

GRYPHON GOLD CORP  
Form 10-Q  
February 13, 2009

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

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended December 31, 2008**

**OR**

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

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

**Commission file number: 333-127635**

**GRYPHON GOLD CORPORATION**

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(Exact Name of Registrant as Specified in its Charter)

**Nevada**

(State of other jurisdiction of incorporation or organization)

**92-0185596**

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

**675 West Hastings Street, Suite 711**

**Vancouver, British Columbia**

(Address of Principal Executive Offices)

**V6B 1N2**

(Zip Code)

**(604) 261-2229**

(Registrant's Telephone Number, including Area Code)

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

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

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

Large accelerated filer £

Accelerated filer £

Non-accelerated filer £

Smaller reporting company Q

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

Number of common shares outstanding at February 13, 2009: 61,957,065

## GRYPHON GOLD CORPORATION

December 31, 2008

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## Gryphon Gold Corporation

(an exploration stage company)

## CONSOLIDATED BALANCE SHEETS

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

	As at December 31, 2008 \$	As at March 31, 2008 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	1,014,678	4,196,394
Held for trading securities	16,809	151,543
Accounts receivable	18,098	92,104
Prepaid expenses	78,068	142,540
<b>Total Current Assets</b>	<b>1,127,653</b>	<b>4,582,581</b>
Equipment <i>[note 4]</i>	129,685	142,511
Mineral properties <i>[notes 3 &amp; 5]</i>	7,127,995	12,209,864
Other assets <i>[note 7]</i>	209,437	257,844
	8,594,770	17,192,800
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	489,066	626,843
Current portion of capital lease <i>[note 8]</i>	-	18,127
<b>Total current liabilities</b>	<b>489,066</b>	<b>644,970</b>
Convertible promissory note <i>[note 9]</i>	4,711,634	4,432,134
Commitments and contingencies <i>[note 12]</i>		
<b>Stockholders' equity</b>		
Common stock	61,957	61,735
Additional paid-in capital	38,337,937	37,885,549
Deficit accumulated during the exploration stage	<b>(35,005,824)</b>	<b>(25,831,588)</b>
<b>Total stockholders' equity</b>	<b>3,394,070</b>	<b>12,115,696</b>
	8,594,770	17,192,800

*See accompanying notes*

See Note 1 Nature of Operations and Going Concern Uncertainty

## Gryphon Gold Corporation

(an exploration stage company)

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended		Period from
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	April 24, 2003 (inception) to December 31, 2008
	\$	\$	\$	\$	\$
Exploration [note 6]	141,667	661,007	1,422,985	3,414,405	15,196,617
Management salaries and consulting fees [note 11]	258,876	529,729	1,246,269	1,663,160	8,551,306
General and administrative	167,209	254,831	510,425	812,436	3,024,456
Legal and audit	52,077	111,020	208,167	308,877	1,660,962
Travel and accommodation	2,412	68,704	119,332	172,408	1,011,020
Depreciation & amortization	11,694	18,746	44,055	48,983	197,544
(Gain) loss on disposal of equipment	1,309	-	(1,865)	6,552	24,409
Loss on sale of mineral properties	34,360	-	34,360	-	34,360
Foreign exchange loss	9,675	3,034	26,589	18,336	21,112
Lease revenue	-	-	(22,598)	-	(22,598)
Interest income	(1,386)	(40,782)	(25,536)	(170,332)	(731,867)
Interest expense	133,129	130,300	395,487	188,853	712,450
Impairment of carrying value of exploration properties [note 3]	-	-	5,100,000	-	5,100,000
Unrealized (gain) loss on securities	7,496	-	(20,325)	-	21,162
Realized loss on sale of securities	-	-	136,891	-	136,891
<b>Net loss for the period</b>	<b>(818,518)</b>	<b>(1,736,589)</b>	<b>(9,174,236)</b>	<b>(6,463,678)</b>	<b>(35,005,824)</b>
Basic and diluted loss per share	\$(0.01)	\$(0.03)	\$(0.15)	\$(0.13)	

Basic and diluted weighted average  
number of common shares outstanding

61,957,065 58,954,952 61,796,947 49,764,662

See accompanying notes

See Note 1 Nature of Operations and Going Concern Uncertainty

## Gryphon Gold Corporation

(an exploration stage company)

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Stated in U.S. dollars)

(Unaudited)

	Common stock		Additional	Deficit	
	Shares	Amount	paid-in	accumulated	Total
	#	\$	capital	during the	\$
			\$	exploration	
				stage	
				\$	
<b>Balance, inception April 24, 2003</b>					
Shares issued:					
For private placements	38,326,370	38,326	20,731,825		20,770,151
Share issue costs			(740,553)		(740,553)
Initial Public Offering (IPO)	6,900,000	6,900	5,029,597		5,036,497
Share issue costs (IPO)			(2,241,940)		(2,241,940)
Compensation component of shares issued			226,000		226,000
Fair value of agents' warrants issued on private placements [note 10[b]]			168,137		168,137
Fair value of options granted to consultants [note 10[c]]			49,558		49,558
Fair value of underwriters' compensation warrants on IPO [note 10[b]]			135,100		135,100
Fair value of options granted [note 10[c]]			1,314,961		1,314,961
Fair value of vested stock grants	108,000	108	151,138		151,246
Exercise of warrants	1,855,775	1,856	1,742,979		1,744,835
Exercise of options	107,500	108	83,066		83,174
Net loss since inception				(17,980,822)	(17,980,822)
<b>Balance, March 31, 2007</b>	<b>47,297,645</b>	<b>47,298</b>	<b>26,649,868</b>	<b>(17,980,822)</b>	<b>8,716,344</b>
Shares issued:					
For private placements	9,486,500	9,487	7,346,431		7,355,918
Share issue costs			(523,288)		(523,288)
For mineral properties [note 3]	4,500,000	4,500	3,444,918		3,449,418
Fair value of agents' warrants issued on private placements [note 10[b]]			54,490		54,490
Fair value of options granted [note 10[c]]			459,519		459,519
Fair value of vested stock grants [notes 10 [a] & [d]]	321,250	320	369,241		369,561

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Exercise of warrants [note 10[b]]	130,000	130	84,370		84,500
Net loss for the period				(7,850,766)	(7,850,766)
<b>Balance, March 31, 2008</b>	<b>61,735,395</b>	<b>61,735</b>	<b>37,885,549</b>	<b>(25,831,588)</b>	<b>12,115,696</b>
Shares issued:					
Shares issue cost			(9,246)		(9,246)
Fair value of options granted					
[note 10[c]]			440,219		440,219
Fair value of vested stock grants [notes 10					
[a] & [d]]	221,670	222	21,415		21,637
Net loss for the period				(9,174,236)	(9,174,236)
<b>Balance, December 31, 2008</b>	<b>61,957,065</b>	<b>61,957</b>	<b>38,337,937</b>	<b>(35,005,824)</b>	<b>3,394,070</b>

See accompanying notes

See Note 1 Nature of Operations and Going Concern Uncertainty

## 1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Gryphon Gold Corporation was incorporated in the State of Nevada in 2003 and wholly owns its subsidiaries, Borealis Mining Company, Gryphon Nevada Eagle Holding Company and Nevada Eagle Resources LLC (collectively, 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. As a result, the Company's ability to continue as a going concern is in substantial doubt.

