

GRYPHON GOLD CORP  
Form 10-Q  
August 13, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**OR**

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

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

**Commission file number: 333-127635**

**GRYPHON GOLD CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Nevada**

(State of other jurisdiction of incorporation or  
organization)

**92-0185596**

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

**611 N Nevada Street  
Carson City, Nevada**

(Address of Principal Executive Offices)

**89703**

(Zip Code)

**(604) 261-2229**

(Registrant's Telephone Number, including Area Code)

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

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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.

Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes      No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes      No

Number of common shares outstanding at August 13, 2010: 87,935,132

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**GRYPHON GOLD CORPORATION**

June 30, 2010

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

(An exploration stage company)

**Consolidated Balance Sheets**

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

	As at June 30, 2010 \$	As at March 31, 2010 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	2,138,151	937,056
Held for trading securities	45,040	191,966
Accounts receivable	24,073	20,183
Accounts receivable option agreement [note 3]	88,355	16,230
Current portion of note receivable [note 4]	10,730	11,441
Prepaid expenses	96,450	30,980
Assets held for sale at discontinued operations [notes 5]	-	3,788,691
<b>Total Current Assets</b>	<b>2,402,799</b>	<b>4,996,547</b>
Equipment [note 6]	121,529	90,286
Mineral properties [note 7]	1,841,912	1,930,909
Other assets [note 9]	750,442	721,679
Non-current portion of note receivable [note 4]	-	2,131
<b>Total Assets</b>	<b>5,116,682</b>	<b>7,741,552</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	476,037	832,977
Share consideration payable to former owners of discontinued operations [note 10]	270,000	270,000
Liabilities held for resale and in discontinued operations [notes 5 & 10]	-	2,170,223
<b>Total current liabilities</b>	<b>746,037</b>	<b>3,273,200</b>
Commitments & contingencies [note 13]		
<b>Stockholders' equity</b>		
Common stock	87,935	86,034
Additional paid-in capital	39,878,213	39,585,228
Deficit accumulated during the exploration stage	(35,595,503)	(35,202,910)
<b>Total Stockholders' equity</b>	<b>4,370,645</b>	<b>4,468,352</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>5,116,682</b>	<b>7,741,552</b>

See Note 1 Nature of Operations and Going Concern Uncertainty

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

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

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Period from April 24, 2003 (inception) to June 30, 2010</b>
	<b>June 30,</b>	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Exploration [ <i>note 8</i> ]	385,639	274,878	16,987,641
Management salaries and consulting fees	313,928	95,764	9,677,297
General and administrative	139,833	55,234	3,898,362
Legal and audit	57,413	22,688	2,162,851
Travel and accommodation	33,538	4,914	1,178,936
Depreciation & amortization	13,409	11,153	267,039
Loss (gain) on disposal of equipment	-	(18,928)	5,624
Foreign exchange (gain) loss	10,932	(1,475)	18,104
Gain on change in liability of warrants [ <i>note 11[b]</i> ]	-	(86,220)	(2,676,000)
Interest income	(100)	(114)	(739,098)
Interest expense	593	90	8,750
Unrealized (gain) loss on securities	92,176	(72,846)	(10,035)
Realized (gain) loss on sale of securities	(19,060)	13,484	133,662
Loss for the period from continuing operations	(1,028,301)	(298,622)	(30,913,133)
Discontinued operations:			
Loss from discontinued operations	(18,241)	(97,094)	(5,336,319)
Gain on sale of discontinued operations	653,949	-	653,949
Income (loss) from discontinued operations	635,708	(97,094)	(4,682,370)
<b>Net loss for the period</b>	<b>(392,593)</b>	<b>(395,716)</b>	<b>(35,595,503)</b>
Basic and diluted income (loss) per share:			
Loss from continuing operations	(0.01)	(0.01)	
Income from discontinuing operations	0.01	Nil	
Total loss per share	Nil	(0.01)	
Basic and diluted weighted average number of common shares outstanding	86,646,541	62,070,815	

See Note 1 Nature of Operations and Going Concern Uncertainty

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

**Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Statements of Stockholders' Equity**

(Unaudited) (Stated in US dollars)

	Common stock		Additional	Deficit	
	Shares	Amount	paid-in	accumulated	Total
	#	\$	capital	during the	\$
			\$	exploration	
				stage	
				\$	
<b>Balance, inception April 24, 2003</b>					
Shares issued:					
For private placements	47,812,870	47,813	28,078,256		28,126,069
Share issue costs			(1,273,087)		(1,273,087)
For mineral properties	4,500,000	4,500	3,444,918		3,449,418
Initial Public Offering (IPO)	6,900,000	6,900	5,029,597		5,036,497
Share issue costs (IPO)			(2,241,940)		(2,241,940)
Compensation component of shares issued			226,000		226,000
Fair value of agents' warrants issued on private placements [note 11[b]]			222,627		222,627
Fair value of options granted to consultants [note 11[c]]			49,558		49,558
Fair value of underwriters' compensation warrants on IPO [note 11[b]]			135,100		135,100
Fair value of options granted [note 11[c]]			2,274,508		2,774,508
Fair value of vested stock grants	429,250	428	520,379		520,807
Fair value of stock granted [note 11[d]]	221,670	222	21,415		21,637
Exercise of warrants	1,985,775	1,986	1,827,349		1,829,335
Exercise of options	107,500	108	83,066		83,174
Net loss since inception				(35,774,819)	(35,774,819)
<b>Balance, March 31, 2009</b>	61,957,065	61,957	38,397,746	(35,774,819)	2,684,884
Shares issued:					
For private placements	10,897,353	10,897	1,751,804		1,762,701
Share issue costs			(172,379)		(172,379)
Fair value of options granted [note 11[c]]			166,088		166,088
Fair value of vested stock grants [notes 11 [a] & [d]]	112,500	113			113
Exercise of warrants	7,161,500	7,162	1,453,204		1,460,366
Settlement of debt [notes 10 & 11[a]]	5,905,356	5,905	964,095		970,000
			(2,975,330)	2,888,130	(87,200)

Reclassification of warrants to liability FASB ASC 815-40-55 [note 2]					
Net loss for the period				(2,316,221)	(2,316,221)
<b>Balance, March 31, 2010</b>	<b>86,033,774</b>	<b>86,034</b>	<b>39,585,228</b>	<b>(35,202,910)</b>	<b>4,468,352</b>
Shares issued:					
For private placements	1,464,429	1,464	198,536		200,000
Share issue costs			(5,252)		(5,252)
Fair value of options granted [note 11[c]]			40,139		40,139
Settlement of accounts payable [note 11[a]]	436,929	437	59,563		60,000
Net loss for the period				(392,593)	(392,593)
<b>Balance, June 30, 2010</b>	<b>87,935,132</b>	<b>87,935</b>	<b>39,878,213</b>	<b>(35,595,503)</b>	<b>4,370,645</b>
<i>See Note 1 Nature of Operations and Going Concern Uncertainty</i>					

