

GRYPHON GOLD CORP
Form DEFR14A
September 10, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- O Preliminary Proxy Statement
- O Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- X Definitive Proxy Statement
- O Definitive Additional Materials
- O Soliciting Material Pursuant to Rule 14a-12

GRYPHON GOLD CORPORATION

(Exact Name of Registrant as Specified in its Charter)

(Name of Person(a) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
 - Fee paid previously with preliminary materials.
 - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

GRYPHON GOLD CORPORATION

711 - 675 WEST HASTINGS STREET

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Notice of Special Meeting of Stockholders

To all Stockholders of Gryphon Gold Corporation:

You are invited to attend a Special Meeting of Stockholders (the “*Special Meeting*”) of Gryphon Gold Corporation (the “*Company*”). The Special Meeting will be held at Le Soliel Hotel, 567 Hornby Street, Vancouver, British Columbia, Canada V6C 2E8, beginning October 8, 2009, at 10:30 a.m. local time. The purposes of the meeting are:

1. To approve the Company’s proposed private placement financing, at the discretion of the Board, of convertible notes of approximately \$27.5 million principal amount, which would result in the reservation for issuance upon conversion of the convertible notes and exercise of warrants of up to 144,100,000 shares of common stock to fund the construction of a gold mine on the Company’s Borealis gold property in Nevada (“*Borealis Mine Project Financing*”);
2. To approve an amendment to the Company’s articles of incorporation to increase the authorized capital of the Company from 150,000,000 shares of common stock to 250,000,000 shares of common stock (“*Articles Amendment*”);
3. To approve a reduction in the conversion price of the Company’s outstanding 5% \$5 million principal amount Convertible Note, due March 30, 2010, dated August 21, 2007, as amended November 10, 2008, pursuant to an Option Agreement, dated August 5, 2008, made and entered into by the Company and Gerald W. Baughman and Fabiola Baughman as holders of the 5% \$5 million principal amount Convertible Note (“*Option to Restructure Debt*”);
4. To approve an increase in the number of shares of common stock available for the grant of options under the Company’s 2006 Omnibus Incentive Plan (“*Option Share Increase*”); and
5. Any other business that may properly come before the special meeting.

The Board of Directors has fixed September 8, 2009, as the record date for the Special Meeting. Only stockholders of the Company of record at the close of business on that date will be entitled to notice of, and to vote at, the Special Meeting. A list of stockholders as of September 8, 2009, will be available at the Special Meeting for inspection by any stockholder.

Stockholders will need to register at the meeting to attend the meeting. If your shares of common stock are not registered in your name, you will need to bring proof of your ownership of those shares of common stock to the meeting in order to register. You should ask the broker, bank or other institution that holds your shares of common stock to provide you with either a copy of an account statement or a letter that shows your ownership of Gryphon Gold shares of common stock as of September 8, 2009. Please bring that documentation to the meeting to register.

IMPORTANT

Whether or not you expect to attend the Special Meeting, please sign and return the enclosed proxy promptly. If you decide to attend the meeting, you may, if you wish, revoke the proxy and vote your shares of common stock in person.

By Order of the Board of Directors,

Lisanna M. Lewis, Secretary

Vancouver, BC, Canada, September 14, 2009

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GRYPHON GOLD CORPORATION

711 675 WEST HASTINGS STREET

VANCOUVER • BRITISH COLUMBIA • CANADA • V6B 1N2

Proxy Statement

for

Special Meeting of Stockholders

To Be Held October 8, 2009

Unless the context requires otherwise, references in this statement to “*Gryphon Gold*,” the “*Company*,” “*we*,” “*us*,” or “*our*” refer to Gryphon Gold Corporation.

The Special Meeting of Stockholders of Gryphon Gold (the “*Special Meeting*”) will be held on Thursday, October 8, 2009 at Le Soliel Hotel, 567 Hornby Street, Vancouver, British Columbia, Canada V6C 2E8, beginning October 8, 2009, at 10:30 a.m. local time. We are providing the enclosed proxy materials and form of proxy in connection with the solicitation by the Company’s Board of Directors (the “*Board*”) of proxies for this Special Meeting. This Proxy Statement and accompanying form of proxy will first be mailed to holders of the Company’s voting stock on or about September 14, 2009.