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary. 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 significant 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 accompanying financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements were prepared by the Company in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial statements applied on a consistent basis. These interim financial statements follow the same significant accounting policies and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2008 (the Annual Financial Statements ). Accordingly, they do not include all disclosures required for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Annual Financial Statements.

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

## NEW POLICIES ADOPTED

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



after November 15, 2007. The adoption of SFAS No. 157 did not have a material effect on the Company's financial statements.

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

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

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

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value. The fair value of the held for trading securities using the following inputs at December 31, 2008 is:

**Fair Value Measurements at Reporting Date Using**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total	\$ 16,809	\$ 16,809	\$

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

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, which amends SFAS No. 141, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively.

**RECENT ACCOUNTING PRONOUNCEMENTS (cont'd)**

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

**3. NEVADA EAGLE RESOURCES LLC**

On August 21, 2007 Gryphon Gold Corporation closed the acquisition of Nevada Eagle Resources LLC, a privately held Nevada limited liability company ( Nevada Eagle ), pursuant to a membership interest purchase agreement (the Purchase Agreement ), dated July 4, 2007, by and between the Company, Gerald W. Baughman and Fabiola Baughman, as sellers ( Sellers ), and Nevada Eagle. Under the Purchase Agreement, the company acquired all of the outstanding limited liability company interests of Nevada Eagle from the Sellers (the Acquisition ) for the following consideration, paid on August 21, 2007 (the Closing Date ):

- (a) \$2,500,000 in cash;
- (b) 4,500,000 shares of common stock of the Company (the Common Shares ) 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 and a fair value of \$4,272,359 [Note 9].

Consideration paid for acquisition of Nevada

Eagle	Cash at closing	\$2,500,000
	Cash due diligence	
costs	and other expenses	568,340
		3,068,340
	Common shares	3,449,418
value	Convertible note and	
	of conversion feature	4,272,359
		\$10,790,117
Allocation of Purchase Price	Mineral properties	10,719,209
	Non-competition	70,908
agreement		\$10,790,117

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

The original purchase price allocation for the acquisition of the NER properties was based on a valuation model provided by an independent investment-banking firm. 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.

To measure for impairment, the Company updated the valuation parameters that were utilized for the purchase price allocation. The updated parameters were input into the valuation model. It was determined that the Nevada Eagle exploration properties 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.

Management determined an impairment charge was not warranted for the three month period ended December 31, 2008.

**4. EQUIPMENT**

	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Office and lab equipment	199,261	104,005	95,256
Trucks	64,097	29,668	34,429
<b>Total</b>	<b>263,358</b>	<b>133,673</b>	<b>129,685</b>

	<b>March 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Office and lab equipment	197,986	80,897	117,089
Trucks under capital lease	71,319	45,897	25,422
<b>Total</b>	<b>269,305</b>	<b>126,794</b>	<b>142,511</b>

**5. MINERAL PROPERTIES**

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

On August 22, 2008, the Company entered into a 12 month option agreement, at a cost of \$250,000 and an additional \$25,000 to cover legal costs, to amend the Borealis Property mining lease. If exercised, the net smelter return royalty rate will be fixed at 5%, versus the current uncapped variable rate. Payment upon exercise of the option is \$1,750,000 in cash, 7,726,250 common shares of the Company and a three year, \$1,909,500 5% note payable. The option period can be extended for an additional six months for a payment of \$125,000.

Effective August 21, 2007, the Company purchased all the rights and interests of Nevada Eagle, as described in note 3. \$10,719,209 of the purchase price was allocated to the value of the exploration properties acquired.

	<b>Total \$</b>
<b>Mineral property costs, March 31, 2006</b>	<b>1,898,207</b>
Expenditures during the year	22,164
<b>Mineral property costs, March 31, 2007</b>	<b>1,920,371</b>
Nevada Eagle acquisition [note 3]	10,719,209
Lease payments received (cash)	(245,805)
Lease payments received (shares & warrants)	(193,030)
Expenditures during the period	9,119
<b>Mineral property costs, March 31, 2008</b>	<b>12,209,864</b>
Lease payments received (cash)	(258,500)

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Proceeds from sale of properties	(50,000)
Lease payments received (shares)	(10,000)
Loss on sale of properties	(34,360)
Expenditures during the period	29,971
Option to amend Borealis Property mining lease	285,903
Impairment of carrying value of exploration properties <i>[note 3]</i>	(5,044,883)
<b>Mineral property cost, December 31, 2008</b>	<b>7,127,995</b>

**6. EXPLORATION**

	Three month ended		Nine month ended		Period from April 24, 2003 (inception) to December 31, 2008
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	December 31, 2008
	\$	\$	\$	\$	\$
<b>NEVADA, USA</b>					
<b>Borealis property</b>					
<b>Exploration:</b>					
Drilling	21,083	262,095	423,291	1,990,632	7,128,672
Property maintenance	42,711	194,654	399,766	546,233	2,944,856
Geologic and assay	995	106,752	64,787	609,393	2,033,111
Project management	50,137	69,899	204,883	189,772	1,606,672
Engineering	12,401	15,353	283,096	20,353	1,108,881
Metallurgy	14,002	9,556	34,373	35,324	331,209
Subtotal Borealis property	141,329	658,309	1,410,196	3,391,707	15,153,401
Other exploration	338	2,698	12,789	22,698	43,216
<b>Total exploration</b>	<b>141,667</b>	<b>661,007</b>	<b>1,422,985</b>	<b>3,414,405</b>	<b>15,196,617</b>

**7. OTHER ASSETS**

	December 31, 2008	March 31, 2008
	\$	\$
Reclamation bond & deposits	209,437	195,636
Non-compete agreement [note 3]	-	62,208
	209,437	257,844

On December 31, 2008, the Company had \$182,260 (March 31, 2008 - \$168,459) on deposit to support a performance bond with the United States Forest Service. The Company also holds a deposit with the Bureau of Land Management (BLM) for \$27,177 (March 31, 2008 - \$27,177), which supports its potential future obligations for reclamation during the Company's exploration activities within the BLM area. At December 31, 2008, the Company has recorded an estimated reclamation liability of \$5,600 (March 31, 2008 - \$5,600) representing future obligations related to its general property activities completed to December 31, 2008.

