U.S. underwriter and the Canadian underwriter as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The U.S. underwriter and the Canadian underwriter have informed us that they do not intend to confirm sales to any accounts over which either of them exercises discretionary authority. The Canadian underwriter may enter into selling arrangements with other investment dealers at no additional cost to us.

The following table provides information regarding the amount of the underwriting discounts and commissions to be paid to the U.S. underwriter and the Canadian underwriter by us. These amounts are shown assuming both no exercise and full exercise of the U.S. underwriter s and the Canadian underwriter s option to purchase additional shares to cover over-allotments, if any.

		Total	
	Per Share	Without Over-Allotment	With Over-Allotment
Underwriting discount	$	$	$
Proceeds, before expenses, to us	$	$	$

We estimate that the expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $. In addition, we have agreed to reimburse the U.S. underwriter for certain out-of-pocket expenses incurred by it up to an aggregate of $100,000 and the Canadian underwriter for certain out-of-pocket expenses incurred by it up to an aggregate of Cdn.$40,000 with respect to this offering. In the event the offering is not consummated, we have agreed to reimburse the U.S. underwriter for certain out-of-pocket expenses incurred by it up to an aggregate of $50,000 and the Canadian underwriter for certain out-of-pocket expenses incurred by it up to an aggregate of Cdn.$20,000.

We have agreed to sell the shares at the offering price less the underwriting discount set forth on the cover page of this prospectus. We cannot be sure that the offering price will correspond to the price at which our common stock will trade following this offering.

U.S. Underwriter s and Canadian Underwriter s Warrants

We have also agreed to issue to each of the U.S. underwriter and the Canadian underwriter warrants to purchase a total of shares of common stock, a number of shares of common stock equal to an aggregate of 2.5% of the total number of shares of common stock sold by each of the U.S. underwriter and the Canadian underwriter, in this offering (including any over-allotment). The total dollar value of the warrants for the U.S. underwriter and the Canadian underwriter, collectively, is $. The warrants will have an exercise price equal to 120% of the public offering price per share, as set forth herein (but, in any event, not less than $0.30 per share of common stock). The warrants are exercisable commencing six months after the effective date of the registration statement related to this offering, and will be exercisable for two years thereafter. The warrants are not redeemable by us. The warrants and the underlying shares of common stock have been deemed compensation by FINRA and are therefore subject to a 180-day lock-up pursuant to Rule 5110(g)(1) of FINRA. The U.S. underwriter and the Canadian underwriter (or permitted assignees under the Rule) may not sell, transfer, assign, pledge or hypothecate the warrants or the securities underlying the warrants, nor will they engage in any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of the warrants or the underlying securities for a period of 180 days from the date of this prospectus. The warrants may be exercised on a cashless basis. The warrants will provide for adjustment in the number and price of such warrants (and the shares of common stock underlying such warrants) in the event of recapitalization, merger or other structural transaction to prevent mechanical dilution.

Indemnification

Pursuant to the underwriting agreement, we have agreed to indemnify the U.S. underwriter and the Canadian underwriter against certain liabilities, including liabilities under the Securities Act, and liabilities arising from breaches of representations and warranties contained in the underwriting agreement, or to contribute to payments which the U.S. underwriter and the Canadian underwriter or other indemnified parties may be required to make in respect of any such liabilities.

Lock-Up Agreements

We and our executive officers and directors have agreed to a 180-day lock-up from the date of this prospectus relating to shares of our common stock or any securities convertible into or exchangeable for our common stock. This means that, for a period of 180 days following the date of this prospectus, we and such persons may not offer, sell, purchase, pledge or otherwise transfer or dispose of, directly or indirectly, these securities without the prior written consent of the U.S. underwriter and the Canadian underwriter, subject to certain exceptions. The lock-up period described in the preceding sentence will be extended if (1) during the last 17 days of the lock-up period, we issue an earnings release or material news or a material event relating to us occurs, or (2) prior to the expiration of the initial lock-up period, we announce that we will release earnings results during the 15-day period following the last day of the initial lock-up period, in which case the lock-up period automatically will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the public announcement regarding the material news or the occurrence of the material event, as applicable, unless the U.S. underwriter and the Canadian underwriter waive, in writing, such extension.

Stabilization

Until the distribution of the securities offered by this prospectus is completed, rules of the SEC may limit the ability of the U.S. underwriter and the Canadian underwriter to bid for and to purchase our common stock. As an exception to these rules, the U.S. underwriter and the Canadian underwriter may engage in transactions effected in accordance with Regulation M under the Exchange Act that are intended to stabilize, maintain or otherwise affect the price of our common stock. The U.S. underwriter and the Canadian underwriter may engage in stabilizing transactions, over-allotment sales, syndicate covering transactions and penalty bids in accordance with Regulation M.

Stabilizing transactions permit bids or purchases of shares for the purpose of pegging, fixing or maintaining the price of the common stock, so long as stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by U.S. underwriter or the Canadian underwriter of common stock in excess of the number of shares it is obligated to purchase, which creates a short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares of common stock over-allotted by the U.S. underwriter or the Canadian underwriter is not greater than the number of shares of common stock that it may purchase in the over-allotment option. In a naked short position, the number of shares of common stock involved is greater than the number of shares in the over-allotment option. The U.S. underwriter or the Canadian underwriter may close out any covered short position by either exercising its over-allotment option and/or purchasing shares of our common stock in the open market.

Syndicate covering transactions involve the purchase of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the U.S. underwriter and the Canadian underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If U.S. underwriter or the Canadian underwriter sells more shares of common stock than could be covered by its over-allotment option, creating a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the U.S. underwriter or the Canadian underwriter is concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Penalty bids permit the U.S. underwriter or the Canadian underwriter to reclaim a selling concession from a syndicate member when the common stock originally sold by the selected dealer is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market.

We, the U.S. underwriter and the Canadian underwriter do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. These transactions may occur on any trading market. In addition, we, the U.S. underwriter and the Canadian underwriter make no representations that the U.S. underwriter or the Canadian underwriter will engage in these stabilizing transactions, or that any of these transactions, if commenced, will not be discontinued without notice at any time.

Electronic Distribution

This prospectus may be made available in electronic format on Internet sites or through other online services maintained by the U.S. underwriter or the Canadian underwriter or their respective affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. Other than this prospectus in electronic format, any information on the U.S. underwriter s, the Canadian underwriter s or their respective affiliates websites and any information contained in any other website maintained by the U.S. underwriter, the Canadian underwriter or any of their respective affiliates is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us, the U.S. underwriter or the Canadian underwriter and should not be relied upon by investors.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective on August 12, 2010, we terminated the services of our principal registered independent public accountant, Ernst & Young LLP.

In Ernst & Young s principal accountant reports on our financial statements for each of our fiscal years ended March 31, 2010 and 2009, no adverse opinion was issued and no opinion of Ernst & Young was modified as to audit scope or accounting principles. Ernst & Young s principal accountant reports on our financial statements for our fiscal years ended March 31, 2010 and 2009, each contained a disclaimer paragraph concerning uncertainty as to our ability to continue as a going concern. The financial statements did not include any adjustments that might have resulted from the outcome of this uncertainty. No other reports in each of the past two fiscal years contained a disclaimer of opinion or were modified as to uncertainty.

The change in auditor was recommended and approved by our audit committee.

In each of our fiscal years ended March 31, 2010 and 2009 and any interim period preceding the dismissal of Ernst & Young LLP, we are not aware of any disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Ernst & Young LLP, would have caused it to make references to the subject matter of the disagreement(s) in connection with its report.

We are not aware of any reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) that have occurred during the two most recent fiscal years and the interim period preceding the dismissal of Ernst & Young.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for our shares of common stock will be Computershare Trust Company, Inc. at its offices in Vancouver, Canada.

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LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Woodburn & Wedge LLP. Certain legal matters will be passed upon for us by Dorsey & Whitney LLP in the United States and Borden Ladner Gervais LLP in Canada. The U.S. underwriter and the Canadian underwriter were represented by Paul, Hastings, Janofsky & Walker LLP in the United States and Blake, Cassels & Graydon LLP in Canada.

Certain Canadian tax matters in connection with the offering and the securities distributed hereunder will be passed upon by Borden Ladner Gervais LLP on behalf of us and Blake, Cassels & Graydon LLP on behalf of the U.S. underwriter and the Canadian underwriter. As at the date hereof, we are advised that their respective partners and associates, as a group, of each of Borden Ladner Gervais LLP and Blakes, Cassels & Graydon LLP, beneficially owns, directly or indirectly, less than one percent of our outstanding shares of common stock.

EXPERTS

Information relating to our mineral properties in this prospectus has been derived from reports prepared by Roger C. Steininger, Ph.D., CPG, John R. Danio, PE, Steve Wolff (in respect of Section 17 of the Technical Report only), Steven D. Craig, CPG, Jaye T. Pickarts, P.E., Kim Drossulis, John D. Welsh, Jonathan M. Brown, Douglas Willis and Dr. Thom Seal and has been included in reliance on such persons expertise. Each of John R. Danio, PE, Steve Wolff, Jaye T. Pickarts, P.E., Kim Drossulis, John D. Welsh, Jonathan M. Brown, Douglas Willis, and Dr. Thom Seal is independent from us. Roger C. Steininger, Ph.D., CPG, is our former Chief Consulting Geologist and Steven D. Craig, CPG, is our Vice President Exploration.

None of the aforementioned persons, and the directors, officers, employees and partners, as applicable, of each of the aforementioned persons received or has received a direct or indirect interest in a property of the Company or any associate or affiliate of the Company.

Our consolidated financial statements as of March 31, 2010 and 2009 and each of the two years in the period ended March 31, 2010 and for the period from April 24, 2003 (inception) to March 31, 2010 included in this prospectus and registration statement have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act and, accordingly, file current and periodic reports, proxy statements and other information with the SEC. We have also filed a registration statement on Form S-1 under the Securities Act, as amended, in connection with this offering. This prospectus, which is part of the registration statement, does not contain all of the information contained in the registration statement. For further information with respect to us and the shares of common stock offered hereby, reference is made to such registration statement, including the exhibits thereto, which may be read, without charge, and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a site on the World Wide Web at http://www.sec.gov that contains current and periodic reports, proxy statements and other information regarding registrants that filed electronically with the SEC. Statements contained in this prospectus as to the intent of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to this registration statement, each such statement being qualified in all respects by such reference.

GLOSSARY

Following are definitions of certain technical terms used in this prospectus.

Au. The chemical symbol for gold.

Aeromagnetic. Detection of changes in the Earth s magnetic field with survey instruments mounted in an aircraft. Provides an interpretation of subsurface geology and indications of the presence of certain mineral assemblages which may indicate traces of hydrothermal activity.

Alluvium/ alluvial. Unconsolidated, to loosely consolidated, gravel, silt, sand, clay, etc. deposited in valleys, usually by water.