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



**Gryphon Gold Corporation**

(An exploration stage company)

**Consolidated Statements of Cash Flows**

(Unaudited) (Stated in US dollars)

	<b>Three months ended June 30,  2010 \$</b>	<b>Three months ended June 30,  2009</b>	<b>Period from April 24, 2003 (inception) to June 30, 2010 \$</b>
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(392,593)	(395,716)	(35,595,503)
Items not involving cash:			
Depreciation	13,409	11,153	267,039
(Gain) loss on disposal of equipment	-	(18,928)	5,624
Fair value of options, warrants and other non-cash compensation [note 11[c]]	40,139	49,364	3,377,112
Non-cash interest expense on discontinued operations [note 10]	10,364	125,427	725,304
(Gain) loss on securities	(19,060)	13,484	133,662
Unrealized (gain) loss on sale of securities	92,176	(72,846)	(10,035)
Held for trading securities included in lease revenue	-	-	(9,598)
Impairment of carrying value of exploration properties [note 5]	-	-	5,100,000
Loss (gain) on disposal of mineral properties	-	(42,761)	53,168
Gain on change in liability of warrants [note 11[b]]	-	(86,220)	(2,676,000)
Gain on extinguishment of debt [note 10]	-	-	(1,327,076)
Gain on sale of discontinued operations [note 5]	(653,949)	-	(653,949)
Changes in non-cash working capital items:			
Accounts receivable	(76,015)	21,077	(108,678)
Accounts payable and accrued liabilities	(296,940)	84,773	417,852
Prepaid expenses	(65,471)	21,603	(96,450)
<b>Cash used in operating activities</b>	<b>(1,347,940)</b>	<b>(289,590)</b>	<b>(30,397,528)</b>
<b>INVESTING ACTIVITIES</b>			
Other assets [note 9]	(57,525)	-	(218,302)
Sage Gold Inc. option payment received	-	-	100,000
Purchase of equipment	(32,600)	(734)	(338,794)
Cash received from sale of discontinued operations	2,250,000	-	2,250,000
Nevada Eagle acquisition and related non-compete agreement [note 5]	-	-	(3,068,340)
Mineral property expenditures [note 5 & 7]	-	-	(1,992,130)
Mineral property lease payments received	-	55,100	1,499,854
Proceeds from sale of mineral properties	117,760	50,000	217,760
Option payment to amend royalty [note 9]	-	-	(310,902)
Proceeds from sales of held for trading securities	73,810	9,951	134,764
Proceeds from note receivable	2,842	2,000	13,270
Proceeds from sale of equipment	-	1,571	16,403
<b>Cash provided by investing activities</b>	<b>2,354,287</b>	<b>117,888</b>	<b>(1,696,417)</b>
<b>FINANCING ACTIVITIES</b>			
Cash paid on extinguishment of debt [note 10]	-	-	(500,000)
Capital lease principal payments	-	-	(53,523)
Exercise of warrants	-	-	1,161,036

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Shares and warrants issued for cash	200,000	-	36,570,369
Share issue costs	(5,252)	-	(3,334,911)
Subscription receivables collected	-	-	389,125
<b>Cash provided by financing activities</b>	<b>194,748</b>	<b>-</b>	<b>34,232,096</b>
<b>Increase (decrease) in cash during the period</b>	<b>1,201,095</b>	<b>(171,702)</b>	<b>2,138,151</b>
Cash, beginning of period	937,056	799,517	-
<b>Cash, end of period</b>	<b>2,138,151</b>	<b>627,815</b>	<b>2,138,151</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Shares issued for settlement of accounts payable	60,000		60,000
Extinguishment of note payable by sale of discontinued operations	2,180,587		2,180,587

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

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

**Gryphon Gold Corp**

*(An Exploration Stage Company)*

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

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

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

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

On April 23, 2010, the Company sold its wholly owned subsidiary, Nevada Eagle Resources LLC ( Nevada Eagle ), however, management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary, such as the sale of interests in its remaining mineral properties (see note 7). However, no assurance can be given that the Company will be successful in raising additional capital. Further, even if the Company raises additional capital, there can be no assurance that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and possible future revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to suspend or cease operations. The Company has an accumulated deficit of \$35,595,503 and at June 30, 2010 has cash on hand of \$2,138,151. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

**Basis of Presentation**

The unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2011.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Codification**

In June 2009, the Company adopted ASC 105-10-65, the accounting standards codification and the hierarchy of generally accepted accounting principles. Under ASC 105-10-65 codification will become the exclusive source of

authoritative U.S. generally accepted accounting principles ( U.S. GAAP ) it will be applied by all nongovernmental entities. ASC 105-10-65 was effective for the Company s 2009 second fiscal quarter. The adoption of FASB ASC 105-10-65 did not have a material impact on the Company s consolidated financial statements. All references to U.S. GAAP provided in the notes to the consolidated financial statements have been updated to conform to the Codification.

**Fair value measurements**

The Company measures fair value in accordance with ASC 820-10-55 Fair Value Measurements . The objective of ASC 820-10-55 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820-10-55 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of ASC 820-10-55 did not have a material effect on the Company s consolidated financial statements.

**Gryphon Gold Corp**

*(An Exploration Stage Company)*

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

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

**Fair value measurements, continued:**

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

Level 1 Quoted prices for identical instruments in active markets;

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

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

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable method data, if available when estimating fair value. The fair value of the Company's held for trading securities is based on the quoted market prices (level 1). The Company's cash, accounts and notes receivable, and accounts payable and accrued liabilities are carried at cost, which the Company believes approximates fair value because of the short-term maturities of these instruments.

**ADOPTED ACCOUNTING PRONOUNCEMENTS**

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

The Company accounts for Business Combinations in accordance with ASC 805-10-55, this guidance calls for the recognizing and measuring of 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. ASC 805-10-55 is effective for the Company's fiscal year beginning April 1, 2009 and is applied prospectively. ASC 805-10-55 may have an impact on the Company's consolidated financial statements in the future, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisition the Company may consummate after the effective date.

The Company accounts for derivative instruments and hedging activates in accordance with ASC 815-10-15. This policy requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items

affect an entity's operating results, financial position, and cash flows. ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of this policy did not have a material impact on our consolidated operating results, financial position, or cash flows.

**Gryphon Gold Corp**

*(An Exploration Stage Company)*

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

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

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS, CONTINUED:**

The Company accounts for convertible debt instruments that may be settled in cash upon conversion in accordance with ASC 470-20-55 which specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. ASC 470-20-55 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, The Company adopted ASC 815-40-55 for determining whether an instrument or embedded feature is indexed to an entity's own stock. ASC 815-40-55 clarifies the determination of whether an instrument or an embedded feature is indexed to an entity's own stock, which would qualify as a scope exception under ASC 815-20-25. If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of ASC 815-40-55. ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair value each reporting period. At April 1, 2009, a reclassification of \$2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), deficit accumulated during the exploration stage was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded.