As part of the acquisition of Nevada Eagle, the primary interest holder entered into a non-compete agreement. The non-compete agreement was being amortized on a straight line basis over 5 years. At September 30, 2008, the value of the non-compete agreement was reduced to zero in conjunction with the recording of an impairment in value of the Nevada Eagle exploration properties [note 3].

**8. CAPITAL LEASE**

The Company leased a truck that was accounted for as a capital lease, with the present value of the required lease payments recorded as a liability and an asset at inception and thereafter lease payments reduce the liability and result in interest expense and the asset is depreciated. The truck was returned to the leasing company at the end of the minimum term of the lease, during the quarter ended June 30, 2008, which extinguished any further required lease payments.





**9. CONVERTIBLE PROMISSORY NOTE**

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	<b>\$</b>	<b>\$</b>
Convertible promissory note, with a face value of \$5,000,000 due March 30, 2010, unsecured, bearing interest at 5%. Interest is payable each January 1 <sup>st</sup> and June 1 <sup>st</sup> . Discount accretion for the period from August 21, 2007 (date of issue) to December 31, 2008, totalled \$365,988.	4,711,634	4,432,134

Gryphon Gold issued a Convertible Promissory Note to the former owner of Nevada Eagle with a face amount of \$5,000,000, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note is convertible at the holder's option into shares for the first 12 months after closing at a conversion price of \$1 per common share; for the next 12 months at \$1.25 per common share; for the period 24 months from closing to March 29, 2010 at \$1.50 per common share and on March 30, 2010 at \$1.75 per common share. The conversion rate is subject to certain anti-dilution adjustments and is subject to adjustment on payment of cash dividends by Gryphon Gold. Upon an event of default, which includes amongst other things a change in control of Gryphon Gold, the holder may demand repayment of the principal amount of the debenture or exercise the conversion feature for a fixed number of shares. After an event of default, the interest rate on the convertible debenture increases to 9%. The change in control event of default acceleration feature is considered an embedded derivative however its issue date fair value is not considered to be significant, nor is it considered to be significant at December 31, 2008. The conversion feature does not require bifurcation in the financial statements because it is not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion are never successfully registered. The Convertible Promissory Note, including the conversion feature and change in control event of default acceleration feature embedded derivative, was recorded at its estimated issue date fair value of \$4,272,359 at date of issue. Interest and discount accretion of \$188,356 and \$206,211, for the nine months ended December 31, 2008, has been recorded as interest expense in the unaudited consolidated income statement. The former owner of Nevada Eagle is also an employee of the Company (see note 3).

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

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

**10. CAPITAL STOCK**

- [a] Authorized capital stock consists of 150,000,000 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 quarter ended September 30, 2008, the company issued 180,000 common shares to directors. The issuance was the last vesting of restricted stock grants dated January 10, 2007.

During the quarter ended June 30, 2008, the company issued 41,670 common shares to a director (retired April 8, 2008). The issuance was provided under a transition agreement, which allowed 2,778 restricted stock units to vest monthly commencing January 2007 and until such time as this individual retired from the board of directors. See also note 10[d].

- [b] Warrants:

The following table contains information with respect to all warrants:

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

<b>Warrants outstanding, March 31, 2008</b>	<b>14,827,080</b>	<b>357,727</b>
Expired	(340,580)	
<b>Warrants outstanding, December 31, 2008</b>	<b>14,486,500</b>	<b>357,727</b>

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

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2008:

**Warrants Outstanding and Exercisable**

<b>Warrants #</b>	<b>Average Remaining Life Years #</b>	<b>Exercise Price</b>	<b>Expiry date</b>
5,000,000	0.1	Cdn\$1.35	February 9, 2009
5,000,000	0.6	Cdn\$1.25	August 3, 2009
3,254,000	0.9	Cdn\$1.25	November 22, 2009
1,050,000	0.9	Cdn\$1.25	November 27, 2009
182,500	1.0	Cdn\$1.25	December 14, 2009
14,486,500	0.7	\$1.06*	

\*\* Based on the December 31, 2008 exchange rate of Cdn\$1 equals US\$.08210.

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

**[c] Stock options:**

On April 8, 2008 directors, officers, a consultant and an employee were granted 500,000 options. 25% of these options vested June 30, 2008 while the remaining will vest over the next three quarters and are exercisable for 5 years at a price of Cdn\$0.41 per share.

On July 2, 2008, an investor relations firm was granted 250,000 stock options. The options vest over one year and are exercisable at a price of Cdn\$0.40 for a term of two years.

On July 7, 2008, several directors, officers and one consultant cancelled 2,627,500 options.

On July 8, 2008, four employees and one consultant were granted 385,000 options. These options vest over one year and are exercisable at a price of Cdn\$0.38 for a term of five years.

On July 21, 2008, a director was granted 200,000 options. These options vest over one year and are exercisable at a price of Cdn\$0.38 for a term of five years.

On August 1, 2008, 750,000 stock options were granted to three executive officers. 550,000 of these options vest over the next two years, while the remaining 200,000 vest in the next six months. The options are exercisable at a price of Cdn\$0.41 for a term of five years.

On August 5, 2008, 3 employees and one consultant cancelled 940,000 options.

On September 5, 2008, 175,000 options were forfeited by a director.

On September 16, 2008 550,000 options were granted to two directors and a consultant. 400,000 options vest at date of grant and 150,000 vest in the next nine months. The option are exercisable at a price of Cdn\$0.28 for a

term of five years.

On September 18, 2008, 150,000 options were granted to a consultant which vested immediately, and have a term of five years and an exercise price of Cdn\$0.26 per share.