Andesite. Igneous (formed from molten material) rock that solidified at the Earth s surface and is principally composed of plagioclase feldspar, biotite, and hornblende.

Andesite flow. A lava flow composed of andesite.

Anomaly. Geophysical or geochemical measurements that are outside of the normal, or average, range of values.

Argillization. The conversion of minerals to clay by either hydrothermal alteration, or during the weathering process.

Assay. To analyze the proportions of metals in an ore; to test an ore or mineral for composition, purity, weight, or other properties of commercial interest.

Assay Ton. A weight of 29.166+ g, used in assaying to represent proportionately the assay value of an ore. Because it bears the same ratio to 1 mg that a ton of 2,000 lb bears to the troy ounce, the weight in milligrams of precious metal obtained from an assay ton of ore equals the number of ounces to the ton.

Basin and Range. The geologic province centered on Nevada consisting of northerly striking mountain ranges and intervening valleys.

Breccia. A rock made of fragments of one or more rock types that has formed as a result of movement along faults, or the activity of fluids that may carry mineralization.

Chalcedonic. Extremely fine-grained quartz.

Chargeability. A geophysical measurement of how much electricity can be stored in the ground that is commonly used to development an estimate of the abundance of metallic sulfide minerals below the surface.

Cretaceous. The geologic time that is part of the Mesozoic era covering the period from 144 to 66 million years ago.

Crushed and Agglomerated Ore. That material which has been reduced in size mechanically by crushing, (and which may as a result contain a significant portion of very fine particles) which is then, with the aid of a binding agent such as cement, reconstituted into larger particles and subsequently leached in a heap. The agglomerated ore typically has greater strength allowing for higher stacked heaps and may allow better percolation of leach solutions if the ore has high clay or fine particle content.

Fault. A planar feature produced by breaking of the Earth s crust with movement on one, or both, sides of the plane.

Feasibility Study. A comprehensive study of a deposit in which all geological, engineering, operating, economic and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

Geophysics/geophysical. Surveys that are conduced to measure the Earth s physical properties as a means of identify areas where anomalous features may exist.

Gold deposit. An accumulation of gold mineralization in the Earth s crust, with no reference to size and grade of the deposit.

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Gold Heap-leaching. A hydrometallurgical process whereby gold is recovered from ore by heaping broken ore on sloping impermeable pads, repeatedly spraying the heaps with a diluted cyanide solution which dissolves the gold content in the ore, collecting the gold-laden solutions, and stripping the solution of gold.

Granite. An igneous (formed from molten material) rock that solidified within the Earth s crust and is principally composed of quartz, feldspar, and biotite.

Hydrothermal. Hot water that originates within the Earth s crust and ascend toward the surface. This water is commonly associated with the formation of mineral deposits and hot springs.

Hydrothermal Alteration. Changes brought about in rock by the exposure to hydrothermal solutions, or mineral laden hot water from within the Earth s crust.

Induced Polarization/ IP. A geophysical survey technique that measures the passage of electrical current sent into the ground (see chargeability).

Lahar. A mudflow composed principally of volcanic material.

Lithology/lithologic. A general term used to define specific types of rocks.

Leach. The dissolution of soluble constituents from a rock or orebody by the natural or artificial action of percolating solutions.

Ma. In geological terms, a million years.

Marcasite. A yellow iron sulphide mineral similar to pyrite in physical and chemical properties but which is less stable; and at Borealis is an important ore forming mineral containing gold.

Mesozoic. A subdivision of geologic time that covers the period from about 245 to 66 million years ago.

Mine. An opening or excavation in the ground for the purpose of extracting minerals; a pit or excavation from which ores or other mineral substances are taken by digging; an opening in the ground made for the purpose of taking out minerals; an excavation properly underground for digging out some usual product, such as ore, including any deposit of any material suitable for excavation and working as a placer mine; collectively, the underground passage and workings and the minerals themselves. At Borealis there is potential for both surface and underground mining operations.

Mineralizing/mineralized. Material added by hydrothermal solutions, principally in the formation of ore deposits. Often refers to the presence of a mineral of economic interest in a rock.

Miocene. This is a subdivision of geologic time that covers the period from about 5 to 24 million years ago.

Open Pit Mining. The process of excavating an ore body from the surface in progressively deeper layered cuts or steps. Sufficient waste rock adjacent to the ore body is removed to maintain mining access and to maintain the stability of the resulting pit.

Open Pit. A surface mine working open to daylight, such as a quarry.

OPT/opt. Abbreviation for ounces per ton, generally used in this prospectus to refer to the number of ounces of gold per ton.

Ore. The naturally occurring material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives. The term is generally but not always used to refer to metalliferous material, and is often modified by the names of the valuable constituent; e.g., gold ore.

Ounce or *oz.* . A unit of weight equal to 31.1 grams.

Oxidization/oxidized. The conversion of sulfide minerals to oxide minerals, usually through weathering at, or near, the Earth s surface.

Pediment. A gravel covered bedrock surface that is along the margin of a mountain range. The bedrock surface commonly has a gentle dip into the valley, outward from the mountain range.

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Pipe-like. Geologic masses that have two short dimensions and one long dimension, and commonly have a near vertical orientation.

Pre-feasibility Study. A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating, economic factors and the assessment of other relevant factors. A Pre-feasibility Study is at a lower confidence level than a Feasibility Study.

Propylitic Alteration. A type of hydrothermal alteration that produces only a modest change in the character of the rock. This type of alteration is commonly found at the margins of mineralized areas.

Pyrite. A yellow iron sulphide mineral, which at Borealis is an important ore forming mineral containing gold.

Qualified Person. The term qualified person refers to an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development, production activities and project assessment, or any combination thereof, including experience relevant to the subject matter of the project or report and is a member in good standing of a self-regulating organization.

Resistivity. A measurement of conductivity of electricity through rock.

RC or *Reverse Circulation.* The circulation of bit-coolant and cuttings-removal liquids, drilling fluid, mud, air, or gas down the borehole outside the drill rods and upward inside the drill rods. Often used to describe an advanced drilling and sampling method that takes a discrete sample from a drill interval with the objective of maintaining sample integrity.

Reserve. Measurement of size and grade of a mineral deposit that infers parameters have been applied to assess the potential for economic development.

Resource. The measurement of size and grade of a mineral deposit, without any inferred economic parameters.

Run of Mine Ore. Material which was fragmented by blasting only, and then stacked on the heaps without being further reduced in size by crushing or other beneficiation processes.

Stratigraphic. The relationship of layered rocks to each other.

Sediments. Material that has been deposited on the surface of the Earth through geologic means, usually transported and deposited by water. This material may eventually be cemented into rock.

Silicification. The process by which quartz is added to rock by hydrothermal solutions.

Strike. The course or bearing of the outcrop of an inclined bed, vein, or fault plane on a level surface; the direction of a horizontal line perpendicular to the direction of the dip.

Structural Zone. Area that commonly contain several faults and fractured rock.

Sulfide. Minerals that contain metals combined with sulfur.

TCV. Tertiary Coal Valley formation, a local sedimentary rock unit which in may areas at the Borealis

Property covers rocks hosting gold mineralization.

Tertiary. A geologic time period ranging from approximately 66 to 26 million years before the present.

Tons. A unit of weight measurement. In this prospectus it means dry short tons (2,000 pounds).

Unconformable. Two groups of sedimentary rocks that are separated by a break in the depositional cycle and commonly have different orientations.

Unpatented mining claims. Land which has been staked and recorded in appropriate mining registries and in respect of which the owner has the right to explore for and exploit the minerals contained in such land and to conduct mining operations thereon. In this prospectus, unpatented mining claims refers to lode claims (and not placer claims).

Volcanic Rock. A group of igneous rocks that consolidated from molten material at the surface of the earth.

INDEX TO FINANCIAL STATEMENTS

Years Ended March 31, 2010 and 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the board of directors and Shareholders of
Gryphon Gold Corporation
(an exploration stage company)

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

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

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

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

Vancouver, Canada
June 23, 2010

/s/ *Ernst and Young LLP*

Chartered Accountants

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Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED BALANCE SHEETS
(Stated in US dollars)

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

	7,741,552	7,918,328

See Note 1 Nature of Operations and Going Concern Uncertainty

On behalf of the Board:

/s/ John Key	/s/ Marvin Kaiser
Director	Director

See accompanying notes

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Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in US dollars)

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

See Note 1 Nature of Operations and Going Concern Uncertainty

See accompanying notes

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Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Stated in US dollars)

	Common stock Shares #	Common stock Amount $	Additional Paid-In Capital $	Deficit Accumulated During the Exploration Stage $	Total $
Balance, inception April 24, 2003					
Shares issued:					
For private placements	47,812,870	47,813	28,078,256		28,126,069
Share issue costs			(1,263,841)		(1,263,841)
For mineral properties	4,500,000	4,500	3,444,918		3,449,418
Initial Public Offering (IPO)	6,900,000	6,900	5,029,597		5,036,497
Share issue costs (IPO)			(2,241,940)		(2,241,940)
Compensation component of shares issued			226,000		226,000
Fair value of agents warrants issued on private placements [*note 11[b]*]			222,627		222,627
Fair value of options granted to consultants [*note 11[c]*]			49,558		49,558
Fair value of underwriters compensation warrants on IPO [*note 11[b]*]			135,100		135,100
Fair value of options granted [*note 11[c]*]			1,774,480		1,774,480
Fair value of vested stock grants	429,250	428	520,379		520,807
Exercise of warrants	1,985,775	1,986	1,827,349		1,829,335
Exercise of options	107,500	108	83,066		83,174
Net loss since inception				(25,831,588)	(25,831,588)
Balance, March 31, 2008	61,735,395	61,735	37,885,549	(25,831,588)	12,115,696
Shares issued:					
Share issue costs			(9,246)		(9,246)
Fair value of options granted [*note 11[c]*]			500,028		500,028
Fair value of vested stock grants [*notes 11 [c] &[d]*]	221,670	222	21,415		21,637
Net loss for the period				(9,943,231)	(9,943,231)

Balance, March 31, 2009	61,957,065	61,957	38,397,746	(35,774,819)	2,684,884
Shares issued:					
For private placements	10,897,353	10,897	1,751,804		1,762,701
Share issue costs			(172,379)		(172,379)
Fair value of options granted [*note 11[c]*]			166,088		166,088
Fair value of vested stock grants [*notes 11 [a] &[d]*]	112,500	113			113
Exercise of warrants	7,161,500	7,162	1,453,204		1,460,366
Settlement of debt *[notes 10 & 11[a]]*	5,905,356	5,905	964,095		970,000
Reclassification of warrants to liability FASB ASC 815-40-55 [*note 2*]			(2,975,330)	2,888,130	(87,200)
Net loss for the period				(2,316,221)	(2,316,221)
Balance, March 31, 2010	86,033,774	86,034	39,585,228	(35,202,910)	4,468,352

See Note 1 Nature of Operations and Going Concern Uncertainty

See accompanying notes

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Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US dollars)

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

Cash provided by (used in) investing activities	1,003,706	138,628	(4,050,705)
FINANCING ACTIVITIES			
Cash paid on extinguishment of debt [*note 10*]	(500,000)		(500,000)
Capital lease principal payments		(3,454)	(53,523)
Exercise of warrants	1,161,036		1,161,036
Shares issued for cash	1,762,814		36,370,369
Share issue costs	(172,379)	(9,246)	(3,329,659)
Subscription receivables collected			389,125
Cash provided by (used in) financing activities	2,251,471	(12,700)	34,037,348
Increase (decrease) in cash during the period	137,539	(3,396,877)	937,056
Cash, beginning of period	799,517	4,196,394	
Cash, end of period	**937,056**	**799,517**	**937,056**

See Note 1 Nature of Operations and Going Concern Uncertainty

See accompanying notes

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1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

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

The recoverability of amounts shown for mineral property interests in the Company s consolidated balance sheets are dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of its properties, the receipt of necessary permitting and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable.