In May 2009, the Company adopted ASC 855-10-25, which establishes accounting and reporting standards for subsequent events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10-25 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. The adoption of ASC 855-10-25 is effective for our fiscal year commencing April 1, 2009. The adoption of ASC 855-10-25 had no impact on the Company's consolidated financial position, results of operations or cash flows.

During 2009 the Company adopted ASC 820-10-65 for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. ASC 820-10-65:

- Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.
- Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.
- Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. ASC 820-10-65 instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.
- Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.
- Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of ASC 820-10-65 and to quantify its effects, if practicable.
- Applies to all fair value measurements when appropriate.





**Gryphon Gold Corp**

*(An Exploration Stage Company)*

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

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

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS, CONTINUED:**

The Company applied ASC 820-10-65 prospectively, retrospective application is not permitted. ASC 820-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity that adopts ASC 820-10-65 early must also early adopt ASC 320-10-65, which covers the recognition and presentation of other-than-temporary impairments. The adoption of ASC 820-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.

The Company adopted ASC 320-10-65 in the second quarter of 2009. ASC Topic 320-10-65 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. It also contains additional disclosure requirements related to debt and equity securities and changes existing impairment guidance. The Company's adoption of ASC 320-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. The Company elected to adopt ASC 320-10-65 in the first quarter of 2009. The adoption of ASC 320-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.

In April 2009, the Company adopted ASC 270-10-05, interim disclosures about fair value of financial instruments. ASC 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Before this guidance was adopted, fair values for these assets and liabilities were disclosed only once a year. The guidance requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This pronouncement is effective for periods ending after June 15, 2009. The Company adopted this standard effective June 30, 2009, the adoption of ASC 270-10-05 did not have a material impact on the Company's financial position and results of operations.

**Reclassification**

Certain comparative figures have been reclassified to conform to the current quarter presentation. The Statement of Operations relating to costs of discontinued operations for the three month period ended June 30, 2009 have been classified as such for comparative purposes for the three month period ended June 30, 2010.

**Revenue recognition**

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

**3. ACCOUNTS RECEIVABLE - OPTION AGREEMENT**

On March 5, 2010, the Company entered into an Option Agreement with Sage to which the Company agreed to grant Sage the option to enter into a joint venture agreement to earn 50% joint venture interest Borealis Mining Company BMC , subject to certain terms and conditions. The obligations of Sage during the option period require Sage to pay 50% of all costs and expenses whatsoever, direct or indirect, with respect to the Borealis property. As of June 30, 2010, the Company had an amount totaling \$88,355 due from Sage.

**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****4. NOTE RECEIVABLE**

During the year ended March 31, 2010, the Company sold an asset by signing a 24-month lease agreement with an individual. In accordance with ASC 840-10-55 the Company accounted for the transaction as a sales type lease. The net present value at the time of the sale was \$22,794 and was reported on the consolidated balance sheet as a note receivable. Interest income to be recognized over the two-year life is \$1,206. Each payment received will be allocated by reduction of the face value of the note receivable and the recognition of interest income. Three lease payments were received during the quarter ended June 30, 2010. The current portion of the note receivable totals \$10,730.

**5. NEVADA EAGLE RESOURCES LLC**

On August 21, 2007, Gryphon Gold closed the acquisition of Nevada Eagle Resources LLC ( Nevada Eagle ). On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer Development (USA) Inc. ( Fronteer ) for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho. The Company recognized a gain of \$653,949 in connection with the sale. The Company completed the sale of Nevada Eagle during the three months ended June 30, 2010, Nevada Eagle's results have been classified and presented in Discontinued Operations.

**6. EQUIPMENT**

	<b>Cost</b>	<b>June 30, 2010 Accumulated Depreciation</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Office and lab equipment	233,660	152,985	80,675
Trucks	85,597	44,743	40,854
<b>Total</b>	<b>319,257</b>	<b>197,728</b>	<b>121,529</b>

	<b>Cost</b>	<b>March 31, 2010 Accumulated Depreciation</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Office and lab equipment	210,510	142,688	67,822
Trucks	64,097	41,633	22,464
<b>Total</b>	<b>274,607</b>	<b>184,321</b>	<b>90,286</b>

**7. MINERAL PROPERTIES**

	<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>

<b>Mineral property costs, March 31, 2008</b>	<b>1,920,371</b>
Expenditures during the year	10,538
Mineral property costs, March 31, 2009 and 2010	<b>1,930,909</b>
Sage Gold Inc. option payment received	(100,000)
Property retained from sale of Nevada Eagle	11,003
<b>Mineral property costs, June 30, 2010</b>	<b>1,841,912</b>

**Gryphon Gold Corp**

*(An Exploration Stage Company)*

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

**7. MINERAL PROPERTIES, CONTINUED:**

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

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to December 31, 2010 (the *Option Period*) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).
- (c) Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.
- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units on June 16, 2010 (\$200,000) and on August 16, 2010 (\$200,000). Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date, but not less than Cdn\$0.18 per unit and not more than Cdn.\$0.25, subject to TSX approval.
- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.
- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

**8. EXPLORATION**

<b>Three months ended</b>	<b>Three months ended</b>	<b>Period from April 24, 2003 (inception)</b>
-----------------------------------	-----------------------------------	---

	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>to June 30, 2010</b>
	\$	\$	\$
<b>NEVADA, USA</b>			
<b>Borealis property</b>			
<b>Exploration:</b>			
Drilling	<b>225,739</b>	458	7,583,735
Property maintenance	<b>57,668</b>	120,576	3,566,873
Geologic and assay	<b>21,439</b>	910	2,054,726
Project management	<b>5,547</b>	-	1,877,077
Engineering	<b>65,596</b>	154,759	1,522,165
Metallurgy	-	-	331,210
Subtotal Borealis property	<b>375,989</b>	276,703	16,935,786
Other exploration	<b>9,650</b>	750	51,855
<b>Total exploration</b>	<b>385,639</b>	277,453	16,987,641

**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****9. OTHER ASSETS**

	<b>June 30, 2010</b>	March 31, 2010
	\$	\$
Reclamation bond & deposits	<b>189,539</b>	160,777
Option to amend Borealis Property mining lease	<b>560,903</b>	560,902
	<b>750,442</b>	721,679

On June 30, 2010 the Company had \$191,125 (March 31, 2010 - \$133,600) on deposit to support a performance bond with the United States Forest Service. The Company also has a deposit with the Bureau of Land Management ( BLM ) for \$27,177 (March 31, 2009 - \$27,177), which supports its potential future obligations for reclamation during the Company s exploration activities within the BLM area. The United States Forest Bond was increased during the quarter ended June 30, 2010 by \$57,525 of which \$28,762 was invoiced to Sage reducing our carrying value of the bond. At June 30, 2010, the Company has recorded an estimated reclamation liability of \$5,600 (March 31, 2010 \$5,600) representing future obligations related to its general property activities completed to June 30, 2010.