On November 18, 2008, 150,000 options were granted to a director which 37,500 have vested and the remaining 112,500 will vest in the next 8 months, and have a term of five years and an exercise price of Cdn\$0.07 per share.

On November 20, 2008, 275,000 options were granted to a consultant which vested immediately and have a term of five years and an exercise price of Cdn\$0.07.

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

On November 24, 2008, 250,000 options were granted to a consultant which vested immediately and have a term of five years and an exercise price of Cdn\$0.26.

The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 15%. 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 non-cash stock-based compensation expense related to stock options and restricted stock units as follows:

	Three months ended		Nine months ended	
	December	December	December	December
	31, 2008	31, 2007	31, 2008	31, 2007
	\$	\$	\$	\$
Management salaries, exploration expense & consulting fees	70,174	199,422	468,620	683,916
Stock option activity				

The following table summarizes the Company's stock option activity for the nine months ended December 31, 2008:

	Number of Stock Options	Weighted Average exercise price
Outstanding, April 1, 2008	6,069,500	\$0.83
Granted	3,460,000	\$0.27
Exercised	-	-
Forfeited	(4,185,000)	\$0.80
Total outstanding at December 31, 2008	5,344,500	\$0.49
Vested and exercisable at December 31, 2008	4,014,500	\$0.54

\* Based on the December 31, 2008 exchange rate of Cdn\$1 equals US0.8210.

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

The following table summarizes information about stock options outstanding as at December 31, 2008:

<b>Stock Options Outstanding and Exercisable</b>				
<b>Stock Options Outstanding</b>	<b>Average Remaining Life (Years)</b>	<b>Stock Options Exercisable</b>	<b>Average Remaining Life of Exercisable (Years)</b>	<b>Exercise price</b>
825,000	1.2	825,000	1.2	\$0.75
95,000	1.9	95,000	1.9	Cdn\$0.85
50,000	2.0	50,000	2.0	Cdn\$1.25
30,000	2.2	30,000	2.2	Cdn\$1.37
395,000	2.3	395,000	2.3	Cdn\$1.37
20,000	2.3	20,000	2.3	Cdn\$1.37
30,000	2.4	30,000	2.4	Cdn\$1.60
50,000	2.6	50,000	2.6	Cdn\$1.29
50,000	2.8	50,000	2.8	Cdn\$1.34
90,000	3.0	90,000	3.0	Cdn\$0.81
20,000	3.1	20,000	3.1	Cdn\$0.88
125,000	3.2	125,000	3.2	Cdn\$0.80
20,000	3.4	20,000	3.4	Cdn\$0.95
85,000	3.7	42,500	3.7	Cdn\$0.90
47,000	3.8	47,000	3.8	Cdn\$0.88
150,000	4.1	25,000	4.1	Cdn\$0.62
250,000	4.2	100,000	4.2	Cdn\$0.49
20,000	4.2	20,000	4.2	Cdn\$0.43
387,500	4.3	312,500	4.3	Cdn\$0.41
62,500	4.5	62,500	4.5	Cdn\$0.40
367,500	4.5	192,500	4.5	Cdn\$0.38
100,000	4.6	100,000	4.6	Cdn\$0.38
750,000	4.6	150,000	4.6	Cdn\$0.41
500,000	4.7	450,000	4.7	Cdn\$0.28
150,000	4.7	150,000	4.7	Cdn\$0.26
150,000	4.9	37,500	4.9	Cdn\$0.07
275,000	4.9	275,000	4.9	Cdn\$0.07
250,000	4.9	250,000	4.9	Cdn\$0.26
<b>5,344,500</b>		<b>4,014,500</b>		

*Valuation assumptions*

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

	<b>2009</b>	<b>2008</b>
Dividend yield	0%	0%
Expected volatility	51%-68%	49% - 55%
Risk free interest rate	1.20-2.83%%	1.79% -4.63%
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 three publicly listed companies that operate in the same industry. The period of historical volatility is the same period as the expected life of the option being 3 years.

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

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

The weighted-average fair value of options granted during the nine months ended December 31, 2008 was US\$0.10. Options granted under the Company Option Plan are not available to be granted again under the Company Option Plan upon exercise.

[d]

Restricted stock units:

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

On July 10, 2008, 180,000 RSU's vested for four directors.

On September 5, 2007, the Company entered into a Transition Agreement with an employee and director (see note 10(c) and note 12). Among other things, the agreement provided a grant of 112,500 RSU's that vest over two years; 18,750 RSU's that were to vest in January 2008 were forfeited; a grant of 50,000 RSU's was forfeited and replaced with a new RSU agreement that provides 2,778 units for each full month of service (subject to a maximum of 50,000 RSU's) completed as a member of the Board of Directors beginning January 1, 2007 and vest upon resignation from the Board of Directors. Effective April 8, 2008, the individual resigned from the Board and 41,670 RSU's vested.

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

The following table summarizes information about restricted stock units outstanding as at December 31, 2008:

	RSU's Granted	RSU's Vested	RSU's Forfeited	RSU's Outstanding	RSU's 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 May 1, 2007	10,000		10,000		
Issued September 6, 2007	154,170	41,670		112,500	Cdn\$0.77
<b>Outstanding at December 31, 2008</b>	<b>808,670</b>	<b>553,420</b>	<b>142,750</b>	<b>112,500</b>	<b>\$0.63*</b>

*\* Based on the December 31, 2008 exchange rate of Cdn\$1 equals  
US\$0.8210.*

**11. RELATED PARTY TRANSACTIONS**

All transactions with related parties have occurred in the normal course of operations and are measured at their exchange amount as determined by management. All material transactions and balances with related parties not disclosed elsewhere are described below:

On March 20, 2008, the Company entered into a consulting agreement with a director, former employee and shareholder for certain financial services. The individual was paid \$31,500 during the quarter ended June 30, 2008. Effective September 1, 2008, the terms of the financial services agreement were amended and the individual was paid \$32,250 during the quarter ended September 30, 2008. During the quarter ended December 31, 2008 the consulting agreement was terminated and the individual was paid \$30,259.

In November 2008, the Company entered into two Consulting Agreements with two former employees for certain financial services and geological consulting services. There were no payments made to the individuals under these agreements during the quarter ended December 31, 2008.

**12. COMMITMENTS & CONTINGENCIES**

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make monthly lease payments of \$9,485, 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 expires in 2009, but may be renewed by the Company annually thereafter, so long as mining related activity, including exploration drilling, continues on the Borealis Property. The Company has the option to terminate the mining lease at any time prior to expiry in 2009.

