

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED BALANCE SHEETS

(Stated in US dollars)

(unaudited)

	As at December 31, 2007 \$	As at March 31, 2007 \$
ASSETS		
Current		
Cash	5,541,213	7,150,154
Accounts receivable	85,415	65,483
Prepaid expenses	157,553	129,065
Total Current Assets	5,784,181	7,344,702
Mineral properties [note 5]	12,619,565	1,920,371
Equipment [note 4]	158,042	153,362
Other assets [note 9]	261,389	134,759
	18,823,177	9,553,194
LIABILITIES AND STOCKHOLDERS, EQUITY		
Current		
Accounts payable and accrued liabilities	1,050,614	786,565
Current portion of capital lease [note 11]	32,536	32,977
Total current liabilities	1,083,150	819,543
Convertible promissory note [note 12]	4,366,656	-
Capital lease [note 11]	-	17,308
Commitments & contingencies [note 10]		
Stockholders' equity		
Common stock	61,682	47,298
Additional paid-in capital	37,756,189	26,649,868
Deficit accumulated during the exploration stage	(24,444,500)	(17,980,822)
Total stockholders' equity	13,373,371	8,716,344
	18,823,177	9,553,194

See accompanying notes

Gryphon Gold Corporation

(an exploration stage company)

CONSOLIDATED STATEMENT OF OPERATIONS
(Stated in US dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended		Period from
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	April 24, 2003 (inception) to December 31, 2007
	\$	\$	\$	\$	\$
Exploration [<i>note 6</i>]	661,007	1,328,514	3,414,405	3,649,732	13,342,512
Management salaries and consulting fees	529,729	855,562	1,663,160	1,746,164	6,906,312
General and administrative	254,831	240,219	812,436	721,437	2,386,964
Legal and audit	111,020	106,258	308,877	271,017	1,269,364
Travel and accommodation	68,704	96,678	172,408	282,117	861,978
Depreciation	18,746	14,625	48,983	40,107	134,413
Loss on disposal of equipment	-	19,135	6,552	19,135	26,274
Foreign exchange (gain) loss	3,034	25,776	18,336	4,801	523
Interest income	(40,782)	(66,303)	(170,332)	(242,832)	(672,693)
Interest expense	130,300	-	188,853	-	188,853
Net loss for the period	(1,736,589)	(2,620,464)	(6,463,678)	(6,491,678)	(24,444,500)
Basic and diluted loss per share	\$ (0.03)	\$ (0.06)	\$ (0.13)	\$ (0.16)	
Basic and diluted weighted average number of common shares outstanding	58,954,952	41,703,926	49,764,662	40,518,405	

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

**CONSOLIDATED STATEMENT OF
STOCKHOLDERS EQUITY**
(Stated in US dollars)
(Unaudited)

	Common Stock		Additional paid-in capital \$	Deficit accumulated during the exploration stage \$	Total \$
	Shares #	Amount \$			
Balance, inception April 24 , 2003					
Shares issued					
For private placements	33,197,370	33,197	16,765,307	--	16,798,504
Share issue costs	--	--	(645,048)	--	(645,048)
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 agent's warrants issued [note 7[b]]	--	--	156,740	--	156,740
Fair value of underwriters compensation warrant on IPO [note 7[b]]	--	--	135,100	--	135,100
Exercise of warrants	197,500	198	194,085	--	194,283
Fair value of options granted to consultant [note 7[c]]	--	--	49,558	--	49,558
Net loss for the year	--	--	--	(9,243,681)	(9,243,681)
Balance, March 31, 2006	40,294,870	40,295	19,669,399	(9,243,681)	10,466,013
Shares issued					
For private placements	5,129,000	5,129	3,966,518	--	3,971,647
Share issue costs	--	--	(95,505)	--	(95,505)
Fair value of agent's warrants issued on private placements [note 7[b]]	--	--	11,397	--	11,397
Fair value of options granted [note 7[c]]	--	--	1,314,961	--	1,314,961
Fair value of vested stock grants [note 7[d]]	108,000	108	151,138	--	151,246
Exercise of warrants	1,658,275	1,658	1,548,894	--	1,550,552
Exercise of options	107,500	108	83,066	--	83,174
Net loss for the year	--	--	--	(8,737,141)	(8,737,141)
Balance, March 31, 2007	47,297,645	47,298	26,649,868	(17,980,822)	8,716,344
Shares issued					
For private placements	9,486,500	9,487	7,346,341	--	7,355,918
For Mineral Properties	4,500,000	4,500	3,444,918	--	3,449,418
Share issue costs	--	--	(507,537)	--	(507,537)
Fair value of agents' warrants issued on private placements [note 7[a][b]]	--	--	54,490	--	54,490
Fair value of options granted [note 7[c]]	--	--	361,731	--	361,732
Fair value of vested stock grants [note 7[d]]	267,500	267	321,918	--	322,184
Exercise of warrants	130,000	130	84,370	--	84,500
Net loss for the period	--	--	--	(6,463,678)	(6,463,678)
Balance, December 31, 2007	61,681,645	61,682	37,756,189	(24,444,500)	13,373,371