You are invited to attend the meeting at the above stated time and location. If you plan to attend and your shares of common stock are held in “street name” – in an account with a bank, broker, or other nominee- you must obtain a proxy issued in your name from such broker, bank or other nominee.

You can vote your shares of common stock by completing and returning the proxy card or, if you hold shares of common stock in “street name,” by completing the voting form provided by the broker, bank or other nominee.

A returned signed proxy card without an indication of how shares of common stock should be voted will be voted FOR all items of business at the Special Meeting.

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Our corporate bylaws define a quorum as one-third of the voting power of the issued and outstanding voting stock present in person or by proxy. Once a quorum is established, a simple majority of the voting stock present at the Special Meeting, whether in person or by proxy, is required to approve the Borealis Mine Project Financing, Option to Restructure Debt and the Option Share Increase. A majority of the Company's issued and outstanding voting stock is required for the approval of the Articles Amendment. Currently, the Company has only one class of voting stock – shares of common stock.

QUESTIONS AND ANSWERS ABOUT PROXY MATERIALS AND VOTING

Why am I receiving this Proxy Statement and proxy card?

You are receiving this Proxy Statement and proxy card because you were a stockholder of record at the close of business September 8, 2009, and are entitled to vote at the Special Meeting. This Proxy Statement describes issues on which the Company would like you, as a stockholder, to vote. It provides information on these issues so that you can make an informed decision. You do not need to attend the Special Meeting to vote your shares of common stock.

When you sign the proxy card you appoint John Key, Chief Executive Officer to the Company, and Lisanna Lewis, Corporate Controller & Secretary and Treasurer to the Company, your representatives at the Special Meeting with the power to act jointly or individually. As your representatives, they will vote your shares of common stock at the Special Meeting (or any adjournments or postponements) as you have instructed them on your proxy card. With proxy voting, your shares of common stock will be voted whether or not you attend the Special Meeting. Even if you plan to attend the Special Meeting, it is a good idea to complete, sign and return your proxy card in advance of the meeting, just in case your plans change.

If an issue comes up for vote at the Special Meeting (or any adjournments or postponements) that is not described in this Proxy Statement, your representative will vote your shares of common stock, under your proxy, at their discretion, subject to any limitations imposed by law.

When is the record date?

The Board of Directors has fixed September 8, 2009, as the record date for the Special Meeting. Only holders of Gryphon Gold voting stock as of the close of business on that date will be entitled to vote at the Special Meeting.

How many shares of common stock are outstanding as of the record date?

As of September 8, 2009, the Company had 69,960,605 shares of common stock issued and outstanding.

What am I voting on?

You are being asked to vote on the following:

- 1.

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To approve the Company's proposed private placement financing, at the discretion of the Board, of convertible notes of approximately \$27.5 million principal amount, which would result in the reservation for issuance upon conversion of the convertible notes and exercise of warrants of up to 144,100,000 shares of common stock to fund the construction of a gold mine on the Company's Borealis gold property in Nevada ("*Borealis Mine Project Financing*");

2. To approve an amendment to the Company's articles of incorporation to increase the authorized capital of the Company from 150,000,000 shares of common stock to 250,000,000 shares of common stock ("*Articles Amendment*");
3. To approve a reduction in the conversion price of the Company's outstanding 5% \$5 million principal amount Convertible Note, due March 30, 2010, dated August 21, 2007, as amended November 10, 2008, pursuant to an Option Agreement, dated August 5, 2008, made and entered into by the Company and Gerald W. Baughman and Fabiola Baughman as holders of the 5% \$5 million principal amount Convertible Note ("*Option to Restructure Debt*");

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4. To approve an increase in the number of shares of common stock available for the grant of options under the Company's 2006 Omnibus Incentive Plan ("*Option Share Increase*"); and
5. Any other business that may properly come before the special meeting.

How many votes do I get?

Each share of common stock is entitled to one vote. No cumulative rights are authorized, and dissenters' rights are not applicable to any of the matters being voted upon.