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

**10. CONVERTIBLE PROMISSORY NOTE**

Gryphon Gold issued a Convertible Promissory Note to the former owners of Nevada Eagle (See Note 5) [the Debt holders ] with a face amount of \$5 million, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note was convertible at the holder s option into shares for the first 12 months after closing at a conversion price of \$1 per common share; for the next 12 months at \$1.25 per common share; for the period 24 months from closing to March 29, 2010 at \$1.50 per common share and on March 30, 2010 at \$1.75 per common share. The 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.

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

As consideration for entering into Amendment No. 1, the Company and the Debt holders entered into an Option Consideration Agreement (the Option Consideration Agreement ) pursuant to which the Company agreed to (i) issue the Debt holders an additional 1,500,000 common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the Amendment Consideration ), which Amendment Consideration is subject to obtaining Company shareholder and TSX approval (the Approvals ). The conversion price of Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March

30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company's shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note. As a result of the consideration for entering into the Amendment No.1, the Company recorded a liability of \$270,000 based on the fair value of the shares to be issued to the Debt Holders at the time the agreement was executed.



**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****10. CONVERTIBLE PROMISSORY NOTE, CONTINUED:**

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

On April 23, 2010, the Company's wholly owned subsidiary, Nevada Eagle Resources LLC, was sold to Fronteer Development (USA) Inc. (Fronteer), as part of the purchase price paid by Fronteer, the convertible note was assumed by Fronteer.

**11. CAPITAL STOCK**

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

During the quarter ended June 30, 2010, the Company issued 436,929 common shares with a fair value of \$60,000 to Telesto Nevada Inc. which was applied against accounts payable.

On June 16, 2010, the Company completed a private placement relating to its Option Agreement with Sage, of 1,464,429 units at Cdn\$0.14 for gross proceeds of \$200,000 (Cdn\$205,020). Each unit consisted of one common share and one half series M warrant. Each series M warrant entitles the holder to purchase a common share at a price of US\$0.20 per share for a period of 24 months. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than Cdn\$0.60 per common share, for a period of twenty consecutive days.

- [b] Warrants:

The following table contains information with respect to all warrants:

	<b>Number of Warrants #</b>
<b>Warrants outstanding, March 31, 2004</b>	
Issued for:	
Private placements	3,407,981
Agents' compensation	141,008
Exercised	
<b>Warrants outstanding, March 31, 2005</b>	<b>3,548,989</b>
Issued for:	
Private placements	3,015,204
Agents' compensation on private placement	130,000
Initial Public Offering (IPO) Series A	6,900,000
Underwriters' compensation on IPO	690,000
Private placements Series B	2,737,500
Agents' compensation on private placement Series C	280,500
Exercised	(197,500)



**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****11. CAPITAL STOCK, CONTINUED:**

<b>Warrants outstanding, March 31, 2006</b>	<b>17,104,693</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
Exercised	(1,658,275)
Expired	(15,175,410)
<b>Warrants outstanding, March 31, 2007</b>	<b>5,420,558</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
Agents compensation on private placement Series J	89,530
Exercised	(130,000)
Expired	(290,558)
Forfeited	(14,000)
<b>Warrants outstanding, March 31, 2008</b>	<b>14,827,080</b>
Expired	(5,340,580)
<b>Warrants outstanding, March 31, 2009</b>	<b>9,486,500</b>
Exercised	(7,161,500)
And Expired	(2,325,000)
Issued for:	
Private placements Series K	5,448,667
Private placements Series L	990,500
<b>Warrants outstanding, March 31, 2010</b>	<b>6,439,167</b>
Issue for:	
Private placements Series M	732,215
<b>Warrants outstanding June 30, 2010</b>	<b>7,171,382</b>

The following table summarizes information about warrants outstanding and exercisable as at June 30, 2010:

**Warrants Outstanding and Exercisable**

Warrants #	Average Remaining Life	Exercise Price	Expiry date
	Years #		
5,448,667	1.6	\$0.25	February 18, 2012
990,500	0.6	\$0.21	February 18, 2011
732,215	1.9	\$0.20	June 16, 2012
7,171,382	1.4	\$0.22	

**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****11. CAPITAL STOCK, CONTINUED:**

[c] Stock options:

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

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

	<b>Three Months Ended June 30, 2010 \$</b>	<b>Three Months Ended June 30, 2009 \$</b>
Management salaries, exploration expense & consulting fees	40,139	49,364
<i>Stock option activity</i>		

The following table summarizes the Company's stock option activity for the three months ended June 30, 2010:

	<b>Number of Stock Options</b>	<b>Weighted Average exercise price</b>
Outstanding, April 1, 2010	4,507,500	\$ 0.46*
Granted	200,000	\$ 0.15
Forfeited	(250,000)	\$ 0.31*
Total outstanding at June 30, 2010	4,457,500	\$ 0.45*
Vested and exercisable at June 30, 2010	4,170,000	\$ 0.46*

\* Based on the June 30, 2010 exchange rate of Cdn\$1 equals US\$0.9393.

**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****11. CAPITAL STOCK, CONTINUED:**

The following table summarizes information about stock options outstanding as at June 30, 2010:

<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>
95,000	0.4	95,000	0.4	Cdn\$0.85
20,000	0.7	20,000	0.7	Cdn\$1.37
395,000	0.8	395,000	0.8	Cdn\$1.37
20,000	0.8	20,000	0.8	Cdn\$1.37
30,000	0.9	30,000	0.9	Cdn\$1.60
50,000	1.1	50,000	1.1	Cdn\$1.29
50,000	1.3	50,000	1.3	Cdn\$1.34
90,000	1.5	90,000	1.5	Cdn\$0.81
20,000	1.6	20,000	1.6	Cdn\$0.88
125,000	1.7	125,000	1.7	Cdn\$0.80
20,000	1.9	20,000	1.9	Cdn\$0.95
85,000	2.2	85,000	2.2	Cdn\$0.90
150,000	2.6	150,000	2.6	Cdn\$0.62
20,000	2.8	20,000	2.8	Cdn\$0.43
300,000	2.8	300,000	2.8	Cdn\$0.41
362,500	3.0	362,500	3.0	Cdn\$0.38
550,000	3.1	462,500	3.1	Cdn\$0.41
200,000	3.2	200,000	3.2	Cdn\$0.28
150,000	3.2	150,000	3.2	Cdn\$0.26
150,000	3.4	150,000	3.4	Cdn\$0.07
275,000	3.4	275,000	3.4	Cdn\$0.07
250,000	3.4	250,000	3.4	Cdn\$0.26
100,000	3.7	100,000	3.7	Cdn\$0.28
150,000	4.1	150,000	4.1	\$0.17
500,000	4.2	500,000	4.2	\$0.22
100,000	4.6	25,000	4.6	\$0.22
100,000	4.8	25,000	4.8	\$0.15
100,000	4.9	50,000	4.9	\$0.14
<b>4,457,500</b>		<b>4,170,000</b>		