[b] The Company rents office space in Vancouver, BC for a 5 year term, commencing Sept 2008, and office space in Hawthorne, Nevada for a one year term. The following are the remaining rental lease commitments in relation to the office lease:

	\$
2009	15,640
2010	51,561
2011	49,361
2012	51,544
2013	51,544
2014	21,477

The Vancouver office has been sub-leased commencing Feb 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn\$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised during October, 2010. If the option to terminate Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. \$68,000, the difference between the required lease payments and the estimated future sub-lease receipts, has been accrued as a loss at quarter ended December 31, 2008.

[c] In September 2007, the Company entered into a Transition Agreement with an individual under which, the individual will cease to be an employee and will continue as a director of the Company. The individual was granted 112,500 Restricted Stock Units that will vest at 37,500 each on April 1, 2009, July 1, 2009 and October 1, 2009. The agreement provides for certain incidental expenses for 18 months beginning October 2007. The Company recorded a charge to expense of \$322,464 during the quarter ended September 30, 2007 to accrue the cost of the agreement.

[d] In August 2008, the Company entered into a Transition Agreement with an individual under which, the individual ceased to be an employee effective August 31, 2008 and ceased to be a director of the Company September 4, 2008.

The individual will receive monthly payments of Cdn\$12,500 and certain incidental expenses for 12 months beginning September 2008. The Company recorded a charge to expense of \$162,809 during the quarter ended September 30, 2008 to accrue the cost of the agreement. On December 12, 2008 the individual and the Company terminated the Transition Agreement eliminating the nine Cdn\$12,500 future monthly payments and entered into a consulting agreement requiring a Cdn\$50,000 payment on January 1, 2009. The Cdn\$50,000 has been accrued as of December 31, 2008.

[e] The market value and the market values for companies similar to the Company have declined considerably over the past twelve months. To preserve as much cash as possible and to ensure liquidity for the longest period possible, the Company implemented steps to reduce the rate of cash expenditure. These steps included reducing the number of personnel to three at reduced compensation, terminating four full time employees, and temporarily suspending development work on the Borealis property, including engineering work. The Company also eliminated all discretionary spending. During the quarter ended December 31, 2008, the Company recorded \$178,887 in total severance cost.

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

### **Forward-Looking Statements**

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

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

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

### **Overview:**

We were established as a private company in April 2003 to acquire and develop gold properties in the United States. Our objective is to establish a producing gold company through the development and extraction of gold deposits. In December of 2005, we completed our initial public offering.

In July 2003, through our wholly owned subsidiary Borealis Mining, we acquired from Golden Phoenix an option to earn up to a 70% joint venture interest in the mining lease for the Borealis Property and in January of 2006 completed the acquisition of all of the Golden Phoenix interest in the Borealis Property. We now control, subject to a lease and royalty agreement, approximately 23 square miles of claims located on land administered by the Bureau of Land Management and Forest Service near Hawthorne Nevada.

We funded our early exploration activity and property acquisition through a series of private placements and the proceeds received from our initial public offering.



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

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

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

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

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

In addition, we granted the sellers registration rights under which we agreed to file (within the later of (i) 90 days of the closing date or (ii) any date in which we are required to file a registration statement for a third-party in connection with a financing or acquisition, but no later than 120 days of the closing date) a resale registration statement to register the common shares issuable at closing and issuable upon exercise of the convertible note under the Securities Act of 1933, as amended. We filed a registration statement to register the securities.

We executed the following agreements at closing:

(a) A Lock-up Agreement, dated August 21, 2007, under which the Sellers agreed that for a period of three months following the Closing Date not to sell Common Shares issued or issuable under the Purchase Agreement and Convertible Note and, thereafter, to limit the sale of such Common Shares to 20% of the aggregate Common Shares issued under the Purchase Agreement and Convertible Note each quarter (with unsold Common Shares aggregating each quarter thereafter);

(b) An Employment Agreement between us and Mr. Baughman for a term of one year, renewable by the parties, to serve as our Vice President of Corporate Development; and

(c) A Non-Competition Agreement under which the Sellers have agreed not to compete with the Registrant for the latter of (i) twelve (12) months following the Closing Date (the Restricted Period), or (ii) twelve (12) months following the termination of the Company's employment of Gerald Baughman. The scope of the non-competition obligation relates to the business of acquiring and/or holding base metal and precious metal mineral assets located in the state of Nevada within the Area of Interest and to properties that have been examined by the Registrant or Mr. Baughman during the course of his employment by the Registrant, in any manner or capacity. Area of Interest is defined as any property owned by the Registrant, Nevada Eagle, or any affiliate of the Registrant or Nevada Eagle on the latter of (i) Closing Date or (ii) the termination date of Gerald Baughman's employment by the Registrant, if any, together with any adjacent areas within one kilometer of the exterior boundary of such properties.

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

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

In the calendar year 2007, we continued extension drilling, focused on the expansion of the Graben deposit and exploration drilling for a new gold deposit within the two newly identified potentially gold-bearing hydrothermal systems in the pediments. This drilling program consisted of a series of Graben deposit expansion drilling and

extension drilling north and west of the successful G3 - G13 fence of holes. The drilling of the Graben deposit alternated with follow up exploration drilling in the Central and Western Pediments where 10 holes have intersected two distinct hydrothermal systems hidden beneath the pediments.

In April of 2008, we completed a CIM compliant, NI 43-101 resource report that included all drilling results to date. We have analyzed those results and incorporated them in a Preliminary Assessment report ( PA ) examining the engineering and economic feasibility of placing the oxide resources into production.

During September 2008, we released the independent PA on the development of an oxide heap leach mine. The PA indicated that the project had an unlevered internal rate of return of 26% assuming a US\$775 per ounce price of gold. The potential mine produced 232,000 ounces of gold over an expected 5 year life at an average cash operating cost of \$439 per ounce of gold. The PA indicated that for each 1% change in the price of gold, the projected internal rate of return changed by 1.7% . We may perform more drilling to expand the oxide base and take other steps as necessary to advance the potential oxide heap leach mine. We will also consider extension drilling, focused on the expansion of the Graben deposit and exploration drilling for new gold deposits within the two newly identified potentially gold-bearing hydrothermal systems in the pediments.