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENT OF CASH FLOWS
(Stated in US dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended		Period from
	December 31,	December 31,	December 31,	December 31,	April 24, 2003
	2007	2006	2007	2006	(inception) to
	\$	\$	\$	\$	December 31,
					2007
					\$
OPERATING ACTIVITIES					
Net Loss for the period	(1,736,589)	(2,620,464)	(6,463,678)	(6,491,678)	(24,444,500)
Items not involving cash:					
Depreciation	18,745	14,625	48,982	40,107	134,412
Loss on disposal of equipment	--	19,135	6,552	19,135	26,274
Fair value of options, warrants and other non-cash compensation	199,422	529,683	683,916	779,747	2,504,056
Non-cash interest expense	65,930	--	94,297	--	94,297
Changes in non-cash working capital items:					
Accounts receivable	(27,859)	5,325	(19,932)	26,674	(85,415)
Accounts payable and accrued Liabilities	(173,198)	101,677	264,049	(506,431)	1,050,614
Prepaid expenses	(82,496)	(54,536)	(28,487)	(13,883)	(157,553)
Cash used in operating activities	(1,736,045)	(2,004,555)	(5,414,301)	(6,146,329)	(20,877,815)
INVESTING ACTIVITIES					
Reclamation deposit	(6,177)	--	(60,877)	(52,100)	(195,636)
Purchase of equipment	(17,154)	(17,802)	(57,374)	(35,173)	(251,642)
Nevada Eagle acquisition and related non-compete agreement <i>[note 3]</i>	--	--	(3,068,340)	--	(3,068,340)
Mineral property expenditures <i>[note 5]</i>	(5,409)	--	(9,119)	(22,164)	(1,929,490)
Mineral property lease payments received	24,135	--	29,134	--	29,135
Proceeds from sale of equipment	--	--	2,314	--	6,264
Cash used by investing activities	(4,605)	(17,802)	(3,164,262)	(109,437)	(5,409,709)
FINANCING ACTIVITIES					
Capital lease principal payments	(6,079)	(5,437)	(17,749)	(12,318)	(35,660)
Cash received for shares	3,621,211	662,053	7,494,908	1,755,514	34,662,045
Share issue costs	(261,123)	--	(507,537)	(3,533)	(3,186,773)
Subscription receivables collected	--	--	--	--	389,125
Cash provided by financing activities	3,354,009	656,616	6,969,622	1,739,663	31,828,737
Increase (decrease) in cash during the period	1,613,359	(1,365,741)	(1,608,941)	(4,516,103)	5,541,213
Cash, beginning of period	3,927,854	6,240,563	7,150,154	9,390,925	--
Cash, end of period	5,541,213	4,874,822	5,541,213	4,874,822	5,541,213

See accompanying notes

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

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

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

2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements, applied on a consistent basis. These interim financial statements follow the same significant accounting policies and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2007 (the "Annual Financial Statements"), except for the new revenue recognition and intangible asset policies described below related to the Nevada Eagle acquisition (see note 3). Accordingly, they do not include all disclosures required for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Annual Financial Statements.

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

In June 2006, the FASB issued FASB interpretation No. 48 – Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. Effective April 1, 2007, the Company adopted FIN 48, which did not have a material impact on the Company's interim unaudited consolidated financial statements.

Revenue recognition

Mineral lease rentals or option payments 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. 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 of the property. Royalty payments will be recognized in the period in which production occurs. There are no properties in the production stage at this time.

Intangible Assets

Identifiable intangible assets include a non-competition agreement. The initial measurement of the non-competition agreements is based on the fair value of the consideration paid. The agreement is being amortized on a straight-line basis, over management's estimated useful life of five years.

3. ACQUISITION OF NEVADA EAGLE RESOURCES LLC

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

- (a) \$2,500,000 in cash;
- (b) 4,500,000 shares of common stock of the Company (the “Common Shares”) valued at \$3,449,418; and
- (c) a 5% convertible note in the principal amount of \$5,000,000 (the “Convertible Note”) with an issue date of August 21, 2007 and a fair value of \$3,390,640.

The Convertible Note, due March 30, 2010, bears interest at an annual rate of 5% and is convertible at the option of the holder into common shares of the Registrant at an initial conversion price of \$1.00 per share during first the twelve-month period following the Closing Date, \$1.25 per share during the second twelve-month period following the Closing Date, \$1.50 per share thereafter, and \$1.75 per share if converted on March 30, 2010. The interest payments are due beginning on January 1, 2008, and payable thereafter on each January 1, and June 1.