Subsequent to year end the Company sold its wholly owned subsidiary, Nevada Eagle Resources LLC (Nevada Eagle) (see note 15), however, management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary, such as the sale of interests in its remaining mineral properties (see notes 7 & 15). However, no assurance can be given that the Company will be successful in raising additional capital. Further, even if the Company raises additional capital, there can be no assurance that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and possible future revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to suspend or cease operations. The Company has an accumulated deficit of $35,202,910 and at March 31, 2010 has cash on hand of $937,056. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Use of estimates

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

Financial instruments

The Company s financial instruments consist of cash, held for trading securities, accounts and note receivable, accounts payable and accrued liabilities and the convertible promissory note classified as part of the liabilities held for sale and in discontinued operations. The Company has designated cash, which consists of cash held on deposit at major financial institutions, and its held for trading securities as held for trading such that they are recorded at fair value with unrealized gains and losses, if any, reported in the consolidated statement of operations. Accounts and notes receivable have been designated as loans and receivables and are recorded at amortized cost. The accounts payable and convertible promissory note have been designated as other financial liabilities and are also recorded at amortized cost.

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

Revenue recognition

Mineral lease rentals are treated as reductions of the cost of the property as the payor is accumulating an interest in the mineral property; payments in excess of capitalized costs are recognized in income. Under the Option Agreement with Sage ,Sage is required to reimburse the Company 50% of Borealis expenditures, which will be recorded as an accounts receivable and a reduction in the corresponding expense. Some agreements provide for payments in the form of stock and other equity instruments as well as cash payments. Stock and other equity instruments are recognized based on their fair market value at the time of receipt. Fluctuations incurred during the holding period are accounted for as gains or losses from held for trading securities. The leases provide for the receipt of royalty payments upon production being generated from the property. Royalty payments will be recognized in the period in which production occurs. There are no properties in the production stage at this time.

Mineral property acquisition costs

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

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

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

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

Exploration and development costs

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

Foreign currency translation

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

Equipment

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

Income taxes

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

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

Stock-based compensation

The Company accounts for its stock options in accordance with FASB ASC718-10 (Prior authoritative literature: FAS 123(R) *Share Based Payments*, and related interpretations in accounting for stock-based compensation awards to employees, directors and non-employees). In accordance with FASB ASC 718-10, the Company recognizes stock-based compensation expense based on the fair value of the stock options on the date of grant. The fair value of the stock options at the date of grant is amortized over the vesting period, with the offsetting credit to additional paid in capital.

Loss per share

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

Asset retirement obligations

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

Fair value measurements

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

The Company measures its held for trading securities at fair value in accordance with FASB ASC 820-10-55. FASB ASC 820-10-55 specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s own assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

In February 2007, the FASB issued FASB ASC 825-10-55 (Prior authoritative literature: FASB statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FASB ASC 825-10-55). FASB ASC 825-10-55 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of FASB ASC 825-10-55 are effective for the Company s fiscal year beginning April 1, 2008. Effective April 1, 2008, the Company adopted FASB ASC 825-10-55, which did not have any impact on the Company s consolidated financial statements as the Company did not elect to measure any of its liabilities at fair value pursuant to this guidance.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued FASB ASC 810-10-55 (Prior authoritative literature: FASB Statement 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51).* FASB

ASC 810-10-55 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for our fiscal year commencing April 1, 2009, including interim periods within that fiscal year. The adoption of FASB ASC 810-10-55 did not have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued FASB ASC 805-10-55 (Prior authoritative literature: FASB Statement 141(R), *Business Combinations)*, which amends FASB ASC 805-10-55, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB ASC 805-10-55 is effective for the Company s fiscal year beginning April 1, 2009 and is to be applied prospectively. FASB ASC 805-10-55 may have an impact on the Company s consolidated financial statements in the future, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisition the Company may consummate after the effective date. In March 2008, the FASB issued FASB ASC 815-10-15 (Prior authoritative literature: FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities*). FASB ASC 815-10-15 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB ASC 815-20-25, and how derivative instruments and related hedged items affect an entity s operating results, financial position, and cash flows. FASB ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of FASB ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of FASB ASC 815-10-15 will not have a material impact on our consolidated operating results, financial position, or cash flows.

On May 9, 2008, the FASB issued FASB ASC 470-20-55, (Prior authoritative literature: APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)).* FASB ASC 470-20-55 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of FASB ASC 470-20-55, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants.* Additionally, FASB ASC 470-20-55-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP FASB ASC 470-20-55 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP FASB ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, the EITF reached consensus on FASB ASC 815-40-55 (Prior authoritative literature *EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock)*. FASB ASC 815-40-55 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which would qualify as a scope exception under FASB ASC 815-20-25 (Prior authoritative literature: FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities*). If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity s own stock, equity classification would be precluded and the instrument would not be within the scope of FASB ASC 815-40-55 (Prior authoritative literature: EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company s Own Stock)*. FASB ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair value each reporting period. At April 1, 2009, a reclassification of $2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), deficit accumulated during the exploration stage was reduced by $2,888,130 and a liability of $87,200 (the value of the warrants at April 1, 2009) was recorded.

In May 2009, the FASB issued FASB ASC 855-10-25 (Prior authoritative literature: FASB Statement 165, *Subsequent Events*), which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. FASB ASC 855-10-25 is effective for our fiscal year commencing

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April 1, 2009. The adoption of FASB ASC 855-10-25 had no impact on the Company s consolidated financial position, results of operations or cash flows.

During the second quarter of 2009, the FASB issued FASB ASC 820-10-65, (Prior authoritative literature:

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly). FSAB ASC 820-10-65:

Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.

Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.

Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. FASB ASC 820-10-65 instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.

Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.

Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of FASB ASC 820-10-65 and to quantify its effects, if practicable.

Applies to all fair value measurements when appropriate.

FASB ASC 820-10-65 must be applied prospectively and retrospective application is not permitted. FASB ASC 820-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FASB ASC 820-10-65 must also early adopt FASB ASC 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments.* The adoption of FASB ASC 820-10-65 had no impact on the company s consolidated operating results, financial position, or cash flows.

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

In April 2009, the FASB issued FASB ASC Topic 270-10-05, *Interim Disclosures about Fair Value of Financial Instruments* (Prior authoritative literature: FSP FAS 107-1 and APB 28-1). FASB ASC Topic 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance

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relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Before this guidance was adopted, fair values for these assets and liabilities were disclosed only once a year. The guidance now requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This pronouncement is effective for periods ending after June 15, 2009. The Company adopted this standard effective June 30, 2009, and it did not have a material impact on the Company s financial position and results of operations.

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

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

RECLASSIFICATION

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

3. ACCOUNTS RECEIVABLE JOINT VENTURE

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

4. NOTE RECEIVABLE

During the year ended March 31, 2010 the Company sold an asset by signing a 24-month lease agreement with an individual. In accordance with FASB ASC 840-10-55 the Company accounted for the transaction as a sales type lease. The net present value at the time of the sale was $22,794 and was reported on the consolidated balance sheet as a note receivable. Interest income to be recognized over the two-year life is $1,206. Each payment received will be allocated by reduction of the face value of the note receivable and the recognition of interest income. Ten lease payments were received during the year ended March 31, 2010. The current portion of the note receivable totals $11,441 and the total receivable due is $13,572.

5. NEVADA EAGLE RESOURCES LLC

On August 21, 2007 Gryphon Gold closed the acquisition of Nevada Eagle Under the Purchase Agreement, the Company acquired all of the outstanding limited liability company interests of Nevada Eagle for the following consideration:

(a) $2,500,000 in cash:

(b) 4,500,000 shares of common stock of the Company valued at $3,449,418; and

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

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Allocation of Purchase Price

Mineral properties	$ 10,719,209
Non-competition agreement	70,908
	$ 10,790,117

The original purchase price allocation for the acquisition of the Nevada Eagle properties was based on a valuation model. The model was driven by three parameters;

1- the value of an exploration property;

2- the value of an acre of exploration property; and

3- the value of an identified mineral resource on the property.

The value of each parameter was determined from recent similar acquisition transactions in the marketplace and the market values of a sample of publicly traded gold exploration companies.

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

To estimate the impairment charge to be recorded, the Company updated the valuation parameters that were utilized for the purchase price allocation so that the fair value of the properties could be estimated at September 30, 2008. The updated parameters were input into the valuation model. As a result of this update it was determined that the Nevada Eagle exploration properties [*note 5*] and the non-competition agreement were impaired by $5,044,883 and $55,117, respectively, for a total of $5,100,000 effective September 30, 2008.

On March 12, 2010, the Company entered into a letter of intent to sell Nevada Eagle to Fronteer Development (USA) Inc. (Fronteer). Based on the letter of intent, management and the board of directors of Nevada Eagle have concluded that a disposition of Nevada Eagle is probable and is expected to occur in fiscal year 2011 [note 15].

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

Consolidated Balance Sheets of Discontinued Operations

	As at March 31, 2010	**As at March 31, 2009**
Current assets		
Mineral properties	**3,788,691**	

	3,788,691	
Non-current assets		
Mineral properties		4,471,020
	3,788,691	4,471,020
Current liabilities		
Convertible promissory note [*note 10*]	**2,170,223**	4,782,285
	2,170,223	4,782,285

Consolidated Statements of Operations of Discontinued Operations

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

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

6. EQUIPMENT

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

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

7. MINERAL PROPERTIES

	Total $
Mineral property costs, March 31, 2006	**1,898,207**
Expenditures during the year	22,164
Mineral property costs, March 31, 2007	**1,920,371**
Mineral property costs, March 31, 2008	**1,920,371**
Expenditures during the year	10,538
Mineral property costs, March 31, 2009 and 2010	**1,930,909**

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

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

(a) Sage will make a $9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the Option Period) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.