The Board recommends a vote **FOR** the Borealis Mine Project Financing, **FOR** the Articles Amendment, **FOR** the Option to Restructure Debt and **FOR** the Option Share Increase.

How do I vote?

You have several voting options. You may vote by:

- Completing your proxy card over the internet at the following website: www.envisionreports.com/GYPH;
- Signing your proxy card and mailing it in the enclosed, addressed envelope; or
- Attending the Special Meeting and voting in person.

If your shares of common stock are held in an account with a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares of common stock held in a "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Special Meeting. As a beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote the shares of common stock in your account. You are also invited to attend the Special Meeting. However, since you are not the stockholder of record, you may not vote your shares of common stock in person at the meeting unless you request and obtain a valid proxy card from your broker, bank, or other nominee.

Can stockholders vote in person at the Special Meeting?

The Company will pass out written ballots to anyone who wants to vote at the meeting. If you hold your shares of common stock through a brokerage account but do not have a physical share certificate, or the shares of common stock are registered in someone else's name, you must request a legal proxy from your stockbroker or the registered owner to vote at the meeting.

What if I change my mind after I return my proxy?

You may revoke your proxy and change your vote at any time before the polls close at the Special Meeting. You may do this by:

- Go to www.envisionreports.com/GYPH and follow the instructions to log in and change your vote, prior to 12:00 p.m. (Pacific Time) on October 7, 2009;
- Signing another proxy with a later date and mailing it to the Company's Inspector of Elections, at the Company's principal executive offices, so long as it is received prior to 12:00 p.m. (Pacific Time), on October 7, 2009;
- Voting in person at the Special Meeting; or
- Giving written notice to the Company's Secretary, Lisanna Lewis, at the address given above, prior to 12:00 p.m. (Pacific Time) on October 7, 2009.

How many votes do you need to hold the meeting?

To conduct the Special Meeting, the Company must have a quorum, which means that one-third of outstanding voting stock of the Company as of the record date must be present at the meeting. Currently, the Company has only one class of voting stock – shares of common stock. Based on 69,960,605 shares of common stock issued and outstanding as of September 8, 2009, 23,320,201 shares of common stock must be present, in person or by proxy, for a quorum to be present at the Special Meeting.

Your shares of common stock will be counted as present at the Special Meeting if you:

- Submit a properly executed proxy card (even if you do not provide voting instructions); or
- Attend the Special Meeting and vote in person.

What if I abstain from voting?

Abstentions with respect to a proposal are counted for the purposes of establishing a quorum. If a quorum is present, abstentions will not be included in vote totals. Since the Company's bylaws provide that approval of a proposal at a meeting of the stockholders is by the affirmative vote of a majority of the voting stock present, in person or by proxy, at a meeting of the stockholders, abstentions will have the same effect as a vote against any proposal.

What effect does a broker non-vote have?

Brokers and other intermediaries, holding shares of common stock in street name for their customers, are generally required to vote the shares of common stock in the manner directed by their customers. If their customers do not give any direction, brokers may vote the shares of common stock on routine matters, such as the election of directors, but not on non-routine matters. The absence of a vote on a non-routine matter is referred to as a broker non-vote. Any shares of common stock represented at the Special Meeting but not voted (whether by abstention, broker non-vote or otherwise) will respect to all items of business set for this Special Meeting will have the same effect as a vote against such proposal.

How many votes are needed to approve the Borealis Mine Project Financing?

The Borealis Mine Project Financing will be approved if a majority of the shares of common stock present at the Special Meeting vote *FOR* the proposal. A properly executed proxy card marked "Abstain" with respect to this proposal will have the same effect as a vote cast *AGAINST* this proposal. As a certain significant stockholder may choose to subscribe for more than \$2.15 million principal amount of convertible notes and the

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resulting number of shares of common stock issuable to such significant stockholders upon exercise of warrants or conversion of convertible notes may exceed 10% of the number of shares of common stock currently outstanding, the Company will exclude the 10,500,000 shares of common stock voted by such significant stockholder in respect of this proposal.

How many votes are needed to approve the Articles Amendment?