In addition to the purchase consideration, the Sellers were entitled to all revenues of Nevada Eagle (payable in cash, stock, or other consideration) calculated to be received and received on the Assets and Properties from January 1, 2007 through midnight on December 31, 2007; however, pursuant to a letter agreement between the Company and the Sellers, dated August 21, 2007, the Sellers’ revenue right did not include revenues generated or arising from any new agreements entered into by the Company regarding the acquired properties (as described below) executed after August 21, 2007.

Gryphon granted the Sellers registration rights under which Gryphon agreed to file, within the later of (i) 90 days of the Closing Date or (ii) any date in which Gryphon is required to file a registration statement for a third-party in connection with a financing or acquisition, but no later than 120 days of the Closing Date, a resale registration statement under the Securities Act of 1933, as amended (“Securities Act”), to register the Common Shares issuable at Closing and the common shares of the Company issuable upon exercise of the Convertible Note.

Upon completion of the Acquisition, Nevada Eagle became a wholly-owned subsidiary of Gryphon Nevada Eagle Holding Company, a Nevada corporation, which is a wholly-owned subsidiary of the Company. Nevada Eagle has interests in 54 prospective gold properties covering over 70 square miles of gold trends in Nevada. Twenty-four of these properties are in the Walker Lane belt and add to Gryphon’s inventory of volcanogenic hosted gold resources. Seven of the properties are in the Cortez Trend, seven in the Austin-Lovelock Trend, two in the Carlin Trend and the balance are unique situations throughout Nevada with a few in contiguous states. These properties offer Gryphon both production opportunities or royalty income upon production. Twenty-six of the properties are ‘farmed-out’ through lease and option agreements that generate a positive cash flow net of carryings costs. The remaining wholly-owned properties are retained for Gryphon Gold’s own exploration effort or additional future farm outs.

Under the terms of the Purchase Agreement, the closing of the Acquisition was subject to several closing conditions, including execution of several ancillary agreements as follows:

- (a) A Lock-up Agreement, dated August 21, 2007, under which the Sellers agree that for a period of three months following the Closing Date not to sell Common Shares issued or issuable under the Purchase Agreement and Convertible Note and, thereafter, to limit the sale of such Common Shares to 20% of the aggregate Common Shares issued under the Purchase Agreement and Convertible Note each quarter (with unsold Common Shares aggregating each quarter thereafter);
- (b) An Employment Agreement between the Registrant and Mr. Baughman for a term of one year, renewable by the parties, to serve as Gryphon’s Vice President of Corporate Development; and

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

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

4. EQUIPMENT

	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office and lab equipment	197,986	71,002	126,984
Trucks under capital lease	71,319	40,261	31,058
Total	269,305	111,263	158,042

	March 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office and lab equipment	151,857	46,601	105,256
Trucks under capital lease	71,319	23,213	48,106
Total	223,176	69,814	153,362

5. MINERAL PROPERTIES

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

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

	Total \$
Mineral property costs, March 31, 2005	1,775,326
Expenditures during the year	122,881
Mineral property costs, March 31, 2006	1,898,207
Expenditures during the year	22,164
Mineral property costs, March 31, 2007	1,920,371
Nevada Eagle acquisition ^[note 3]	10,719,209
Lease payments received	(29,134)
Expenditures during the period	9,119
Mineral property costs, December 31, 2007	12,619,565

6. EXPLORATION

	<u>Three months ended</u>		<u>Nine months ended</u>		Period from April 24, 2003 (inception) to December 31,
	December 30,	December 31,	December 30,	December 31,	December 31,
	2007	2006	2007	2006	2007
	\$	\$	\$	\$	\$
Borealis property					
Exploration :					
Property maintenance	194,654	96,035	546,233	527,395	2,515,204
Project management	69,899	215,037	189,772	490,281	1,333,973
Drilling	262,095	764,180	1,990,632	1,872,538	6,584,570
Engineering	15,353	123,777	20,353	275,646	763,693
Geological	106,752	109,950	609,393	445,978	1,833,332
Metallurgy	9,556	19,535	35,324	37,894	289,042
Subtotal Borealis property	658,309	1,328,514	3,391,707	3,649,732	13,319,814
Other Exploration & Development	2,698	-	22,698	-	22,698
Total exploration	661,007	1,328,514	3,414,405	3,649,732	13,342,512

7. CAPITAL STOCK

[a] Authorized capital stock consists of 150,000,000 common shares with a par value of \$0.001 per share and 15,000,000 preferred shares with a par value of \$0.001 per share.