(b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of $1,000,000, and cash payments up to an additional $1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum $2,000,000).

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

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

(e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.

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

8. EXPLORATION

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

9. OTHER ASSETS

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

On March 31, 2010 the Company had $133,600 (March 31, 2009 $133,600) on deposit to support a performance bond with the United States Forest Service. The Company also has a deposit with the Bureau of Land Management (BLM) for $27,177 (March 31, 2009 $27,177), which supports its potential future obligations for reclamation during the Company s exploration activities within the BLM area. At March 31, 2010, the Company has recorded an estimated reclamation liability of $5,600 (March 31, 2009 $5,600) representing future obligations related to its general property activities completed to March 31, 2010.

On August 22, 2008, the Company entered into a 12-month option agreement, at a cost of $250,000 and an additional $35,902 to cover legal costs, to amend the Borealis Property mining lease. If exercised, the net smelter return royalty rate will be fixed at 5%, versus the current uncapped variable rate. Payment upon exercise of the option is $1,750,000 in cash, 7,726,250 common shares of the Company and a three year, $1,909,500, 5% note payable. On August 19, 2009 the option was extended for six months at a cost of $125,000, which was settled through the issuance of 966,340 shares. On March 22, 2010 the option was extended until August 22, 2010 at a cost of $150,000, which was settled through the issuance of $25,000 and 939,016 shares.

10. CONVERTIBLE PROMISSORY NOTE

	March 31, 2010 $	March 31, 2009 $
Convertible promissory note, with a face value of $5,000,000 due March 30, 2010, unsecured, bearing interest at 5%. Interest is payable each January 1st and June 1st. Discount accretion for the period from August 21, 2007 (date of issue) to Feb 5, 2010 totalled $691,058		4,782,285
On February 5, 2010 the note was extinguished through issuance of $500,000, 4,000,000 shares and a new convertible promissory note with a face value of $2,500,000 due March 30, 2012, unsecured, bearing interest at 5%. Interest is payable each January 1st and June 1st. Discount accretion for the period from February 5, 2010 to March 31, 2010 totalled $23,882	2,170,223	

Gryphon Gold issued a Convertible Promissory Note to the former owners of Nevada Eagle [the Debt holders] with a face amount of $5 million, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note was convertible at the holder s option into shares for the first 12 months after closing at a conversion price of $1 per common share; for the next 12 months at $1.25 per common share; for the period 24 months from closing to March 29, 2010 at $1.50 per common share and on March 30, 2010 at $1.75 per common share. The conversion rate is subject to certain anti-dilution adjustments and is subject to adjustment on payment of cash dividends by Gryphon Gold. Upon an event of default, which includes amongst other things a change in control of Gryphon Gold, the holder was permitted to demand repayment of the principal amount of the debenture or exercise the conversion feature for a fixed number of shares. After an event of default, the interest rate on the convertible debenture increases to 9%. The change in control event of the default acceleration feature was considered an embedded derivative however its issue date fair value was not considered to be significant. The conversion feature did not require bifurcation in the financial statements because it was not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion were never successfully registered. The Convertible Promissory Note, including the conversion feature and change in control event of default acceleration feature embedded derivative, was recorded at its estimated issue date fair value of $4,272,359. Effective August 5, 2008, the Company entered into an option agreement with Debt holders to amend the $5 million face value note payable to them at a cost of $35,000. The option period was twelve months and was extended in August 2009 for another six months at an additional cost of $35,000. Both payments of $35,000 were included general and administration expense in the respective fiscal years. The option agreement allows the Company, assuming certain conditions were met, to reduce the note payable from $5 million to $2.5 million and extend the maturity date to March 30, 2012 by issuing a cash payment of $500,000 and issuing 4,000,000 shares of common stock of the Company.

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

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

As consideration for entering into Amendment No. 1, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement) pursuant to which the Company agreed to (i) issue the Debt holders an additional 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration), which Amendment Consideration is subject to obtaining Company shareholder and TSX approval (the Approvals). The conversion price of

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

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

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

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

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

11. CAPITAL STOCK

[a] Authorized capital stock consists of 250,000,000 common shares with a par value of $0.001 per share and 15,000,000 preferred shares with a par value of $0.001 per share.

On April 1, 2009, the Company issued 112,500 common shares to a former director (retired April 8, 2009) due to the vesting of RSU s granted in the prior year. The issuance was provided under a transition agreement.

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

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

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

On February 18, 2010, the Company completed a private placement of 10,897,353 units at Cdn$0.17 for gross proceeds of $1,762,701 (Cdn$1,852,550). Each unit consisted of one common share and one half series K warrant. Each series K warrant entitles the holder to purchase a common share at a price of US$0.25 per share for a period of 24 months. Cash compensation of $162,003 (Cdn$170,261) and 990,500 compensation warrants (series L) were issued to agents and are exercisable at a price of US$0.21 per share and expire 12 months after closing. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, Cdn$0.75 per common share, for a period of twenty consecutive days.

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

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[b] Warrants:

The following table contains information with respect to all warrants:

	Number of Warrants #
Warrants outstanding, March 31, 2004	
Issued for:	
Private placements	3,407,981
Agents compensation	141,008
Exercised	
Warrants outstanding, March 31, 2005	3,548,989
Issued for:	
Private placements	3,015,204
Agents compensation on private placement	130,000
Initial Public Offering (IPO) Series A	6,900,000
Underwriters compensation on IPO	690,000
Private placements Series B	2,737,500
Agents compensation on private placement Series C	280,500
Exercised	(197,500)
Warrants outstanding, March 31, 2006	**17,104,693**
Issued for:	
Private placements Series D	64,500
Private placements Series E	5,000,000
Agents compensation on private placement Series F	85,050
Exercised	(1,658,275)
Expired	(15,175,410)
Warrants outstanding, March 31, 2007	**5,420,558**
Issued for:	
Private placements Series G	5,000,000
Private placements Series I	4,486,500
Agents compensation on private placement Series H	265,050
Agents compensation on private placement Series J	89,530
Exercised	(130,000)
Expired	(290,558)
Forfeited	(14,000)
Warrants outstanding, March 31, 2008	**14,827,080**
Expired	(5,340,580)
Warrants outstanding, March 31, 2009	**9,486,500**
Exercised	(7,161,500)
Expired	(2,325,000)

Issued for:		
Private placements	Series K	5,448,667
Private placements	Series L	990,500
Warrants outstanding, March 31, 2010		6,439,167

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

Warrants Outstanding and Exercisable

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

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

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

[c] Stock options:

The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. FASB ASC 718-10- 55 (Prior authoritative literature: FASB Statement 123(R)) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company s total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 5%. Estimate of forfeitures is reviewed on a quarterly basis. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

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

	Year Ended March 31, 2010 $	Year Ended March 31, 2009 $
Management salaries, exploration expense & consulting fees	166,088	521,665

Stock option activity

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

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

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

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

Stock Options Outstanding and Exercisable

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

Valuation assumptions

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

	2010	**2009**
Dividend yield	**0%**	**0%**
Expected volatility	**100%-105%**	**51%-80%**
Risk free interest rate	**1.48%-1.62%**	**1.31%-2.06%**
Expected lives	**3 years**	**3 years**

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

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

[d] Restricted stock units (RSU s):

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

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

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

The following table summarizes information about RSU s outstanding as at March 31, 2010:

	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
Outstanding at March 31, 2010	**798,670**	**665,920**	**132,750**		

12. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at their exchange amount as determined by management. All material transactions and balances with related parties not disclosed elsewhere are described below: In November 2008, the Company entered into two Consulting Agreements with two former employees for certain financial services and geological consulting services. During the year ended March 31, 2010 the consultants were paid a total of $217,716, including accrued severance of $177,424 (C$185,000 less applicable withholdings).

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

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13. INCOME TAXES

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

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

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

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

	2010	2009

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

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

14. COMMITMENTS & CONTINGENCIES

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make monthly lease payments of $9,762, adjusted annually based on the Consumer Price Index, for the duration of the lease term. In addition, production of precious metals from the Borealis Property will be subject to the payment of a royalty under the terms of the mining lease. The mining lease expired on January 24, 2009, but is automatically renewed thereafter, so long as mining related activity, including exploration drilling, continues on the Borealis Property. [b] The Company rents office space in Vancouver, BC for a 5-year term, commencing September 2008, and office space in Hawthorne, Nevada for a one year term. The following are the remaining rental lease commitments in relation to the office lease:

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

The Vancouver office has been sub-leased commencing February 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised before October 31, 2010. If the option to terminate the Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. As at March 31, 2010 the Company has accrued $49,273, being the difference between the required lease payments and the estimated future sub-lease receipts.

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

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

15. SUBSEQUENT EVENTS

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

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer for $4,750,000. Fronteer paid $2,250,000 in cash and $2,500,000 by assuming Gryphon Gold s obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho. On April 28, 2010, Gryphon Gold and Sage entered into Amendment No. 3 to Option Agreement and Amendment

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

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

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

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

16. NON-CASH TRANSACTIONS

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

Receipt of 150,000 shares for a lease payment on one of the properties in held for sale in discontinued operations. The fair value of the shares was determined by the closing price of the stock as of the date of the certificate.

On August 22, 2008, the Company entered into a 12-month option agreement to amend the Borealis Property mining lease. On August 19, 2009 the option was extended for six months at a cost of $125,000, which was settled through the issuance of 966,340 shares. On March 22, 2010 the option was extended until August 22, 2010 at a cost of $150,000, which was settled through the issuance of $25,000 and 939,016 shares.