**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****11. CAPITAL STOCK, CONTINUED:***Valuation assumptions*

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

	<b>2010</b>	<b>2009</b>
Dividend yield	<b>0%</b>	<b>0%</b>
Expected volatility	<b>100% -105%</b>	<b>51% - 80%</b>
Risk free interest rate	<b>1.40% -1.62%</b>	<b>1.31% - 2.06%</b>
Expected lives	<b>3 years</b>	<b>3 years</b>

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

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

**[d] Restricted stock units ( RSU s ):**

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

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

The following table summarizes information about RSU s outstanding as at June 30, 2010:

	<b>RSU s Granted</b>	<b>RSU s Vested</b>	<b>RSU s Forfeited</b>	<b>RSU s Outstanding</b>	<b>Weighted Average Fair Value at Grant Date</b>
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

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Issued January 10, 2007	607,500	488,750	118,750	Cdn\$0.82
Issued September 6, 2007	154,170	154,170		Cdn\$0.77
<b>Outstanding at June 30, 2010</b>	<b>798,670</b>	<b>665,920</b>	<b>132,750</b>	

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**Gryphon Gold Corp***(An Exploration Stage Company)***Notes to Consolidated Financial Statements (Unaudited)****12. RELATED PARTY TRANSACTIONS**

All transactions with related parties have occurred in the normal course of operations and are measured at their exchange amount as determined by management.

**13. COMMITMENTS & CONTINGENCIES**

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make monthly lease payments of \$9,762, adjusted annually based on the Consumer Price Index, for the duration of the lease term. In addition, production of precious metals from the Borealis Property will be subject to the payment of a royalty under the terms of the mining lease. The mining lease expired on January 24, 2009, but is automatically renewed thereafter, so long as mining related activity, including exploration drilling, continues on the Borealis Property.

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

	\$
2011	54,408
2012	59,344
2013	58,144
2014	24,227

The Vancouver office has been sub-leased commencing February 1, 2009 for 4 years and 7 months (remaining life on lease) for Cdn\$4,000 per month. The subtenant has an option to terminate the lease on January 31, 2011; such option must be exercised before October 31, 2010. If the option to terminate the Sublease Agreement is not executed by the Subtenant, then the agreement shall continue until the expiration date. As at June 30, 2010 the Company has accrued \$44,958 being the difference between the required lease payments and the estimated future sub-lease receipts.

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

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



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

### **Forward-Looking Statements**

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

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

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

### **Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates**

Certain of the technical reports, the preliminary assessment and the pre-feasibility study referenced in this annual report use the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under the SEC's Industry Guide 7 (Guide 7) and are normally not permitted to be used in reports and registration statements filed with the SEC. As a reporting issuer in Canada we are required to prepare reports on our mineral properties in accordance with NI 43-101. We reference those reports in this annual report for informational purposes only. Investors are cautioned not to assume that any part or all of mineral deposits in the above categories will ever be converted into Guide 7 compliant reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot

be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of "contained pounds" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures.

## Overview

### *Business Objectives*

We are in the business of acquiring, exploring, and developing gold properties in the United States, emphasizing the state of Nevada. Our objective is to increase value of our shares through the exploration, development and extraction of gold deposits, beginning with our Borealis Property. The development and extraction may be performed by us or by potential partners. We will also consider the acquisition and exploration of other potential gold bearing properties within Nevada or areas that have a similar political risk profile. The Plan of Operations for the Borealis property that has been approved by the U.S. Forest Service does not present an economic analysis, and we have not placed any information in the Plan of Operations regarding capital expenditures, operating costs, ore grade, anticipated revenues, or projected cash flows. The Plan of Operation was based on the general economic concepts as presented in the Preliminary scoping study.

### *Borealis Property*

In May 2005, we initiated a drilling program on our Borealis property in the State of Nevada (the Borealis Property ). As of December 31, 2009, approximately 203 holes and 142,220 feet of reverse circulation drilling have been completed. A majority of the holes were in the area of existing mineralization in order to allow us to start a feasibility study with the aim of identifying gold reserves and, if economically feasible, building a mine.

In April of 2008, we completed a CIM compliant, National Instrument 43-101 of the Canadian Securities Administrators ("NI 43-101") report (the Technical Report ) that included all drilling results to date, which was furnished to the SEC as Exhibit 99.1 to the Company's Form 8-K filed on May 12, 2008. The Technical Report details mineralization on our Borealis Property. The Technical Report states that the recommended course of action for Gryphon Gold is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralization on the Borealis Property. Cautionary Note to U.S. Investors: The Technical Report uses the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

During September 2008, we released the independent Preliminary Assessment ( PA ) on the development of an oxide heap leach mine on the Borealis Property. The PA was furnished to the SEC as Exhibit 99.1 to our Form 8-K as filed on October 7, 2008. The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the Borealis Property. The PA is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property. Cautionary Note to U.S. Investors: The PA uses the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

During the quarter ended June 30, 2010, approximately 21 holes and 5,580 feet of reverse circulation drilling and 3 holes and 110 feet of metallurgical core drilling was completed on the Borealis Property. As of June 30, 2010, approximately 224 holes and 147,800 feet of reverse circulation drilling and 3 holes and 110 feet of metallurgical core drilling has been completed on the Borealis Property. The 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

mineralization or complete exploration in the Pediment areas of the Borealis property.

On July 15, 2009, we announced the completion and results of our Pre-Feasibility Study for the development of the Borealis Property. On September 22, 2009, we filed our Pre-Feasibility Study entitled "NI 43-101 Pre-Feasibility Study of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, Revised and Restated" dated September 17, 2009 (the "Pre-Feasibility Study") with securities regulatory authorities in Canada, pursuant to Canadian securities laws and the rules of Toronto Stock Exchange, and furnished it to the SEC as Exhibit 99.1 to the Company's Form 8-K, filed on September 22, 2009. The report shows an average annual production of over 50,000 ounces a year gold-equivalent for five years, an initial construction cost of \$14.8 million, including a \$1million contingency and average life of mine cash operating cost of \$476 per ounce of gold. Cautionary Note to U.S. Investors: The Pre-Feasibility Study uses the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates above.

On March 5, 2010, the Company and Sage entered into an Option Agreement (the *Option Agreement*) pursuant to which the Company granted Sage the option (the *Option*) to enter into a Joint Venture Agreement (the *Joint Venture Agreement*) and earn a 50% joint venture interest (the *Joint Venture*) in the Company's Borealis gold project located in the Walker Lane Mineral Belt of Southwest Nevada (the *Borealis Project*). The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. For a further discussion of the Option Agreement see *Liquidity and Capital Resources - Borealis Mine* below.

#### ***Administration and Capital Resource Activities***

On December 31, 2009, Mr. Michael K Longinotti resigned as Chief Financial Officer.