No exploration drilling was completed during the nine months ended December 31, 2008. A water well necessary for the construction of an oxide heap leach mine was installed during the quarter ended June 30, 2008. As of December 31, 2008, approximately 203 holes and 142,220 feet of RC drilling had been completed. A majority of the holes were in the area of existing mineralization in order to allow us to complete the PA with the aim of identifying gold reserves and, if economically feasible, building a mine. During fiscal 2008, the majority of the holes drilled were to attempt to expand the Graben resource or complete exploration in the Pediment areas of the Borealis property.

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

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

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

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

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

royalty on the Borealis property has been fixed at 5% or lower, and there is an arrangement to merge the Company or the financing of a mine on the Borealis property has been completed.

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

### **Fiscal 2009 Plan of Operations**

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

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

We recognize that additional resources are required to enable us continue operations. See discussions under the section heading Liquidity and Capital Resources below.

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

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

We intend to continue to take all steps necessary to preserve our rights to the Borealis property under the existing terms of the property lease. We will also work with the USFS to maintain our permits under the Plan of Operations.

It is our intention to continue to lease and joint venture out the exploration properties held by Nevada Eagle Resources. The leased properties will provide a cash and liquidity for us, and therefore we will continue to actively manage the portfolio of leases.

In December 2008 we sold an exploration property held by Nevada Eagle Resources for \$50,000. We anticipate that we will sell certain other properties. The ability to sell and the payment terms and amount of proceeds we will receive is likely will be impacted by the general condition of the gold exploration industry.

### **Results of Operations**

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

*Three months ended December 31, 2008 compared to three months ended December 31, 2007*

For the three months ended December 31, 2008, we had a net loss of \$818,518 or \$0.01 per share compared to a net loss of \$1,736,589 or \$0.03 per share in the same period in the prior year. Cash spending on all areas of our operations decreased as we made an effort to conserve cash.

Exploration expenses during the quarter ended December 31, 2008 were \$141,667 or 18% of our total expenses compared to \$661,007 or 38% of total expenses in the prior year. Most of the exploration costs recognized in the current quarter were maintaining our rights to the Borealis property by completing all ongoing property lease payments and the cost of the severance packages of the VP of Exploration and Field Supervisor. No exploration drilling was completed during the quarter ended December 31, 2008. During the prior year's comparable quarter, we drilled a total of 5 reverse circulation holes (totaling 5,515 feet) on the Borealis property.

Management salaries and consulting fees in the quarter ended December 31, 2008 were \$258,876, which includes an accrual of \$149,555 for severance of administrative staff, compared to \$529,729 incurred in the quarter ended December 31, 2007. Total non-cash compensation expense due to the recognition of costs related to stock options, was \$76,938 in the quarter ended December 31, 2008 compared to the prior year's fiscal third quarter of \$199,422. Consulting fees during the quarter decreased due to the majority of consulting contracts being terminated in effort to conserve cash. General and administrative costs decreased to \$167,209 compared to \$254,831 the prior year's quarter because of our efforts to eliminate spending. The anticipated loss over the life of our sub-lease agreement for our former Vancouver, British Columbia office was \$68,000 and included in the current year's fiscal third quarter costs. Legal and audit fees for the period were \$52,077, which is a decrease compared to the prior year's quarter ended of \$111,020. These costs decreased due to the additional legal and accounting work related to the acquisition of Nevada Eagle Resources performed in the prior year. Travel and accommodation during the quarter ended December 31, 2008 was \$2,412, compared to \$68,704 expended on travel in the prior year's comparable quarter. The decrease in travel and entertainment cost is due to the elimination of most travel during the quarter.

Interest income earned on cash deposits was \$1,386 for the quarter ended December 31, 2008, compared to \$40,782 in the prior year quarter and the decrease was due to reduced cash balances held on average through the current quarter versus the prior year's comparable quarter and the lower interest rates received on deposits during the current year's third fiscal quarter. Interest expense on the 5% note payable incurred to purchase Nevada Eagle Resources totaled \$133,129 of which \$70,003 was non-cash accreted interest.

We hold certain securities for trading. We receive these securities as partial payment of lease obligations for certain Nevada Eagle exploration properties. When we receive these shares, they have trading restrictions and we cannot sell them for approximately four to six months from the date of receipt. During this restriction period, the market value of these shares held declined substantially. During the quarter ended December 31, 2008, we recorded an unrealized loss of \$7,496.

***Nine months ended December 31, 2008 compared to nine months ended December 31, 2007***

For the nine-month period ended December 31, 2008 we incurred a net loss of \$9,174,236 or \$0.15 per share compared to a net loss of \$6,463,678 or \$0.13 per share incurred during the same period in the prior year. The current year expenses include a charge to earnings of \$5,100,000 for the impairment of the carrying value of the Nevada Eagle exploration properties. The loss before the impairment charge is \$4,074,236 and is less than the prior period's comparable loss. The reduction in the comparable loss is due to decreased spending on our exploration activities, management salaries and consulting fees, and general and administrative as a result of our efforts to conserve cash.

Exploration expense during the nine-month period ended December 31, 2008 was \$1,422,985 or 35% (before the effect of the non-cash impairment charge) of our total expenses compared to \$3,414,405 or 53% of total expenses in the prior year. No exploration drilling was completed during the nine months ended December 31, 2008. During the prior year's comparable nine months, we drilled a total of 31 holes at the Borealis property, representing 36,405 feet. During the nine months ended December 31, 2008, we completed a CIM compliant NI 43-101 resource report and in September 2008, we released the results of our Preliminary Assessment of the development of an oxide heap leach gold mine on the Borealis property. Much of the current year's exploration expense covered the completion of these two reports plus permitting efforts for exploration drilling in the pediment areas of the Borealis property.





Management salaries and consulting fees in the nine months ended December 31, 2008 were \$1,246,269 compared to \$1,663,160 for the same period in the prior year. The decrease is due to the reduced consulting fees for investor relations activities and the termination of several employees in November 2008. Total non-cash compensation cost for stock options included in the nine months ended December 31, 2008 was \$468,620 versus \$683,916 in the prior year's comparable period.