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

On February 5, 2010, the Company and Debt holders entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 (Amendment No. 1). As consideration for entering into Amendment No. 1, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement) pursuant to which the Company agreed to (i) issue the Debt holders an additional 1,500,000 common shares of the Company. The fair value of the 1,500,000 shares was determined by the closing price of the Company s stock on the day Amendment No. 1 was executed

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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 $
ASSETS		
Current		
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
Total Current Assets	**765,133**	4,996,547
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
Total Assets	**3,711,971**	7,741,552
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
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
Total Current Liabilities	**277,488**	3,273,200
Common stock payable	**88,000**	
Asset retirement obligation liability	**48,254**	
Total liabilities	**413,742**	3,273,200
Commitments & contingencies [*note 8*]		
Stockholders Equity		
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)
Total Stockholders Equity	**3,298,229**	4,468,352
Total Liabilities & Stockholders Equity	**3,711,971**	7,741,552

See Note 1 Nature of Operations and Going Concern Uncertainty

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

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Gryphon Gold Corporation
(An exploration stage company)
Consolidated Statements of Operations
(Unaudited) (Stated in US Dollars)

	Three Months Ended December 31, 2010 $	Three Months Ended December 31, 2009 $	Nine Months Ended December 31, 2010 $	Nine Months Ended December 31, 2009 $	Period from April 24, 2003 (inception) to December 31, 2010 $
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)
Net loss for period	$ (655,013)	$ (854,033)	$ (1,859,909)	$ (2,911,118)	$ (37,062,819)

Basic and diluted (loss) per share:				
Loss from continuing operations	(0.007)	(0.010)	(0.028)	(0.036)
Income (loss) from discontinued operations		(0.002)	0.007	(0.009)
Total loss per share	$ (0.007)	$ (0.012)	$ (0.021)	$ (0.045)
Basic and diluted weighted average number of common shares outstanding	89,755,784	70,197,405	88,357,009	64,582,997

See Note 1 Nature of Operations and Going Concern Uncertainty

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

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Gryphon Gold Corporation
(An exploration stage company)
Consolidated Statements of Stockholders Equity
(Unaudited) (Stated in US dollars)

	Common Stock Shares #	Common Stock Amount $	Additional Paid-In Capital $	Deficit Accumulated During the Exploration Stage $	Total $
Balance, inception April 24, 2003					
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)
Balance, March 31, 2009	61,957,065	61,957	38,397,746	(35,774,819)	2,684,884
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)
Balance, March 31, 2010	**86,033,774**	**86,034**	**39,585,228**	**(35,202,910)**	**4,468,352**
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
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)
Balance, December 31, 2010	**89,860,132**	**89,860**	**40,271,188**	**(37,062,819)**	**3,298,229**

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

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

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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 $
OPERATING ACTIVITIES			
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)
Cash used in operating activities	(2,839,748)	(1,853,550)	(31,889,335)
INVESTING ACTIVITIES			
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
Cash provided (used) by investing activities	2,190,504	335,005	(1,860,201)
FINANCING ACTIVITIES			
Cash paid on extinguishment of debt [*note 3*]			(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
Cash provided by financing activities	186,264	1,161,036	34,223,612
Increase (decrease) in cash during the period	(462,980)	(357,509)	474,076
Cash, beginning of period	937,056	799,517	
Cash, end of period	**474,076**	**442,008**	**474,076**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
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.

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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

Gryphon Gold Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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.

The Company measures it s 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

Gryphon Gold Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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.

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

	Total $
Mineral property costs, March 31, 2006	**1,898,207**
Expenditures during the year	22,164
Mineral property costs, March 31, 2007	**1,920,371**
Mineral property costs, March 31, 2008	**1,920,371**
Expenditures during the year	10,538
Mineral property costs, March 31, 2009 and 2010	**1,930,909**
Sage Gold Inc. option payment received	(100,000)
Mineral property expenditures	11,003
Mineral property costs, December 31, 2010	**1,841,912**

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Gryphon Gold Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

5. EXPLORATION

	Three Months Ended December 31, 2010 $	Three Months Ended December 31, 2009 $	Nine Months Ended December 31, 2010 $	Nine Months Ended December 31, 2009 $	Period from April 24, 2003 (inception) to December 31, 2010 $
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	**101,530**	251,567	678,466	1,105,559	17,238,264
Other exploration	**14,400**	678	15,892	1,730	58,097
Total exploration	**115,930**	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.*

6. OTHER ASSETS

	December 31, 2010 $	March 31, 2010 $
Reclamation bond & deposits	**225,893**	160,777
Option to amend Borealis Property mining lease	**710,903**	560,902
Asset retirement obligation	**48,254**	
Total	**985,050**	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.

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Gryphon Gold Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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

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

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Gryphon Gold Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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 ratable 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 Years #	Exercise Price	Expiry date
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.

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

	Three Months	Three Months	Nine Months	Nine Months

	Ended December 31, 2010 $	Ended December 31, 2009 $	Ended December 31, 2010 $	Ended December 31, 2009 $
Management salaries	11,669	49,656	104,951	121,735
Consulting expense	31,143		37,071	
Total	42,812	49,656	142,022	121,735

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Gryphon Gold Corporation
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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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:

	Number of Stock Options		Weighted Average Exercise Price
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:

	2010	2009
Dividend yield	**0%**	**0%**
Expected volatility	**99% -119%**	**51% - 80%**
Risk free interest rate	**0.52% -1.62%**	**1.31% - 2.06%**
Expected lives	**2-3 years**	**3 years**

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.

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.

Gryphon Gold Corporation
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Notes to Consolidated Financial Statements (Unaudited) (Continued)

The following table summarizes information about RSU s 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
Outstanding at December 31, 2010	**1,073,670**	**940,920**	**132,750**			

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 form 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 had 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.

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Shares of Common Stock

PROSPECTUS

ROTH CAPITAL PARTNERS

April , 2011

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A copy of this amended and restated preliminary short form prospectus has been filed with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar regulatory authorities in Canada. *Copies of the documents incorporated by reference herein may be obtained on request without charge from the Corporate Secretary of Gryphon Gold Corporation at 711-675 West Hastings Street, Vancouver, British Columbia, V6B 1N2, telephone (604) 261-2229, and are also available electronically at www.sedar.com.*

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and, in such jurisdictions, only by persons permitted to sell such securities. Gryphon Gold Corporation has filed a registration statement on Form S-1 with the United States Securities and Exchange Commission, under the United States Securities Act of 1933, as amended, with respect to these securities This short form prospectus is not intended to qualify distributions of securities to investors in Canada.

AMENDED AND RESTATED PRELIMINARY SHORT FORM PROSPECTUS DATED APRIL 27, 2011,
AMENDING AND RESTATING THE AMENDED AND RESTATED PRELIMINARY SHORT FORM PROSPECTUS DATED FEBRUARY 25, 2011,
AMENDING AND RESTATING THE PRELIMINARY SHORT FORM PROSPECTUS DATED FEBRUARY 4, 2011

New Issue *April 27, 2011*

Gryphon Gold Corporation

US$ l
C$ l
l Common Shares

This short form prospectus is being filed by Gryphon Gold Corporation (**Gryphon** or the **Corporation**) to qualify the distribution (the **Offering**) of l shares of common stock (the **Offered Shares**) of Gryphon at a price of US$ l per Offered Share or C$ l per Offered Share (the **Offering Price**).

The outstanding shares of common stock (the **Common Shares**) of the Corporation are listed and posted for trading on the Toronto Stock Exchange (the **TSX**) under the symbol GGN , and on the United States Over-the-Counter Bulletin Board (the **OTCBB**) under the symbol GYPH.OB . On April 26, 2011, the last trading day prior to the date of the filing of this short form prospectus, the closing price of the Common Shares on the TSX was C$0.155 per share and the closing bid price for our common stock was US$0.16 per share as quoted by the OTCBB. Gryphon has made application to the TSX for the approval of the listing of the Offered Shares. Listing will be subject to the Corporation fulfilling all the listing requirements of the TSX.

The Offered Shares are being offered in the United States by Roth Capital Partners, LLC (the **U.S. Underwriter**), and in Canada by Acumen Capital Finance Partners Limited (the **Canadian Underwriter**). The U.S. Underwriter will not be distributing the Offered Shares in Canada. The Offered Shares will be issued in accordance with the terms of an underwriting agreement (the **Underwriting Agreement**) dated as of l , 2011 among Gryphon, the U.S. Underwriter and the Canadian Underwriter (the U.S. Underwriter and the Canadian Underwriter collectively referred to as the Underwriters). See Underwriting . The Offering Price was determined following arm s length negotiations between the Corporation and the Underwriters.

The Offering Price is payable in U.S. dollars or in Canadian dollars. Investing in our common stock involves risks. See Risk Factors beginning on page 6 of this short form prospectus.

Price: US$ l (C$ l) per Offered Share

	Price to the Public(1)	Underwriters Fee (2)	Net Proceeds to the Corporation(3)
Per Common Share	US$ l (C$ l)	US$ l (C$ l)	US$ l (C$ l)
Total(4)	US$ l (C$ l)	US$ l **(5) (C$ l)**	US$ l (C$ l)

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Notes:

(1) **The Offering Price is payable in U.S. dollars or in Canadian dollars.** The U.S. dollar amount ($ l) is the equivalent of the Canadian dollar (C$ l) denominated price of the Offered Shares, calculated at a rate of $ l =C$ l .

(2) In consideration for the services rendered by the Underwriters in connection with the Offering, the Corporation has agreed to pay the Underwriters a fee of US$ l (C$ l), representing 6% of the gross proceeds of the Offering (the **Underwriters Fee**). The Corporation has also agreed to pay for certain expenses of the Underwriters in connection with the Offering. The Canadian Underwriter may enter into selling arrangements with other investment dealers at no additional cost to the Corporation. See Underwriting .

(3) After deducting the Underwriters Fee, but before deducting the expenses relating to the Offering, including the preparation and filing of this short form prospectus, which expenses are estimated to be US$ l (C$ l) and which will be paid from the proceeds of the Offering.

(4) The Corporation has granted the Underwriters an over-allotment option (the **Over-Allotment Option**), exercisable in whole or in part, in the sole discretion of the Underwriter, for a period of l days from the closing of the Offering, to purchase up to an additional 15% of the Offered Shares sold pursuant to the Offering, being l common shares (the **Additional Shares**), at the Offering Price less the Underwriters Fee, to cover over-allotments, if any, and for market stabilization purposes. The grant of the Over-Allotment Option and the Additional Shares issuable upon exercise of the Over-Allotment Option are hereby qualified for distribution under this short form prospectus. A person who acquires Additional Shares forming part of the Underwriters over-allocation position acquires such Additional Shares under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters Fee and net proceeds to the Corporation (before payment of the expenses of the Offering estimated to be US$ l (C$ l) will be US$ l (C$ l), US$ l (C$ l) and US$ l (C$ l), respectively. The Offering is not subject to a minimum amount. Although the Canadian Agent will be acting as Canadian agent for the Underwriter on a commercially reasonable best efforts basis in Canada, at the time that the Underwriting Agreement is entered into, the Underwriter will have agreed to underwrite the full amount of the Offering on a firm commitment basis.

(5) The Corporation has also agreed to issue to the Underwriters warrants (the **Compensation Option**) to purchase a total of l shares of common stock, equal to an aggregate of 2.5% of the shares of common stock sold in the Offering (including the Over-Allotment Option). The warrants will have an exercise price equal to US$ l (C$ l) per share of common stock. The warrants are exercisable commencing six months after the effective date of the registration statement filed in the United States related to the Offering, and will be exercisable for two years thereafter. See Underwriting and the table below.

Underwriters Position	**Number of Common Shares Available**	**Exercise Period**	**Exercise Price**
Over-Allotment Option(1)	Up to l Additional Shares	Up to l days from the closing of the Offering	US$ l (C$ l) per Additional Share
Compensation Option	Warrants to purchase a total of l shares of common stock	Exercisable commencing six months after the effective date of the registration statement filed	US$ l (C$ l) per share of common stock

in the United States
related to the Offering,
and exercisable for two
years thereafter

Notes:

(1) The Underwriters are obligated to purchase all of the Offered Shares if any of the Offered Shares are purchased; however, the Underwriters are not required to take or pay for the Additional Shares covered by the Over-Allotment Option.