The Articles Amendment will be approved if a majority of the Company's issued and outstanding shares of common stock vote *FOR* the proposal. A properly executed proxy card marked "Abstain" with respect to this proposal will have the same effect as a vote cast *AGAINST* this proposal.

How many votes are needed to approve the Option to Restructure Debt?

The Option to Restructure Debt will be approved if a majority of the shares of common stock present at the Special Meeting vote *FOR* the proposal. A properly executed proxy card marked "Abstain" with

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respect to this proposal will have the same effect as a vote cast *AGAINST* this proposal. In accordance with the requirements of the Toronto Stock Exchange, the votes of Gerald Baughman (as an insider of the Company) and Fabiola Baughman in respect of 4,500,000 shares of common stock (representing 6.6% of the maximum number of votes which may be cast at the Meeting) will be excluded from the required majority in respect of the Option to Restructure Debt proposal.

How many votes are needed to approve the Option Share Increase?

The Option Share Increase will be approved if a majority of the shares of common stock present at the Special Meeting vote *FOR* the proposal. A properly executed proxy card marked "Abstain" with respect to this proposal will have the same effect as a vote cast *AGAINST* this proposal.

Will my shares of common stock be voted if I do not sign and return my Proxy Card?

If your shares of common stock are held through a brokerage account, your brokerage firm, under certain circumstances, may vote your shares of common stock.

If your shares of common stock are registered in your name, and you do not sign and return your proxy card, your shares of common stock will not be voted at the meeting.

How are votes counted?

Your shares of common stock will be voted as you indicate. If you just sign your proxy card with no further instructions, except for broker non-votes as described above, your shares of common stock will be voted:

- **FOR** the Borealis Mine Project Financing;
- **FOR** the Articles Amendment;
- **FOR** the Option to Restructure Debt; and
- **FOR** the Option Share Increase;

Voting results will be tabulated and certified by the Inspector of Elections.

Where can I find the voting results of the meeting?

The Company will publish the final results in the Company's Quarterly Report on Form 10-QSB for the third quarter of 2010, which will be filed with the Securities and Exchange Commission (SEC). Within four (4) business days of the Special Meeting, the Company will file a current report on Form 8-K if the stockholders approve the articles amendment.

Who will pay for the costs of soliciting proxies?

The Company will bear the cost of soliciting proxies. In an effort to have as large a representation at the meeting as possible, the Company's directors, officers and employees may solicit proxies by telephone or in person in certain circumstances. These individuals will receive no additional compensation for their services other than their regular salaries. Additionally, the Company may hire a proxy solicitor to help reach the quorum requirement. The Company will pay a reasonable fee in relation to these services. Upon request, the Company will reimburse brokers, dealers, banks, voting trustees and their nominees who are holders of record of the Company's shares of common stock on the record date for the reasonable expenses incurred for mailing copies of the proxy materials to the beneficial owners of such shares of common stock.

What if I share an address with another shareholder and we received only one copy of the proxy materials?

If certain requirements are met under relevant U.S. securities law, including in some circumstances, the shareholder's prior written consent, we are permitted to deliver one annual report and one proxy statement to a group of stockholders who share the same address. If you share an address with another shareholder and have received only one copy of the proxy materials, but desire another copy, please send written request to our offices at the address below or call us at (640) 261-2229 to request another copy of the proxy materials. Please note that each shareholder should receive a separate proxy card to vote the shares they own.

Send requests to:

Gryphon Gold Corporation
711-675 West Hastings Street
Vancouver, BC
V6B 1N2

Attention: Lisanna Lewis, Treasurer

When are stockholder proposals due for the 2010 Annual Meeting of Stockholders?

In order to be considered for inclusion in next year's (2010) proxy statement for next year's annual general meeting of stockholders, stockholder proposals must be submitted in writing to the Company's Treasurer, Lisanna Lewis, at Gryphon Gold Corporation, 711-675 West Hastings Street, Vancouver, BC, V6B 1N2, and received no later than March 25, 2010. Similarly, stockholder proposals not submitted for inclusion in the proxy statement and received after June 8, 2010 will be considered untimely pursuant to Rule 14a-5(e)(2) of the Securities and Exchange Act of 1934, as amended.