On January 6, 2010, the Registrant announced that R. William Wilson had been appointed as Chief Financial Officer of the Company. On May 28, 2010, R. William Wilson resigned as Chief Financial Officer and Matthew A. Fowler of Sharp Executives Associates was appointed Interim Chief Financial Officer of the Company.

On February 5, 2010, the Company and the Debt holders entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 ( *Amendment No. 1* ) pursuant to which, among other items, the Company obtained the right (i) in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated private placement on February 19, 2010 (the *Amended Note* ); (ii) to delete certain unmet conditions required to be satisfied by the Company in connection with the exercise of the Option; and (iii) to update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, the Company and the Debt holders entered into an Option Consideration Agreement (the *Option Consideration Agreement*) pursuant to which the Company agreed to (i) issue the Debt holders 1,500,000, valued at \$270,000 at the time of the amendment, common shares of the Company and (ii) amend the terms of the Amended Note to reduce the conversion price (the *Amendment Consideration*), which Amendment Consideration is subject to obtaining Company shareholder and Toronto Stock Exchange approval (the *Approvals*). The conversion price of the Amended Note will be amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012. In the event that the Approvals are not obtained within five business days following the first meeting of the Company's shareholders, but no later than August 22, 2010, then the Company agreed to pay the Amendment Consideration by issuing unsecured, one-year note(s) with fixed interest rates of 5% per annum as follows: (a) \$300,000 in lieu of issuing the Debt holders 1,500,000 common shares and/or (b) \$100,000 in lieu of reducing the conversion price of the Amended Note.

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

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho.

On June 16, 2010, the Company closed the private placement with Sage Gold, Inc. ( *Sage* ) and issued 1,464,429 units at a purchase price of Cdn\$0.14 per unit for gross proceeds of \$200,000 (Cdn\$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of US\$0.20.



## **Fiscal 2010 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 to continue operations. Our objective is to raise additional funds through debt and/or equity financing, or through other means that we deem necessary. However, no assurance can be given that we will be successful in raising additional capital. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If we are unable to raise additional capital and expected significant revenues do not result in positive cash flow, we will not be able to meet its obligations and may have to suspend or cease operations.

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

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

- Obtain financing necessary to begin the Borealis Oxide Heap Leach mine project.
- Begin construction and bring the Borealis resource into production with-in six months of receiving financing and board approval to proceed.
- Execute a drill program to expand the oxide resource within the permitted footprint of the Borealis project.
- Execute a drill program on the three anomalies defined in the pediments of the Borealis property for the purpose of potentially discovering additional oxide and sulphide resources.
- Raise additional capital as required to fund our exploration, development and working capital requirements.

## **Results of Operations**

We are in an exploration stage and currently have no producing mineral properties and thus we had no sales revenue during all reporting periods.

### ***Three months ended June 30, 2010 compared to three months ended June 30, 2009***

For the three months ended June 30, 2010, we had a net loss of \$392,593 or \$0.01 from continued operations and net income of \$653,949 or \$0.01 from discontinued operations compared to a net loss of \$395,716 or \$0.01 per share in the same period in the prior year.

Exploration expenses during the quarter ended June 30, 2010 were \$385,639 or 37% of our total expenses compared to \$277,453 or 70% of our total expenses in the prior year. Most of the exploration costs recognized in the current quarter were for completing all ongoing property lease payments and a small oxide drill program. During the quarter ended June 30, 2010, approximately 21 holes and 5,580 feet of reverse circulation drilling and 3 holes and 110 feet of metallurgical core drilling was completed on the Borealis Property. There was no drilling in the prior year's comparable quarter.

Management salaries and consulting fees in the quarter ended June 30, 2010 were \$313,928 compared to \$95,764 incurred in the quarter ended June 30, 2009. Total non-cash compensation expense due to the recognition of costs related to stock options was \$40,139 in the quarter ended June 30, 2010 compared to the prior year's fiscal first quarter of \$49,364. Management salaries and consulting fees during the quarter increased due to the CEO returning to full time, the hiring of a VP of Exploration and a bonus of \$97,500 paid to the CEO. General and administrative costs increased to \$139,833 compared to \$56,342 the prior year's quarter as a result of our efforts to increase investor relations activity. Legal and audit fees for the period were \$57,413, an increase from the prior year's quarter of \$23,107. These costs increased due to the sale of Nevada Eagle Resources and the Option Agreement with Sage. Travel and accommodation costs during the quarter ended June 30, 2010 were \$33,538, compared to \$4,914 expended on travel in the prior year's comparable quarter. The increase in travel and entertainment cost is due primarily to travel costs incurred in relation to the Option Agreement with Sage.



Interest income earned on cash deposits was \$100 for the quarter ended June 30, 2010, compared to \$114 in the prior year quarter.

We hold certain securities for trading. We receive these securities as partial payment of lease obligations for 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 the quarter ended June 30, 2010, we sold a number of these securities and received \$73,810 in proceeds and recorded a realized gain of \$19,060. This realized gain was partially offset by unrealized losses recorded in prior reporting periods as we reduced the carrying value of the securities to their quoted market value.

### **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.

#### ***Convertible Debt***

On April 23, 2010, Gryphon Gold sold its wholly owned subsidiary, Nevada Eagle Resources LLC to Fronteer Development (USA) Inc. for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming Gryphon Gold's obligations under a convertible note, which was retired. In addition, Gryphon Gold retained the Copper Basin property located in Idaho.

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

##### *Sage Option Agreement*

Our objective is 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.

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.

On March 5, 2010, the Company and Sage entered into an Option Agreement pursuant to which the Company granted Sage the Option to enter into a Joint Venture Agreement and earn a 50% joint venture interest in the Company's Borealis Project. The Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between the Company and Sage, dated February 23, 2010. Under the terms of the Option Agreement, as amended on April 19, 2010, April 28, 2010 and June 15, 2010, Sage has the right to exercise the Option and enter into the Joint Venture Agreement with the Company upon the satisfaction of the following conditions:

- (a) Sage will make a \$9,000,000 capital contribution to Borealis Mining or a corporate entity formed for the purposes of the Joint Venture on or before the earlier of (A) any time prior to June 30, 2011 (the Option Period) or (B) within sixty (60) days after receipt by the Parties (or as soon thereafter as is practicable for Sage using its best efforts) of a binding commitment letter for the remainder of the project financing required to bring the Borealis Project into production on terms acceptable to the Parties, acting reasonably.
- (b) Upon the classification of an additional 100,000 ounces of gold Reserves as Proven and Probable, Sage will make a cash payment to the Company of \$1,000,000, and cash payments up to an additional \$1,000,000 for up to an additional 100,000 ounces of gold Reserves classified as Proven and Probable (a maximum \$2,000,000).