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions intended to stabilize or maintain the market price of the Common Shares and Offered Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See Underwriting-Stabilization . **The Underwriters propose to offer the Offered Shares initially at the Offering Price. The Underwriters may allow, and certain dealers may re-allow, a discount from the concession not in excess of US$ l (C$ l) per Offered Share to certain brokers and dealers. After the completion of the Offering, the public offering price, concession and re-allowance to dealers may be changed by the Underwriters. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. See Underwriting-Commissions and Expenses .**

The Underwriters offer the Offered Shares if, as and when issued and sold by the Corporation and accepted by the Underwriters and subject to and in accordance with the conditions contained in the underwriting agreement referred to under Underwriting and subject to the approval of certain legal matters on behalf of the Corporation by Dorsey & Whitney LLP with respect to matters of U.S. law and Borden Ladner Gervais LLP with respect to matters of Canadian law, and on behalf of the Underwriters by Paul, Hastings, Janofsky & Walker LLP with respect to matters of U.S. law and Blake, Cassels & Graydon LLP with respect to matters of Canadian law.

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The Canadian Underwriter has agreed in the Underwriting Agreement to offer the Offered Shares and, if applicable, the Additional Shares, in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, and if considered advisable by the Underwriters, from purchasers outside of Canada and the United States, subject to certain conditions at the Offering Price set forth on the cover page of this prospectus. See Underwriting .

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is intended that the closing of this Offering will occur on or about 1 , 2011 or such other date as may be agreed upon by the Corporation and the Underwriters (the **Closing Date**). In any event, the shares are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of receipt for the final short form prospectus.

Gryphon is incorporated under the laws of a foreign jurisdiction and the directors of Gryphon and those officers of Gryphon who have signed this short form prospectus reside outside of Canada. Although Gryphon and the directors and officers of Gryphon who have signed this short form prospectus will appoint Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario, M5H 3Y4 as their agent for service of process in Canada, it may not be possible for investors to collect from them judgments obtained in courts in Canada. See Foreign Jurisdiction .

The Corporation s head and registered office is located at 611 N. Nevada Street, Carson City, Nevada, 89703, USA.

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Attached following page C-6 is the prospectus forming part of the Form S-1 registration statement (the **U.S. Prospectus**) filed with the Securities and Exchange Commission in the United States in connection with the offering of the Corporation s common shares in the United States. The U.S. Prospectus forms an integral part of this short form prospectus.

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GENERAL MATTERS

Prospective investors should rely only on the information contained or incorporated by reference in this short form prospectus. None of the Corporation, the U.S. Underwriter or the Canadian Underwriter has authorized anyone to provide purchasers with information different from that contained or incorporated by reference in this short form prospectus. The Underwriters are offering to sell the Offered Shares only in jurisdictions where, and to persons whom, offers and sales are lawfully permitted. An investment in the Offered Shares or the Additional Shares is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The information in this short form prospectus may only be accurate on the date of this short form prospectus and the information in the documents incorporated by reference in this short form prospectus may only be accurate as of the respective dates of those documents.

The risks outlined in this short form prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See Risk Factors .

FOREIGN JURISDICTION

The Corporation is incorporated under the laws of a foreign jurisdiction and the directors of the Corporation and those officers of the Corporation who have signed this short form prospectus reside outside of Canada. In addition, all or a substantial portion of the Corporation s assets are located outside of Canada. Although the Corporation and the directors and officers of the Corporation who have signed this short form prospectus will appoint Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario, M5H 3Y4 as their agent for service of process in Canada, it may not be possible for investors to enforce judgements obtained in Canada against the Corporation or the directors of the Corporation and those officers of the Corporation that have signed this short form prospectus.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

References to Canadian dollars , Cdn.$ or C$ in this short form prospectus are to the currency of Canada, and references to $, dollars , U.S. dollars or US$ are to the currency of the United States. See Exchange Rate Data .

CERTAIN CANADIAN FEDERAL INCOME TAX CONSEQUENCES

In the opinion of Borden Ladner Gervais LLP, Canadian legal counsel to the Corporation, and Blake, Cassels & Graydon LLP, Canadian legal counsel to the Underwriters, the following is a summary, as of the date hereof, of the principal Canadian federal income tax considerations generally applicable to a prospective holder of shares acquired pursuant to this short form prospectus who, for purposes of the *Income Tax Act* (Canada) (the **Tax Act**) and the *Canada United States Tax Convention* (the **U.S. Tax Treaty**) at all relevant times, is or is deemed to be a resident of Canada, will hold such shares as capital property, and deals at arm s length and is not affiliated with the Corporation (a **Canadian Holder**). The shares will generally be considered to be capital property to a Canadian Holder unless such shares are held or were acquired in the course of carrying on a business or such shares are held or were acquired in a transaction considered to be an adventure in the nature of trade. Canadian Holders who do not hold their shares as capital property should consult their own tax advisors regarding their particular circumstances. This summary is not applicable to (i) any Canadian Holder which is a financial institution or a specified financial institution (both as defined in the Tax Act); (ii) any Canadian Holder an interest in which would be a tax shelter investment (as defined in the Tax Act); (iii) any Canadian Holder to which the Corporation would be a foreign affiliate for purposes of the Tax Act; or (iv) any Canadian Holder that makes a functional currency election pursuant to section 261 of the Tax Act. Such holders should consult their own advisors.

This summary is based on the current provisions of the Tax Act and the regulations (the **Regulations**) thereunder, the U.S. Tax Treaty, all specific proposals to amend the Tax Act, the Regulations and the U.S. Tax Treaty publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the **Tax Proposals**) and counsel s understanding of the current administrative practices published by the Canada Revenue Agency. No assurance can be given that the Tax Proposals will be enacted in the form proposed, or at all. Except for the Tax

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Proposals, this summary does not take into account or anticipate any other changes in law or administrative practices, whether by judicial, governmental or legislative action or decision, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any particular Canadian Holder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, Canadian Holders should consult their own tax advisors with respect to their particular circumstances.

Amounts denominated in U.S. dollars relating to the acquisition, holding and disposition of the shares must be converted into Canadian dollars based on the exchange rate determined in accordance with the Tax Act. The amount of dividends required to be included in the income of, and capital gains or capital losses realized by, a Canadian Holder may be affected by fluctuations in the Canadian/U.S. dollar exchange rate.

Dividends on Shares

Dividends received or deemed to be received on shares, including the amount of any taxes withheld in respect thereof, will be required to be included in the Canadian Holder s income for the taxation year in which such dividends are received by the Canadian Holder. Such amounts received by a Canadian Holder that is an individual will not be subject to the gross-up and dividend tax credit rules generally applicable to taxable dividends received from taxable Canadian corporations.

A Canadian Holder that is a corporation will include such amounts in computing its income and generally will not be entitled to deduct such amounts in computing its taxable income. A Canadian Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $^{2/3}$% on such amounts.

U.S. withholding tax on dividends may give rise to a Canadian Holder s entitlement to claim a foreign tax credit against the Canadian Holder s Canadian federal income taxes or a deduction in computing such holder s income, in the circumstances and to the extent provided in the Tax Act. Canadian Holders are advised to consult their own tax advisors with respect to the availability of a credit or deduction to them for U.S. withholding tax.

Disposition of Shares

A Canadian Holder who disposes or is deemed to dispose of shares will generally realize a capital gain (or incur a capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Canadian Holder. The adjusted cost base to a Canadian Holder of shares acquired pursuant to this Offering will be determined by averaging the cost of such shares with the adjusted cost base of all other shares, if any, owned by the Canadian Holder as capital property at the time of such acquisition.

One-half of any capital gain (a **taxable capital gain**) realized on the disposition of shares will be included in the Canadian Holder s income for the year of disposition. One-half of any capital loss so realized (an **allowable capital loss**) is required to be deducted by the Canadian Holder against taxable capital gains for the year of disposition. Any excess of allowable capital losses over taxable capital gains of the Canadian Holder for the year of disposition may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years to the extent and in the circumstances prescribed in the Tax Act.

U.S. tax, if any, levied on any gain realized on the disposition of shares of the Corporation may give rise to a Canadian Holder s entitlement to claim a foreign tax credit or deduction in the circumstances and to the extent provided in the Tax Act. Canadian Holders are advised to consult their own tax advisors with respect to the availability of a credit or deduction to them for U.S. tax.

Capital gains realized by an individual and certain trusts may give rise to alternative minimum tax under the Tax Act.

A Canadian Holder that is a Canadian-controlled private corporation may be liable to pay an additional refundable tax of 62/3% in respect of its aggregate investment income, which includes an amount in respect of taxable capital gains.

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Foreign Property Information Reporting

A Canadian Holder that is a specified Canadian entity for a taxation year or a fiscal period and whose total cost amount of specified foreign property , including shares of the Corporation, at any time in the year or fiscal period exceeds C$100,000 (as such terms are defined in the Tax Act) will be required to file an information return for the year or period disclosing prescribed information. Subject to certain exceptions, a Canadian Holder in the year will generally be a specified Canadian entity. **Canadian Holders should consult their own tax advisors about whether they must comply with these rules**.

Foreign Investment Entity Rules

In the Canadian federal budget released on March 4, 2010, the Minister of Finance announced that certain prior Tax Proposals relating to the taxation of Canadian residents investing in certain non-resident entities (the **FIE Proposals**) will not be implemented. The Minister of Finance also proposed to replace the FIE Proposals with a slightly revised version of the current offshore investment fund property rules, which proposed amendments were released on August 27, 2010. There can be no assurance that these revised proposals will be enacted as proposed, or at all.

The existing rules with respect to offshore investment fund property may, in certain circumstances, require a Canadian Holder to include an amount in income in each taxation year in respect of the acquisition and holding of the shares if the value of such shares may reasonably be considered to be derived, directly or indirectly, primarily from portfolio investments in: (i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (ix) any combination of the foregoing (**Investment Assets**). Any amount required to be included in computing the Canadian Holder s income in respect of an offshore investment fund property that is a share of a non-resident corporation would be added to the adjusted cost base to the holder of such share.

Based on counsel s understanding of the facts, including certain representations to counsel by the Corporation, currently the shares should not qualify as offshore investment fund property. Provided that the share is not an offshore investment fund property at any relevant time in the future, an investment by a Canadian Holder in the shares should not be subject to the provisions of the Tax Act relating to investments in offshore investment fund property.

These rules are complex and their application depends, in part, on the reasons for a Canadian Holder acquiring or holding the stock. Canadian Holders are urged to consult their own tax advisors regarding the application and consequences of these rules in their own particular circumstances.