How can I obtain a copy of the 2009 Annual Report on Form 10-K?

The Company's 2009 Annual Report on Form 10-K, including financial statements is available through the SEC's website <http://www.sec.gov>. **At the written request of any stockholder who owns share of common stock on the record date, the Company will provide to such stockholder, without charge, a paper copy of the Company's 2009 Annual Report on Form 10-K as filed with the SEC, including the financial statements and financial statement schedules but not including exhibits.** If requested, the Company will provide copies of the exhibits for a reasonable fee. Requests for additional paper copies of the 2009 Annual Report on Form 10-K should be mailed to:

Gryphon Gold Corporation

711-675 West Hastings Street

Vancouver, BC

V6B 1N2

Attention: Lisanna Lewis, Treasurer

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PROPOSAL 1 — BOREALIS MINE PROJECT FINANCING

What am I voting on?

You are voting on a proposal to approve the Company's proposed private placement financing, at the discretion of the Board, of convertible notes of approximately \$27.5 million principal amount, which would result in the reservation for issuance upon conversion of the convertible notes and exercise of warrants, of up to 144,100,000 shares of common stock to fund the construction of a gold mine on the Company's Borealis gold property in Nevada ("*Borealis Mine Project Financing*"). The up to 144,100,000 shares of common stock to be reserved for issuance under the Borealis Mine Project Financing represents approximately 212% of the number of issued and outstanding shares of common stock of 69,960,605, as of September 8, 2009.

Why is shareholder approval sought?

The rules of the Toronto Stock Exchange require the Company to seek approval of its stockholders for a private placement where the number of shares which may be issued or reserved for issuance exceeds 25% of the outstanding number of shares, if the sale price of the shares is less than the market price (determined at the time of notice to the Toronto Stock Exchange). For the purposes of the rules of the Toronto Stock Exchange, the shares to be issued on conversion of convertible securities will be considered as being issued at a price per security less than market price and shares of common stock to be issued upon the exercise of warrants issued in connection with a private placement will be considered as being issued at a price per security less than the market price.

Why does the Board propose to proceed with the Borealis Mine Project Financing?

The Board believes it is advisable to proceed with the Borealis Mine Financing and reserve for issuance upon conversion of the convertible notes and exercise of warrants, prior to December 31, 2009, to be sold on a private placement basis up to 144,100,000 shares of common stock in order to fund the Company's mine development plans on its Borealis gold property in Nevada.

On July 15, 2009, the Company announced the completion and results of our Pre-Feasibility Study for the development of the Borealis gold property. Based on this Pre-Feasibility Study, the details of which are described in the Company's press release dated July 20, 2009, as furnished in the Company's Current Report on Form 8-K filed on July 21, 2009, the Board believes it is in the best interests of the Company and its stockholders to raise approximately \$27.5 million through a private placement of convertible notes of the Company and warrants exercisable to acquire shares of common stock, to be determined by the Board in negotiation with the investors and any placement agent involved in such financing.

How will the net proceeds of the Borealis Mine Project Financing be used?

The Company will use the net proceeds of the Borealis Mine Project Financing for the development of a gold mine at its Borealis gold property in Nevada, pursuant to the Pre-Feasibility Study, and for general working capital purposes.

How many shares of common stock are currently issued and outstanding or reserved for issuance?

The Company had 69,960,605 shares of common stock outstanding as at September 8, 2009. As of September 8, 2009, an additional 4,561,500 shares of common stock are reserved for issuance upon the exercise of outstanding warrants of the Company and an additional 2,440,500 shares of common stock are reserved for issuance upon conversion of an outstanding 5% convertible note of the Company.

What are the details of the Borealis Mine Project Financing?

The Company anticipates proceeding with a private placement of convertible notes of the Company, convertible into shares of common stock and warrants exercisable to acquire shares of common stock in order to raise up to approximately \$27.5 million in gross proceeds.

The price of the convertible notes and warrants will be determined in the context of the market at the time a final decision is made by the Board to proceed with the Borealis Mine Project Financing, but in no event will the conversion price and warrant exercise prices result in more than 144,100,000 shares of common stock being issued upon conversion of the convertible notes and exercise of the warrants (including compensation warrants issued as compensation to dealers engaged by the Company).