- (c) Sage will issue to the Company common shares of Sage with a value equal to \$1,000,000, subject to TSX Venture Exchange approval or, will make the payment in cash upon exercise of the option.
- (d) Sage will agree to invest \$400,000 in a private placement in the Company's units in installments of \$200,000 by June 16, 2010 and \$200,000 August 16, 2010 by May 11, 2010. Each unit consisting of one share of common stock of the Company and one half of a share purchase warrant at an issue price equal to the greater of (i) the maximum discounted price permitted under Part VI of the TSX Company Manual and (ii) a 5% premium to the 30 day volume weighted closing price of the common stock of the Company ending on the day immediately prior the subscription date.
- (e) Sage will pay 50% of the approved expenditures on the Borealis Property during the Option Period, subject to certain exceptions and adjustments. If Sage fails to fund its portion of the expenditures, the Company will have the option to terminate the Option Agreement, subject to an applicable cure period.
- (f) Sage will deliver to the Company (i) evidence that Sage has obtained regulatory approval for the performance of the transactions and obligations under the Option Agreement and that the terms of such regulatory approvals have been satisfied; and (ii) evidence of a binding commitment for the remainder of the project financing required to bring the Borealis Project into production.

Sage may not be able to complete the private placement installment of \$200,000 due to be completed by August 16, 2010. If Sage is unable to complete the private placement installment and the parties do not otherwise come to an agreement to amend the Option Agreement, then the Option Agreement will terminate.

Further, Sage's ability to exercise the Option is dependent upon Sage obtaining \$9,000,000 to make the necessary capital contribution under the Option Agreement and being able to arrange for adequate project financing to bring the Borealis Mine into production. There can be no assurance that Sage will be able to obtain the necessary capital contribution or project financing to permit it to exercise the Option. Further, Sage may also elect not to exercise the Option to enter into a Joint Venture with the Company during the Option Period.

If the Option Agreement terminates or if Sage is unable to raise the necessary capital contribution and project financing or elects not to exercise the Option to enter into a Joint Venture, the Company will need to seek alternative sources of capital to fund the development of the Borealis Mine. Such other sources of capital may include equity or debt financing or other joint venture opportunities. Such other sources of capital may not be available to the Company on reasonable terms, if at all. If this is the case, the Company may not be able to develop the Borealis Mine as currently planned, if at all, and the Company's future results of operation would be adversely affected.

The foregoing description provides the material details of the Option Agreement, as amended. For further information please see (i) the Option Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 8, 2010, (ii) Amendment No. 1 to Option Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 30, 2010, (iii) Amendment No. 2 to Option Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on April 20, 2010, (iv) Amendment No. 3 to Option Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on May 6, 2010, and (v) Amendment No. 4 to Option Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on June 15, 2010.

#### *Royalty Obligations*

The leased portion of the Borealis Property is currently subject to advance royalty payments of approximately \$9,762 per month, payable to each of Richard J. Cavell TTTEE F/T Richard J. Cavell Trust dated 02/23/1994, Hardrock Mining Company, a Nevada corporation, and John W. Whitney (the Borealis Owners). These advance royalty payments are subject to annual adjustments based on changes in the United States Consumer Price Index.

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

On February 12, 2010 the Company entered into an agreement to extend the option agreement from February 22, 2010 until August 22, 2010 and the extension of the Condemnation Period from August 22, 2010 to August 22, 2011. As consideration for entering into the agreement the Company agreed to pay \$150,000 to the Borealis Owners comprised of cash in the amount of \$25,000 and shares of the Company's common stock equal to \$125,000, calculated based on eighty percent of the average five day closing price immediately prior to the payment date.

The terms of the mining lease prior to the amendment require the payment of a net smelter return production royalty by Borealis Mining to the Borealis Owners in respect of the sale of gold (and other minerals) extracted from those claims within the area of interest specified in the mining lease. The royalty rate for gold is determined by dividing the monthly average market gold price by 100, with the result expressed as a percentage. The royalty amount is determined by multiplying that percentage by the amount of monthly gold production from the claims in the area of interest and by the monthly average market gold price, after deducting all smelting and refining charges, various taxes and certain other expenses. For example, using an assumed monthly average market gold price of \$850, the royalty rate would be 8.5% . Using an assumed monthly production of 5,000 ounces of gold from the leased claims, the monthly royalty amount would be 5,000 ounces times \$850 per ounce, less allowable deductions, multiplied by 8.5% .

There can be no assurance that the Company will be able to exercise the option to buy down the royalty or negotiate as further extension of the agreement before August 22, 2010. If the Company is unable to exercise the option or obtain an extension, the Company's ability to put the Borealis Mine into production would be adversely affected by the current royalty structure as discussed above. This may make the Borealis Mine less profitable or prevent the Company from putting the Borealis Mine into production, which would adversely affect the Company's future results of operations.

### ***Capital Resources***

At June 30, 2010, we had working capital of \$1,656,762 with an average cash expenditure rate of \$200,000 per month in a typical month based on our current level of business activity. This level of activity is subject to change based upon future events. Current assets consisted of \$2,138,151 in cash, \$45,040 in securities held for trading, \$24,073 in accounts receivable, \$88,355 in accounts receivable joint venture, \$10,730 in the note receivable and \$96,450 in prepaid expenses. We had \$476,037 in accounts payable and accrued liabilities, and \$270,000 in share consideration payable to former owners of discontinued operations at June 30, 2010.

During 2008 and early 2009 there was 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 in the equity markets, 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 to market conditions as discussed above. To preserve as much cash as possible and to ensure liquidity for the longest period possible, we have taken steps to reduce our rate of cash expenditure. These steps included 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 moving our office in Nevada from Reno to Carson City.

We recognize that additional resources are required to enable us continue operations. We intend to raise additional funds through debt and/or equity financing or through other means that we deem necessary. However, no assurance can be given that we will be successful in raising additional capital. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If we are unable to raise additional capital

and expected significant revenues do not result in positive cash flow, we will not be able to meet its obligations and may have to suspend or cease operations.

Our current working capital is \$1,656,762, with an average cash expenditure rate of \$200,000 per month in a typical month based on the current number of employees we have. We will attempt to raise capital in one or more financings, which may include equity offerings, joint ventures, or other asset sales. This expenditure rate is subject to change based upon future events. The average burn rate does not include all anticipated costs, including annual claim maintenance fees, or the exercise of the option to fix the royalty rate on the Borealis property at 5%.

During the quarter ended June 30, 2010, we used cash in operating activities of \$1,347,940 which included our net loss during the quarter of \$392,593 off-set by depreciation of \$13,409, non-cash compensation of \$40,139, non-cash interest expense of \$10,364, unrealized loss of \$92,176 and a \$19,060 realized gain on the valuation of marketable securities, \$653,949 gain on sale of discontinued operations, and changes in non-cash working capital of a \$76,015 increase in accounts receivable, a \$356,940 decrease in accounts payable, a \$65,470 increase in prepaid expenses and \$60,000 of accounts payable settled through an issuance of common stock.

We received cash from investing activities of \$2,354,286 including \$57,525 increase in reclamation bond, \$32,599 in purchase of equipment, \$2,250,000 in sale of discontinued operations, \$117,760 from proceeds of sale of minerals properties, \$73,810 from the sale of securities, and \$2,842 from the payments on the note receivable.