ELIGIBILITY FOR INVESTMENT

In the opinion of Borden Ladner Gervais LLP, Canadian counsel to the Corporation, and Blake, Cassels & Graydon LLP, Canadian counsel to the Underwriters, based on the provisions of the Tax Act and the regulations thereunder in force as of the date hereof and the proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minster of Finance (Canada) prior to the date hereof (the **Regulations**), provided the shares are listed on a designated stock exchange (which currently includes the TSX), the shares, if issued on the date hereof, would be qualified investments under the Tax Act and the Regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax free savings accounts (a **TFSA**).

Notwithstanding that the shares may be a qualified investment for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax on the shares held in the TFSA if such shares are a prohibited investment for the purposes of section 207.01 of the Tax Act. The shares will generally be a prohibited investment if the holder of the TFSA does not deal at arm s length with the Corporation for the purposes of the Tax Act or the holder of the TFSA has a significant interest (under the meaning of the Tax Act, generally 10% or more of the issued shares of any class owned directly or indirectly by the holder or persons not dealing at arm s length with the holder) in the

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Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm s length for the purposes of the Tax Act.

Effective for transactions after October 16, 2009, any transfer of property (other than a contribution) by a holder or by a person who does not deal with at arm s length with a holder (such as other exempt plans of the holder) to the holder s TFSA will be subject to a tax equal to 100% of the increase in the total fair market value of the property held in connection with the holder s TFSA that is attributable to the transfer and would also subject any income or capital gain earned after October 16, 2009 that is reasonably attributable to a prohibited investment or a deliberate over-contribution to tax equal to 100% of the income or capital gain.

Prospective purchasers who intend to hold the shares in their TFSA should consult their own tax advisors regarding their particular circumstances.

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EXCHANGE RATE DATA

As of April 26, 2011, the Bank of Canada noon rate of exchange between Canadian dollars and United States dollars was US$1.00 = C$0.9507. The high, low and closing noon spot rates for the United States dollar in terms of Canadian dollars for the nine months ended December 31, 2010 and the years ended March 31, 2010 and 2009, as quoted by the Bank of Canada, were as follows:

	Nine Months Ended December 31, 2010	Year Ended March 31, 2010	Year Ended March 31, 2009
	(Expressed in Canadian dollars)		
High	1.0778	1.2707	1.3066
Low	0.9946	1.0062	0.9824
Closing	0.9946	1.0156	1.2602

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar regulatory authorities in Canada (the **Canadian Securities Authorities**). Copies of the documents incorporated by reference herein may be obtained on request without charge from the Corporate Secretary of the Corporation at 711-675 West Hastings Street, Vancouver, British Columbia, V6B 1N2, telephone (604) 261-2229, and are also available electronically at www.sedar.com.

The following documents, filed by the Corporation with the Canadian Securities Authorities, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

(a) the annual information form on Form 10-K (the **AIF**) of the Corporation dated June 25, 2010 for the financial year ended March 31, 2010;

(b) the Corporation s audited annual consolidated financial statements for the years ended March 31, 2010 and 2009 and the auditors report thereon, consisting of the audited consolidated balance sheets of the Corporation as of March 31, 2010 and 2009 and the related consolidated statements of operations, stockholders equity and cash flows for each of the two years in the period ended March 31, 2010 and for the period from April 24, 2003 (inception) to March 31, 2010;

(c) management s discussion and analysis of the financial condition and results of operations of the Corporation for the year ended March 31, 2010;

(d) the unaudited interim consolidated comparative financial statements of the Corporation, as at and for the three and nine months ended December 31, 2010, together with the notes thereto;

(e) management s discussion and analysis of the financial condition and results of operations of the Corporation for the three and nine months ended December 31, 2010;

(f) the management information circular of the Corporation dated July 6, 2010 for the annual meeting of shareholders held on August 20, 2010;

(g) the management information circular of the Corporation dated September 14, 2009 for the special meeting of shareholders held on October 8, 2009;

(h) NI 43-101 Pre-Feasibility Study Update of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA dated April 25, 2011;

(i) the Corporation s current reports on Form 8-K dated April 19, 2010, April 23, 2010, April 28, 2010, June 15, 2010, August 2, 2010, August 13, 2010, August 16, 2010, February 25, 2011 and April 26, 2011, each of the foregoing reports filed on SEDAR as either a material change report or as a news release; and

(j) the Corporation s current report (amendment) on Form 8-K/A dated August 13, 2010, filed on SEDAR as a material change report.

Any document of the type referred to in section 11.1 of Form 44-101F1 *Short Form Prospectus*, if filed by the Corporation after the date of this short form prospectus and prior to the termination of this distribution, shall be deemed to be incorporated by reference in this short form prospectus. In addition, to the extent indicated in any Report on Form 6-K furnished to the United States Securities and Exchange Commission, any information therein shall be deemed to be incorporated by reference in this short form prospectus.

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Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference herein modifies, replaces or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser s province for the particulars of these rights or consult with a legal adviser.

UNITED STATES PROSPECTUS

Attached is the prospectus forming part of the Form S-1 registration statement (the **U.S. Prospectus**) filed with the Securities and Exchange Commission in the United States in connection with the offering of the Corporation s common shares in the United States. The U.S. Prospectus forms an integral part of this short form prospectus. Rights and remedies may be available to purchasers under United States law, however, such rights and remedies may differ from those available under Canadian law. Purchasers may wish to consult with a United States legal advisor for particulars of these rights.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13 ***OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION***

	Amount
Securities and Exchange Commission Registration Fee	$ 1,376
FINRA filing fee	$ 1,685
Legal Fees and Expenses	*
Accounting Fees and Expenses	*
Printing and Engraving Expenses	*
Miscellaneous Expenses	*
Total	*

*** - To be provided by amendment**

ITEM 14 ***INDEMNIFICATION OF DIRECTORS AND OFFICERS***

The Company s Bylaws and Articles of Incorporation (the Certificate of Incorporation) provide that we shall, to the full extent permitted by the Nevada General Business Corporation Law, as amended from time to time (the Nevada Corporate Law), indemnify all of our directors and officers. Section 78.7502 of the Nevada Corporate Law provides in part that a corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of another corporation or other enterprise, against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Similar indemnity is authorized for such persons against expenses (including attorneys fees) actually and reasonably incurred in defense or settlement of any threatened, pending or completed action or suit by or in the right of the corporation, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and provided further that (unless a court of competent jurisdiction otherwise provides) such person shall not have been adjudged liable to the corporation. Any such indemnification may be made only as authorized in each specific case upon a determination by the stockholders or disinterested directors that indemnification is proper because the indemnitee has met the applicable standard of conduct. Under our Certificate of Incorporation, the indemnitee is presumed to be entitled to indemnification and we have the burden of proof to overcome that presumption. Where an officer or a director is successful on the merits or otherwise in the defense of any action referred to above, we must indemnify him against the expenses which such offer or director actually or reasonably incurred. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

ITEM 15 *RECENT SALES OF UNREGISTERED SECURITIES*

In the past three years, we have offered and sold the following securities in unregistered transactions pursuant to exemptions under the Securities Act.

On August 5, 2008, the Company, Gerald W. and Fabiola Baughman (the Debtholders), and Nevada Eagle Resources LLC (Nevada Eagle) entered into an Option Agreement (the Option Agreement), pursuant to which Gryphon obtained the option (the Option), to restructure the $5,000,000 convertible note issued to the Debtholders and due on March 30, 2010 (the Convertible Note) issued in connection with Gryphon s acquisition of Nevada Eagle by (i) converting $2,500,000 of principal of the Convertible Note by paying (A) $500,000 in cash to the Debtholders and (B) $2,000,000 by issuing 4,000,000 shares of our common stock of Gryphon at a deemed value of $0.50 per common share to the Debtholders, and (ii) issuing a convertible note for the remaining $2,500,000 due and payable on March 30, 2012 (the Amended Note). The Option was to expire on February 5, 2010, under the terms of the Option Agreement. The securities were issued upon exercise of the warrants to certain accredited investors pursuant to an exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

During the quarter ended September 30, 2009, the Company issued 7,161,500 shares of our common stock on the exercise of common share purchase warrants for aggregate proceeds of Cdn$1,289,070. The shares of our common stock were issued upon exercise of the warrants to certain accredited investors pursuant to an exemption from the registration requirements of Securities Act provided by Section 4(2) of the Securities Act, an exclusion from such registration requirements provided by Regulation S under the Securities Act and in each case pursuant to state and local securities laws and regulations.

On February 5, 2010, to permit the Company to exercise the Option, the Company, the Debtholders and Nevada Eagle entered into Amendment No. 1 to the Option Agreement (Amendment No. 1) pursuant to which, amongst other items, (i) the Company obtained the right, in lieu of the $500,000 cash payment, to issue a $500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds $500,000 from a contemplated private placement or February 19, 2010; (ii) to delete certain unmet conditions required to be satisfied by Gryphon in connection with the exercise of the Option; and (iii) update the schedule of properties listed to secure repayment of the Amended Note. The securities were issued upon exercise of the warrants to certain accredited investors pursuant to an exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

As consideration for entering into Amendment No. 1, on February 5, 2010, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement) pursuant to which the Company agreed to (i) issue the Debtholders 1,500,000 shares of our common stock of Gryphon and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration), which Amendment Consideration was subject to obtaining Toronto Stock Exchange approval and, if required by the Toronto Stock Exchange, shareholder approval (the Approvals). The conversion price of Amended Note was amended upon receipt of such Approvals to be convertible at $0.60 per share from February 5, 2010 through March 30, 2010, at $0.70 per share from March 31, 2010 through March 30, 2011 and at $0.80 per share from March 31, 2011 to March 30, 2012. The securities were issued upon exercise of the warrants to certain accredited investors pursuant to an exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

On February 5, 2010, the Company exercised the Option to restructure the Convertible Note by converting $2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 shares of our common stock and a promissory note in the principal amount of $500,000 to the Debt holders, and issuing the Amended Note for the remaining $2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012. The securities were issued pursuant to an exemption from registration in reliance upon Section 4(2) of the Securities Act.

On February 18, 2010, the Company closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn.$0.17 per unit for gross proceeds of $1,762,701 (Cdn$1,852,550). Each unit consists of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private

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placement to purchase one additional share of common stock at an exercise price of US$0.25. The units were offered for sale directly by the Company. In connection with the private placement, the Company has paid qualified registered dealers cash commissions in the aggregate amount of $162,003 (Cdn$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of common stock of the Company, exercisable at a price of US$0.21 for a period of up to twelve months from the date of closing of the private placement. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an offshore transaction , as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, Gryphon relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased.

On June 16, 2010, we closed the private placement with Sage and issued 1,464,429 units at a purchase price of Cdn.$0.14 per unit for gross proceeds of $200,000 (Cdn.$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of $0.20. The units were offered for sale directly by us. The proceeds of this offering were applied to fund the continuation of our exploration and development programs. The shares of our common stock were issued pursuant to an exemption from registration in reliance upon Section 4(2) of the Securities Act.