The Board will determine the terms of the convertible notes within the following range of terms, with the Board having discretion to negotiate the final terms within such range:

| | |
|----------------------|--|
| Maturity: | Four to six years from date of issue. |
| Coupon: | The convertible notes will bear interest, payable quarterly in cash. The rate of interest will be determined in the context of the market at the time of Board approval and will either be adjusted periodically based on LIBOR (subject to a minimum rate) plus a fixed premium or will be fixed for the term of the convertible notes. |
| Conversion: | The convertible notes will be convertible into that number of shares of common stock of the Company at a price ranging from \$0.25 to \$0.65 per share. The conversion price will be subject to adjustment for stock dividends, stock splits, and other customary adjustment events and entitlements upon conversion. |
| Payment at Maturity: | At maturity, the Company will pay the face amount of the convertible notes plus any accrued and unpaid interest in respect thereof. |
| Security: | The convertible notes will be secured by a first priority security interest in all of the assets of the Company, subject to certain possible exceptions. The Company may covenant to limit debt incurred by its operating subsidiaries, subject to exceptions for working capital. |
| Warrants: | The Company will issue for no additional consideration to each purchaser of convertible notes that number of warrants equal to 25% of the total number of shares of common stock into which the convertible notes purchased by such purchaser are convertible. The warrants will be exercisable at any time after closing of the potential offering into shares of common stock at an exercise price to be determined by the Board in the range of \$0.25 to \$0.65 per share of common stock. The warrants will expire three to five years from the date of issue of the convertible notes. |

The Board at its discretion will determine other customary terms of the convertible notes based on prevailing market conditions at the time of the financing. Such customary terms may include, but are not limited to, a redemption right for the Company and a Company call right allowing the Company to force conversion of the convertible notes, as described below.

The Company may have the right to redeem the convertible notes at a premium of face value in the range of 110% to 130% plus accrued and unpaid interest in exchange for cash. The redemption right would be effective only once the convertible notes were outstanding for a period of at

least one year.

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After a period of at least one year, if the Company's shares of common stock trades at a price at or above a price to be determined by the Board in the range of \$1.15 to \$1.35 for any consecutive 60 day period, the Company may have the ability to call the convertible notes by requiring holders to surrender the convertible notes for conversion into shares of common stock. Notwithstanding the foregoing, the Company may have the ability to repurchase the convertible notes in privately negotiated transactions.

The final terms of the warrants will be set by the Board within such range based on market conditions at the time of the financing. The warrants may contain other customary terms and conditions to be determined by the Board at the time of financing, including, but not limited to forced exercise provisions, anti-dilution provisions and registration rights.

The Company has granted to an investment dealer a right to participate in this potential financing of the Company. Under the engagement, the Company will pay such investment dealer a cash fee equal to 6% of the aggregate purchase price paid by each purchaser of equity or equity-linked securities of the Company, including warrants and convertible debt, and the Company has agreed to issue compensation warrants exercisable to acquire shares of common stock of the Company equal to 6% of the aggregate number of shares of common stock of the Company or common stock equivalents convertible into shares of common stock with or without additional consideration, including warrants and convertible notes, sold in the offering to investors. The compensation warrants will have the same terms as warrants issued to investors.

If such dealer agrees to or determines not to act as agent in respect of the Borealis Mine Project Financing, the Company may retain one or more agents in connection with the Borealis Mine Project Financing, in which case such agents would be compensated on the basis of a cash commission determined in the context of the market and, possibly, non-cash commission consisting of compensation warrants to acquire a number of shares of the company at the offering price for a period of time not exceeding two years.

The Company will provide to purchasers the right to require the registration for resale of the convertible notes, warrants, compensation warrants and common shares issuable upon conversion or exercise thereof under the U.S. Securities Act of 1933, as amended, subject to any limitations under law.