We received cash from financing activities of \$194,748 including \$200,000 from the sale of common shares, and \$5,252 in share issue costs for the quarter ended June 30, 2010. Cash increased during the period by \$1,201,095 to \$2,138,151 as at June 30, 2010.

Updated share capital as of August 13, 2010:

Basic Common Stock Issued and Outstanding	87,935,132
Warrants, Options and other Convertible Securities	11,628,882
Fully Diluted Common Stock	99,564,014

#### **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.

#### ***Codification***

In June 2009, the Company adopted ASC 105-10-65, the accounting standards codification and the hierarchy of generally accepted accounting principles. Under ASC 105-10-65 codification will become the exclusive source of authoritative generally accepted accounting principles ( GAAP ) it will be applied by all nongovernmental entities. ASC 105-10-65 was effective for the Company s 2009 second fiscal quarter. The adoption of FASB ASC 105-10-65 did not have a material impact on the Company s consolidated financial statements. All references to GAAP provided in the notes to the consolidated financial statements have been updated to conform to the Codification.

#### ***Revenue recognition***

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

#### ***Mineral property acquisition costs***

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

economic value or the properties are sold or abandoned.

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

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

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

#### ***Exploration and development costs***

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

#### ***Foreign currency translation***

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

#### ***Equipment***

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

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

The Company accounts for its stock options in accordance with ASC 718-10, the Company recognizes stock-based compensation expense based on the fair value of the stock options on the date of grant. The fair value of the stock options at the date of grant is amortized over the vesting period, with the offsetting credit to additional paid in capital.

#### ***Loss per share***

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

#### ***Asset retirement obligations***



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

### ***Fair value measurements***

The Company measures fair value in accordance with ASC 820-10-55 Fair Value Measurements . The objective of ASC 820-10-55 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820-10-55 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10-55 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The adoption of ASC 820-10-55 did not have a material effect on the Company s consolidated financial statements.

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

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

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable method data, if available when estimating fair value. The fair value of the Company s held for trading securities is based on the quoted market prices (level 1). The Company s cash, accounts and notes receivable, and accounts payable and accrued liabilities are carried at cost, which the Company believes approximates fair value because of the short- term maturities of these instruments.

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

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

The Company accounts for Business Combinations in accordance with ASC 805-10-55, this guidance calls for the recognizing and measuring of 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. ASC 805-10-55 is effective for the Company s fiscal year beginning April 1, 2009 and is applied prospectively. ASC 805-10-55 may have an impact on the Company s consolidated financial statements in the future, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisition the Company may consummate after the effective date.

The Company accounts for derivative instruments and hedging activities in accordance with ASC 815-10-15. This policy requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of this policy did not have a material impact on our consolidated operating results, financial position, or cash flows.

The Company accounts for convertible debt instruments that may be settled in cash upon conversion in accordance with ASC 470-20-55 which specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. ASC 470-20-55 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, The Company adopted ASC 815-40-55 for determining whether an instrument or embedded feature is indexed to an entity's own stock. ASC 815-40-55 clarifies the determination of whether an instrument or an embedded feature is indexed to an entity's own stock, which would qualify as a scope exception under ASC 815-20-25. If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of ASC 815-40-55. ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair value each reporting period. At April 1, 2009, a reclassification of \$2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), deficit accumulated during the exploration stage was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded.

In May 2009, the Company adopted ASC 855-10-25 which establishes accounting and reporting standards for subsequent events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10-25 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. The adoption of ASC 855-10-25 is effective for our fiscal year commencing April 1, 2009. The adoption of ASC 855-10-25 had no impact on the Company's consolidated financial position, results of operations or cash flows.

During 2009 the Company adopted ASC 820-10-65 for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. ASC 820-10-65:

- Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.
- Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.
- Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. ASC 820-10-65 instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.
- Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.
- Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of ASC 820-10-65 and to quantify its effects, if practicable.
- Applies to all fair value measurements when appropriate.

The Company applied ASC 820-10-65 prospectively, retrospective application is not permitted. ASC 820-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity that adopts ASC 820-10-65 early must also early adopt ASC 320-10-65, which covers the recognition and presentation of other-than-temporary impairments. The adoption of ASC 820-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.

The Company adopted ASC 320-10-65 in the second quarter of 2009. ASC Topic 320-10-65 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. It also contains additional disclosure requirements related to debt and equity securities and changes existing impairment guidance. The Company's adoption of ASC 320-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. The Company elected to adopt ASC 320-10-65 in the first quarter of 2009. The adoption of ASC 320-10-65 had no impact on the Company's consolidated operating results, financial position, or cash flows.

In April 2009, the Company adopted ASC 270-10-05, interim disclosures about fair value of financial instruments. ASC 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

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

### ***Reclassification***

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

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

Not Applicable.

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

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

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

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

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

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

## **PART II. OTHER INFORMATION**

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

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

### **ITEM 1A. RISK FACTORS AND UNCERTAINTIES**

There have been no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended March 31, 2009 which was filed with Securities and Exchange Commission on June 28, 2010.

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

During the quarter ended June 30, 2009, all transactions in which we have offered and sold the following securities in unregistered securities pursuant to exemptions under the Securities Act of 1933, as amended have been reported on current reports on Form 8K.

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

None.

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

### **Item 5. Other Information.**

None.

**Item 6. Exhibits**

Number

Description

10.5	Interim Consulting Agreement between the Registrant and Mr. R. William Wilson, dated January 6, 2010
10.6	Amendment No. 1 to the Option Agreement between the Registrant, Gerald and Fabiola Baughman, and Nevada Eagle Resources LLC, dated February 5, 2010(5)
10.7	Option Consideration Agreement between the Registrant and Gerald and Fabiola Baughman, dated February 5, 2010(6)
10.8	Amendment No. 2 to the Option Agreement between the Registrant, Gerald and Fabiola Baughman, and Nevada Eagle Resources LLC, dated February 12, 2010 (7)
10.9	Binding Letter of Intent between the Registrant and Sage Gold Inc., dated February 23, 2010 (8)
10.10	Option Agreement between the Registrant, Borealis Mining Company, and Sage Gold Inc. dated March 5, 2010 (9)
10.11	Amendment No. 1 to Option Agreement and Amendment No. 1 to Subscription Agreement between the Registrant, Borealis Mining Company, and Sage Gold Inc. dated March 26, 2010 (10)

- (5) Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 10, 2010  
(6) Previously filed as Exhibit 10.2 to the Registrant s Form 8-K filed on February 10, 2010  
(7) Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on February 18, 2010  
(8) Previously filed as Exhibit 99.1 to the Registrant s Form 8-K filed on February 25, 2010  
(9) Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on March 8, 2010  
(10) Previously filed as Exhibit 10.1 to the Registrant s Form 8-K filed on March 31, 2010



**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: August 13, 2010

By: /s/ Matthew A Fowler

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

Date: August 13, 2010