On August 23, 2010, the Company issued 1,500,000 shares of its common stock to Gerald W. Baughman and Fabiola Baughman (the Baughmans) pursuant to the terms of an Option Consideration Agreement by an between the Company and the Baughmans, dated February 5, 2010 (the Option Consideration Agreement). Pursuant to the terms of the Option Consideration Agreement and in order to satisfy the requirements of the Toronto Stock Exchange, the issuance of the shares of our common stock to the Baughmans was subject to approval by Gryphon s stockholders at Gryphon s next meeting of stockholders. On August 20, 2010, stockholders approved the issuance of the shares of our common stock to the Baughmans. The shares of our common stock were issued pursuant to an exemption from registration in reliance upon Section 4(2) of the Securities Act.

On January 21, 2011, the Company closed a private financing and raised net proceeds of approximately $1.3 million. The Company issued 6,500,000 units in a private placement, each unit consisting of one share of its common stock and one-half of a warrant to purchase a share of its common stock. The warrants are exercisable for a period of twenty-four months following the date of issuance at an exercise price of $0.30 per share. The purchasers of the units are entitled to registration rights on the shares of common stock and warrants. The units were placed outside the United States pursuant to the exemption from the registration requirements of the Securities Act under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an offshore transaction , as defined in Rule 902(h) of Regulation S. In determining the availability of this exemption, Gryphon relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased.

ITEM 16 ***EXHIBITS***

Other than contracts made in the ordinary course of business, the following are the material contracts that we have entered into within the two years preceding the date of this Registration Statement:

(a) **EXHIBITS**

Number	**Description**
1.1	Form of Underwriting Agreement

3.1*	Articles of Incorporation of Gryphon Gold Corporation, filed April 24, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.1)
3.2*	Certificate of Amendment to Articles of Incorporation of Gryphon Gold Corporation, filed August 9, 2005 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.2)
3.3*	Bylaws of Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.3)
3.4*	Articles of Incorporation of Borealis Mining Company, filed June 5, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.4)
3.5*	Bylaws of Borealis Mining Company (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 3.5)

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Number	Description
4.1*	Specimen Common Stock certificate (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 4.1)
4.2*	Convertible Debenture between the Gryphon Gold Corporation and Gerald W. Baughman and Fabiola Baughman
4.4+	Form of Lock-up Agreement
5.1+	Opinion of Woodburn & Wedge LLP
10.1*	Assignment of Borealis Mining Lease, dated January 10, 2005, between Golden Phoenix Mineral Company and Borealis Mining Company (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.2)
10.2*	Agreement and Consent to Assignment of Borealis Mining Lease, entered into as of January 26, 2005, between Richard J. Cavell, Hardrock Mining Company, John W. Whitney, Golden Phoenix Minerals, Inc., Borealis Mining Company and Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.3)
10.3*	Escrow Agreement, dated January 10, 2005, between Borealis Mining Company, Gryphon Gold Company and Lawyers Title Agency of Arizona (Regarding Purchase Agreement dated January 10, 2005)(Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.4)
10.4*	Purchase Agreement dated January 10, 2005, as amended, Seller: Golden Phoenix Minerals, Inc., Buyer: Borealis Mining Company and Guarantor: Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.5)
10.5*	Agreement between Golden Phoenix Minerals, Inc. and Borealis Mining Company (Borealis Property, Mineral County, Nevada), dated July 21, 2003 (Previously filed on Form SB-2 on August 17, 2005 as Exhibit 10.6)
10.6*	Membership Interest Purchase Agreement for Nevada Eagle Resources LLC Properties (Previously filed on Form 8-K on July 6, 2007)
10.7*	2006 Omnibus Incentive Plan (Incorporated by reference to Appendix E of the Registrant s Definitive Schedule 14A proxy statement filed on August 9, 2006)(Previously filed as Exhibit 4.1 to Form S-8 filed on October 11, 2006)
10.8*	Employment Agreement between the Registrant and John L. Key, dated July 21, 2008 (Previously filed as Exhibit 10.1 to Form 8-K filed on July 21, 2008)
10.9*	Financial Services Agreement between the Registrant and Tony Ker, dated September 1, 2008 (Previously filed as Exhibit 10.2 to Form 8-K filed on July 21, 2008)
10.10*	Transition Agreement between the Registrant and Tony Ker, dated July 21, 2008(Previously filed as Exhibit 10.3 to Form 8-K filed on July 21, 2008)
10.11*	Option to Restructure Debt Agreement between the Registrant and Nevada Eagle Resources, dated August 5, 2008 (Previously filed as Exhibit 10.8 to Form 10-Q filed on August 13, 2008)
10.12*	Financial and Advisory Services Agreement between the Registrant and Matter & Associates, dated October 1, 2008 (Previously filed as Exhibit 99.1 to Form 8-K filed on October 23, 2008)
10.13*	Option to Amend the Mining Lease on the Borealis Property, dated effective August 22, 2008 (Previously filed as Exhibit 10.18 to Form 10-K filed on June 28, 2010)
10.14*	Termination of Financial Services Agreement between the Registrant and Tony Ker, dated effective September 28, 2008 (Previously filed as Exhibit 10.19 to Form 10-K filed on June 28, 2010)
10.15*	Consulting Agreement between the Registrant and Steven Craig, dated November 1, 2008 (Previously filed as Exhibit 10.8 to Form 10-Q filed on November 14, 2008)
10.16*	Consulting Agreement between the Registrant and Michael Longinotti, dated November 12, 2008 (Previously filed as Exhibit 10.9 to Form 10-Q filed on November 14, 2008)
10.17*	

	Interim Consulting Agreement between the Registrant and Mr. R. William Wilson, dated January 6, 2010 (Previously filed as Exhibit 10.22 to Form 10-K filed on June 28, 2010)
10.18*	Amendment No. 1 to the Option Agreement between the Registrant, Gerald W. and Fabiola Baughman, and Nevada Eagle Resources LLC, dated February 5, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 10, 2010)
10.19*	Option Consideration Agreement between the Registrant and Gerald W. and Fabiola Baughman, dated February 5, 2010 (Previously filed as Exhibit 10.2 to the Registrant s Form 8-K filed on February 10, 2010)

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Number	Description
10.20*	Amendment No. 2 to the Option Agreement between the Registrant, Gerald W. and Fabiola Baughman, and Nevada Eagle Resources LLC, dated February 12, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 18, 2010)
10.21*	Binding Letter of Intent (between the Registrant and Sage Gold Inc., dated February 23, 2010 (Previously filed as Exhibit 99.1 to the Registrant s Form 8-K filed on February 25, 2010)
10.22*	Option Agreement between the Registrant, Borealis Mining Company, and Sage Gold Inc. dated March 5, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on March 8, 2010)
10.23*	Amendment No. 1 to Option Agreement and Amendment No. 1 to Subscription Agreement between the Registrant, Borealis Mining Company, and Sage Gold Inc. dated March 26, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on March 31, 2010)
10.24*	Amendment No. 1 to Option to Amend Mining Lease dated August 7, 2009 (Previously filed as Exhibit 10.2 to the Registrant s Form 8-K filed on February 24, 2011)
10.25*	Amendment No. 2 to Option to Amend Mining Lease dated February 12, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 18, 2010)
10.26*	Amendment No. 3 to Option to Amend Mining Lease dated August 17, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on August 20, 2010)
10.27*	Amendment No. 4 to Option to Amend Mining Lease dated February 22, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 24, 2010)
10.28*	Amendment No. 2 to Option Agreement between the Registrant, Borealis Mining Company and Sage Gold, dated April 19, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on April 20, 2010)
10.29*	Membership Interest Purchase Agreement between the Registrant and Fronteer Development (USA) Inc. dated April 23, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on April 27, 2010)
10.30*	Amendment No. 3 to Option Agreement and Amendment No. 2 to Subscription Agreement between the Registrant, Borealis Mining Company and Sage Gold, dated April 19, 2010 (Previously filed as Exhibit 99.1 to the Registrant s Form 8-K filed on May 6, 2010)
10.31*	Amendment No. 4 to Option Agreement between the Registrant, Borealis Mining Company and Sage Gold, dated June 15, 2010 (Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on June 16, 2010)
21.1*	List of Subsidiaries (Previously filed as Exhibit 21.1 to the Registrant s Form S-1 filed on February 4, 2011)
23.1	Consent of Ernst & Young LLP
23.2*	Consent of Roger C. Steininger, Ph.D., CPG (Previously filed as Exhibit 23.2 to the Registrant s Form S-1 filed on February 4, 2011)
23.3*	Consent of John R. Danio, PE (Previously filed as Exhibit 23.3 to the Registrant s Form S-1 filed on February 4, 2011)
23.4*	Consent of Steve Wolff (Previously filed as Exhibit 23.4 to the Registrant s Form S-1 filed on February 4, 2011)
23.5*	Consent of Steven D. Craig, CPG (Previously filed as Exhibit 23.5 to the Registrant s Form S-1 filed on February 4, 2011)
23.6*	Consent of Jaye T. Pickarts, P.E. (Previously filed as Exhibit 23.6 to the Registrant s Form S-1 filed on February 4, 2011)
23.7*	Consent of Kim Drossulis (Previously filed as Exhibit 23.7 to the Registrant s Form S-1 filed on February 4, 2011)
23.8+	Consent of Woodburn & Wedge LLP (contained in Exhibit 5.1 hereto).

23.9	Consent of John D. Welsh, P.E.
23.10	Consent of Jonathan M. Brown, CPG, MBA
23.11	Consent of Douglas Willis, CPG
23.12	Consent of Dr. Thom Seal, Ph.D, P.E.
24.1*	Power of Attorney (Previously filed as Exhibit 24.1 to the Registrant s Form S-1 filed on February 4, 2011)

* Previously filed and incorporated by reference.

\+ To be filed by amendment.

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ITEM 17 ***UNDERTAKINGS***

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Reno, on April 27, 2011.

GRYPHON GOLD CORPORATION

/s/ John L. Key	Chief Executive Officer and Director (Principal Executive Officer)	April 27, 2011
/s/ Matthew A. Fowler	Interim Chief Financial Officer (Principal Financial and Accounting Officer	April 27, 2011

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ John L. Key	Chief Executive Officer and Director (Principal Executive Officer)	April 27, 2011
/s/ Matthew A. Fowler*	Interim Chief Financial Officer (Principal Financial and Accounting Officer)	April 27, 2011
/s/ Marvin K. Kaiser*	Director	April 27, 2011
/s/ Donald W. Gentry*	Director	April 27, 2011
/s/ Terence J. Cryan*	Director	April 27, 2011

*- /s/ John L. Key Dated: April 27, 2011
John L. Key

As Attorney in Fact for the indicated persons, pursuant to a Power of Attorney filed with the Registrant s Form S-1, as filed with the Securities and Exchange Commission on February 4, 2011.

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