Legal and audit fees for the nine month period decreased to \$208,167 from \$308,877 incurred in the prior year's comparable period. The lower costs reported in the nine months ended December 31, 2008 were due to reduced spending on Nevada Eagle. Travel and accommodation during the nine months ended December 31, 2008 was \$119,332 compared to \$172,408 reported in prior year's nine-month period ended December 31, 2007. The decrease was due primarily to a decrease in investor relations travel. General and administrative expenses were \$510,425, versus \$812,436 in the prior year's comparable period. The decrease is due to reduced spending on investor relations and our efforts to conserve cash. Interest income earned on cash deposits was \$25,536 for the nine months ended December 31, 2008, compared to \$170,332 for the nine months ended December 31, 2007, due to lower average cash balances during the nine-month period and lower interest rates received on deposits. Interest expense totaled \$395,487 and arose from the issuance of a convertible promissory note related to the purchase of Nevada Eagle Resources LLC on August 21, 2007. \$206,211 of the interest expense is non-cash.

During the nine months ended December 31, 2008 we recognized a realized loss of \$136,891 from the sale of securities and recognized an unrealized gain of \$20,325

### **Liquidity and Capital Resources**

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

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

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

We anticipate continuing to take all steps necessary to preserve our rights to the Borealis property under the existing terms of the property lease. We will also work with the USFS to maintain our permits under the Plan of Operations. These steps are intended to preserve the existing value of the Borealis property for our shareholders.

We intend to continue to lease and joint venture out the exploration properties held by Nevada Eagle Resources. The leased properties provide a cash and liquidity for us, and therefore we intend to continue to actively manage the portfolio of leases. Certain of these properties may be sold outright and during the quarter ended December 31, 2008 we sold an unleased mineral property held by Nevada Eagle Resources for \$50,000.

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

At December 31, 2008, we had working capital of \$638,587. Current assets consisted of \$1,014,678 in cash, \$16,809 in securities held for trading, \$18,098 in accounts receivable and \$78,068 in prepaid expenses. We had \$489,066 in accounts payable and accrued liabilities at December 31, 2008.



There has been severe deterioration in global credit and equity markets. This has resulted in the need for government intervention in major banks, financial institutions and insurers and has also resulted in greater volatility, increased credit losses and tighter credit conditions. These disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

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

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

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

Our current working capital is \$638,587 with an average burn rate of \$69,000 per month in a typical month based on the current number of employees we have. This burn rate is subject to adjustments based upon future events.

During the quarter ended December 31, 2008, we used cash in operating activities of \$550,181 which included our net loss during the quarter of \$818,518 off-set by depreciation of \$11,694, non-cash compensation of \$70,174, non-cash interest expense of \$143,321, unrealized loss of \$7,496 on the valuation of marketable securities, loss on disposal of equipment \$1,309, a loss on sale of mineral property of \$34,360, and changes in non-cash working capital of a \$3,276 decrease in accounts receivable, a \$24,326 increase in accounts payable and a \$21,067 decrease in prepaid expenses.

We generated cash from investing activities of \$150,904 including \$2,499 for spend for mineral properties, and we received \$102,500 in cash payments from the leasing of exploration properties, \$4,902 from sale of equipment and \$50,000 from the sale of a mineral property. We did not use or receive any cash from financing activities in the quarter ended December 31, 2008. Cash decreased during the period by \$395,278 to \$1,014,678 as at December 31, 2008.

On August 22, 2008, we entered into a 12 month option agreement, at a cost of \$250,000 plus \$25,000 is legal and consulting 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 is \$1,750,000 in cash, 7,726,250 common shares of the Company and a three year, \$1,909,500 5% note payable. The option period can be extended for an additional six months for a payment of \$125,000.



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

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

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

In addition, we granted the sellers registration rights on the shares issued.

Under the terms of the purchase agreement, the closing of the acquisition was subject to closing conditions, including:

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

Updated share capital as of February 13, 2009:

Basic Common Stock Issued and Outstanding	61,957,065
Warrants, Options and other Convertible Securities	19,943,500
Fully Diluted Common Stock	81,900,565

## **Critical Accounting Policies and Estimates**

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

### ***Use of estimates***

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

### ***Revenue recognition***

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

### ***Exploration of mineral property interests***

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

### ***Stock-based compensation***

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

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

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective-transition method. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 10%. Estimation of forfeitures is reviewed on a quarterly basis.



***Asset retirement obligations***

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development or normal use of the assets with a corresponding increase in the carrying amount of the related long-lived asset. This amount is then depreciated over the estimated useful life of the asset. Over time, the liability is increased to reflect an interest element considered in its initial measurement at fair value. The amount of the liability will be subject to re-measurement at each reporting period. Currently, the Company has a reclamation liability of \$5,600, which is disclosed further in Note 79 of the financial statements.

***Tax valuation allowance***

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

***Foreign currency translation***

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

***Recent Accounting Pronouncements***

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

In June 2006, the FASB issued FASB interpretation No. 48 Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, the application of this Statement will change current practice, effective December 1, 2007. The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements.



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

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, which amends SFAS No. 141, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company's fiscal year beginning April 1, 2009 and is to be applied prospectively. The Company is currently evaluating the potential impact of adopting this statement on the Company's consolidated financial position, results of operations or cash flows.

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

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

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

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

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

We do not anticipate any significant equipment purchases or sales.

**Significant changes in number of employees.**

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

**Off-Balance Sheet Arrangements**

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

## Contractual Obligations

We make advance royalty payments of \$9,485 per month to certain leaseholders while exploration is proceeding on the Borealis Property. In addition, to maintain its existing claims on the Borealis property, we make payments totaling approximately \$130,000 annually. These payments are contingent upon us maintaining an interest in the property. Through Nevada Eagle, we also make claim payments of approximately \$50,000 annually. The definitive amount depends on the exact number of claims and the number of unleased properties.

Under the terms of the acquisition agreement for Nevada Eagle Resources LLC, we have a note payable outstanding for \$4,568,313. Refer to the section 'Liquidity and Capital Resources' under this document for a full description of the acquisition and commitment.

As of December 31, 2008, we had the following non-cancelable contractual obligations:

### Payments Due by Period

	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Operating Lease Obligation <sup>(1)</sup>	235,627	32,908	99,632	103,087	-
Operating Lease Obligation <sup>(2)</sup>	55,00	5,00	-	-	-

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

The Vancouver office has been sub-leased commencing Feb 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn\$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised during October, 2010. If the option to terminate Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. \$68,000, the difference between the required lease payments and the estimated future sub-lease receipts, has been accrued as a loss at quarter ended December 31, 2008.

<sup>(2)</sup> Obligation for rental of office space in Hawthorne, Nevada, one-year term, terminating April 30, 2009 and payments of \$1,100 per month.