The investors for the Borealis Mine Project Financing may include the stockholder of the Company which owns or exercises control over 10,500,000 shares of common stock, representing 14.79% of the Company's outstanding shares of common stock (the "significant stockholder"). See the section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" below. The significant shareholder is considered to be an "insider" under the rules of the Toronto Stock Exchange as it owns or exercises control over more than 10% of the outstanding shares of common stock of the Company.

In accordance with the requirements of the Toronto Stock Exchange, the votes of such significant stockholder in respect of 10,500,000 shares of common stock (representing 14.79% of the maximum number of votes which may be cast at the Meeting) will be excluded from the required majority in respect of the Borealis Mine Project Financing proposal.

The Company is not aware whether the significant shareholder will choose to subscribe for convertible notes. If such significant shareholder chooses to subscribe for convertible notes, it may subscribe for more than \$2.15 million principal amount of convertible notes and the resulting number of shares of common stock issuable to such significant stockholder upon exercise of warrants or conversion of convertible notes may exceed 10% of the number of shares of common stock currently outstanding. If the significant shareholder does acquire convertible notes and warrants, such securities will contain restrictions on conversion and exercise such that the significant shareholder will not own more than 19.9% of the outstanding shares of common stock of the Company as a result of such conversion or exercise. If the aggregate number of securities shown on the table below are issued and assuming the conversion in full of the convertible notes (convertible at \$0.25) and exercise of the warrants, and no other shares are issued by the Company, the significant shareholder could acquire an additional 31,700,060 shares of common

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stock on conversion of \$6,340,012 principal amount of convertible notes and exercise of 6,340,012 warrants for a total of 42,200,060 common shares (or 19.9% of the then outstanding common shares).

The maximum number of common shares which will be issued in connection with the financing, if the convertible notes are issued and sold, will be 144,100,000 calculated as follows:

Security

\$27,500,000 principal amount of convertible notes convertible at a minimum price of \$0.25

Common Shares

110,000,000

27,500,000 warrants exercisable at a minimum price of \$0.25

27,500,000

6,600,000 compensation warrants exercisable at a minimum price of \$0.25

6,600,000

144,100,000

The maximum number of shares of common stock issuable in connection with the financing represents 212% of the number of shares of common stock currently outstanding. If the financing is completed and the convertible notes are converted in full, and the warrants and compensation warrants are exercised in full, the maximum number of common shares which purchasers of the convertible notes and the dealer retained in connection with the financing will have acquired, will represent 68% of the then outstanding shares of common stock. There is no minimum or maximum to the number of possible purchasers of the convertible notes.

Completion of the financing will be subject to approval of the Toronto Stock Exchange. In accordance with the rules of the Toronto Stock Exchange, if approved by the Toronto Stock Exchange, the financing will be required to be completed by January 8, 2010.

The terms of the financing have not been agreed to at this time and there is no certainty that the financing will be completed.

The Borealis Mine Project Financing will be approved if a majority of the shares of common stock present at the Special Meeting vote *FOR* the proposal. A properly executed proxy card marked "Abstain" with respect to this proposal will have the same effect as a vote cast *AGAINST* this proposal.

If such approval is not obtained, the Company may, in accordance with the rules of the Toronto Stock Exchange, proceed with a private placement transaction, without shareholder approval, where shares may be issued at a price less than the then current market price, provided that the number of shares of common stock issued and reserved for issuance does not exceed 25% of the outstanding shares of the Company at that time. In addition, the Company may, without approval of stockholders, issue shares of common stock representing more than 25% of the outstanding shares if such shares of common stock are issued at a price equal to or exceeding the market price on the Toronto Stock Exchange at the relevant time (provided there is no material affect on the control of the Company).

The Board of Directors recommends a vote FOR the approval of the Borealis Mine Project Financing.

PROPOSAL TWO – ARTICLES AMENDMENT

What am I voting on?

You are voting on a proposal to approve amendments to the Company's Articles of Incorporation. As explained below, the amendments amend provisions to the Company's Articles of Incorporation relating to increasing the number of authorized shares of common stock from 150,000,000 to 250,000,000. No other of the current provisions in the Company's Articles of Incorporation, as last amended August 9, 2005, will be amended, altered, replaced, or otherwise changed by the current amendments before the stockhol