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

Not Applicable.

## Item 4. Controls and Procedures

### *Disclosure Controls and Procedures*

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

Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

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

***Changes in Internal Control over Financial Reporting***

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

During the quarter ended December 31, 2008, our staffing levels decreased and certain positions were eliminated or converted to part-time. We have analyzed certain parts of our system of internal control that were affected by these changes and made reasonable efforts to reassign tasks to maintain an appropriate segregation of duties. In conjunction we, eliminated signing authorities for certain individuals, and retained our CFO and VP of Exploration on consulting agreements to perform certain tasks. These changes were reviewed and approved by our Board of Directors. Our disclosure controls were not affected by these personnel changes and remain effective.

## **PART II. OTHER INFORMATION**

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

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

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

### **Item 1A. Risks Factors.**

Except for the risk factors as provided below, there have been no material changes from the risk factors as previously disclosed in our Form 10-KSB/A, which was filed on with the SEC on July 8, 2008.

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

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

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

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



Our current working capital is \$638,587 with an average burn rate of \$69,000 per month in a typical month based on the current number of employees we have. This burn rate is subject to adjustments based upon future events.

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

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

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

During the nine months ended December 31, 2008, we did not offer or sell unregistered securities pursuant to exemptions under the Securities Act of 1933, as amended, and no securities repurchases occurred during the nine months ended December 31, 2008.

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

None.

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

None.

**Item 5. Other Information.**

Effective November 1, 2008, John Key, our CEO and Gerald Baughman, our VP Business Development have began employment on a part time basis. Effective November 12, 2008, we terminated our employment agreement with Michael Longinotti, our CFO, and effective November 1, 2008, we terminated our employment agreement with Steve Craig, our VP Exploration, and we terminated our administrative assistant and Field Supervisor for the Borealis property.

On November 1, 2008, we entered into a consulting agreement with Mr. Craig for the provision of services related to activities at the Borealis Project. Under the terms of the consulting agreement, Mr. Craig will provide consulting services for oversight of the Company's Borealis permits and compliance, conducting other activities related to the Borealis Project, and any other general activities as directed by the Company. The Company will pay Mr. Craig a consulting fee of \$600 per day for time spent by Mr. Craig in the provision of services. The Company will also pay or reimburse Mr. Craig for all reasonable out-of-pocket expenses directly related to the provision of services. The consulting agreement is for a term from November 1, 2008 to December 31, 2009, and may be renewed thereafter upon mutual agreement of the parties. The consulting agreement can be terminated by the Company for cause, as defined in the consulting agreement, without notice, or by either party for any reason upon fifteen days notice to the other party.

On November 12, 2008, we entered into a consulting agreement with Mr. Longinotti for the provision of services as the CFO to the Company. Under the terms of the consulting agreement, Mr. Longinotti will provide the following services to the Company:

- Assist in debt and equity financings of the Company;
- Assist with ongoing accounting requirements of the Company, including check signing, reconciliation of bank accounts, review of monthly and quarterly reports, attend audit committee and board meetings as required;
- Provide accounting advice regarding US GAAP;
- Assist with the preparation and review of press releases and other public documents;
- Act in the capacity of CFO and Principal Financial and Accounting Officer to the Company;
- Assist in the maintenance of relationships with key shareholders and prospective investors in the Company;
- Perform other associated duties as instructed.

Mr. Longinotti will be compensated at a rate of Cdn\$90 per hour for actual hours spent on the Company, billed monthly and payable in arrears. Mr. Longinotti will also be reimbursed for actual out-of-pocket expenses incurred in the provision of the above services. The consulting agreement is for a term of 12 months less a day beginning on November 12, 2008. Both parties have the right to terminate the consulting agreement upon ten days written notice to the other party.

The Financial and Advisory Services Agreement between the Registrant and Matter & Associates, dated October 1, 2008, was amended November 13, 2008 to terminate on December 31<sup>st</sup>, 2008.

**Item 6. Exhibits**

Exhibit Number	Description
3.1	Articles of Incorporation of Gryphon Gold Corporation, filed April 24, 2003 (Previously filed on Form SB-2 on August 17, 2005)
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)
3.3	Bylaws of Gryphon Gold Corporation (Previously filed on Form SB-2 on August 17, 2005)
3.4	Articles of Incorporation of Borealis Mining Company, filed June 5, 2003 (Previously filed on Form SB-2 on August 17, 2005)
3.5	Bylaws of Borealis Mining Company (Previously filed on Form SB-2 on August 17, 2005)
10.1	Employment Agreement between the Registrant and John L. Key, dated July 21, 2008 (Previously filed on Form 8-K on July 23, 2008 as exhibit 10.1)
10.2	Financial Services Agreement between the Registrant and Tony Ker, dated September 1, 2008 (Previously filed on Form 8-K on July 23, 2008 as exhibit 10.2)
10.3	Transition Agreement between the Registrant and Tony Ker, dated July 21, 2008 (Previously filed on Form 8-K on July 23, 2008 as exhibit 10.3)
10.4	Option to Restructure Debt Agreement between the Registrant and Gerald and Fabiola Baughman, dated August 5, 2008 (Previously filed on Form 8-K on August 5, 2008 as exhibit 10.4)
10.5	Option to Amend the Mining Lease on the Borealis Property, dated effective August 22, 2008 (Previously filed on Form 8-K on August 22, 2008 as exhibit 10.5)
10.6	Termination of Financial Services Agreement between the Registrant and Tony Ker, dated effective September 28, 2008 (Previously filed on Form 8-K on October 23, 2008 as exhibit 10.6)
10.7	Financial and Advisory Services Agreement between the Registrant and Matter & Associates (Vancouver, British Columbia), dated October 1, 2008 (Previously filed on Form 8-K on October 23, 2008 as exhibit 99.1)
10.8	Consulting Agreement between the Registrant and Steven Craig, dated November 1, 2008 (Previously filed on Form 10-Q on November 14, 2008 as exhibit 10.8)
10.9	Consulting Agreement between the Registrant and Michael Longinotti, dated November 12, 2008 (Previously filed on Form 10-Q on November 14, 2008 as exhibit 10.9)
<u>31.1</u>	<u>Certification Required Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification Required Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certification Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

**SIGNATURES**

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

**GRYPHON GOLD CORPORATION**

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

Date: February 13, 2009

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

Date: February 13, 2009