During the quarter ended December 31, 2007, 30,000 (192,500 for the nine months ended December 31, 2007) common shares were issued to employees and directors of the Company upon vesting of outstanding Restricted Stock Units.

On December 31, 2007, the Company issued an additional 22,500 (75,000 for the nine months ended December 31, 2007) common shares to a consultant acting as financial advisor to the Company in certain transactions. The issuance is based on the consulting agreement, which requires 7,500 common shares to be issuable monthly for the term (March 15, 2007 – March 14, 2008) of the consulting agreement. The Company charged to expense \$16,342 in the quarter attributable (\$68,990 for the nine months ended December 31, 2007) to the fair value of the common shares.

On December 14, 2007, the Company completed the final tranche of a private placement totalling 4,486,500 units at Cdn\$0.80 for gross proceeds of C\$3,589,200. Each unit consisted of one common share and one series I warrant. Each series I warrant entitles the holder to purchase a common share at a price of Cdn\$1.00 per share during the first 12 months after closing and Cdn\$1.25 per share during the second 12 months after closing and until expiry. Cash compensation of C\$71,624 and 89,530 compensation warrants (series J) were issued to agents and are exercisable at a price of Cdn\$0.80 per share and expire 9 months after closing. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, Cdn\$1.85 per common share, for a period of twenty consecutive days.

On August 21, 2007, the Company issued 4,500,000 common shares as partial consideration for the acquisition of Nevada Eagle (see note 3, 'Acquisition of Nevada Eagle Resources LLC').

7. CAPITAL STOCK (cont'd)

On August 3, 2007, the Company completed a private placement of 5,000,000 units at Cdn\$0.80 for gross proceeds of C\$4,000,000. Each unit consisted of one common share and one series G warrant. Each series G warrant entitles the holder to purchase a common share at a price of Cdn\$1.00 per share during the first 12 months after closing and Cdn\$1.25 per share during the second 12 months after closing and until expiry. Cash compensation of C\$152,040 and 265,050 compensation warrants (series H) were issued to agents and are exercisable at a price of Cdn\$0.83 per share and expire 9 months after closing. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, Cdn\$1.85 per common share, for a period of twenty consecutive days.

As at February 14, 2008, the Company has 61,712,895 common shares issued and outstanding, which includes common shares, issued to consultants (see note 13, 'Subsequent Events').

[b] Warrants:

The following table contains information with respect to all warrants:

	Number of Warrants #	Fair Value of Warrants \$
Warrants outstanding, March 31, 2004	—	—
Issued for:		
Private placements	3,407,981	—
Agents' compensation	141,008	45,100
Exercised	—	—
Warrants outstanding, March 31, 2005	3,548,989	45,100
Issued for:		
Private placements	3,015,204	—
Agents' compensation on private placement	130,000	35,100
Initial Public Offering (IPO) – Series A	6,900,000	—
Underwriters' compensation on IPO	690,000	135,100
Private placements – Series B	2,737,500	—
Agents' compensation on private placement – Series C	280,500	76,540
Exercised	(197,500)	—
Warrants outstanding, March 31, 2006	17,104,693	291,840
Issued for:		
Private placements – Series D	64,500	—
Private placements – Series E	5,000,000	—
Agents' compensation on private placement – Series F	85,050	11,397
Exercised	(1,658,275)	—
Expired	(15,175,410)	—
Warrants outstanding, March 31, 2007	5,420,558	303,237
Issued for:		
Private placements – Series G	5,000,000	—
Private placements – Series I	4,486,500	—
Agents' compensation on private placement – Series H	265,050	44,040
Agents' compensation on private placement – Series J	89,530	10,450
Exercised	(130,000)	—
Expired	(64,500)	—
Warrants outstanding, December 31, 2007	15,067,138	357,727

7. CAPITAL STOCK (cont'd)

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2007:

Warrants Outstanding and Exercisable

Warrants #	Average Remaining Life	Exercise Price	Expiry date
	Years #		
141,008	0.1	\$0.65	January 28, 2008
85,050	0.1	Cdn\$0.90	February 9, 2008
5,000,000	1.1	Cdn\$1.10*	February 9, 2009
5,000,000	1.6	Cdn\$0.80**	August 3, 2009
265,050	0.3	Cdn\$0.83	May 3, 2008
3,254,000	1.9	Cdn\$1.00***	November 22, 2009
1,050,000	1.9	Cdn\$1.00***	November 27, 2009
182,500	1.9	Cdn\$1.00***	December 14, 2009
17,780	0.6	Cdn\$0.80	August 22, 2008
71,750	0.6	Cdn\$0.80	August 27, 2008
15,067,138	1.0	\$0.90****	

* The warrants are exercisable through February 8, 2008 at Cdn\$1.10 and exercisable at Cdn\$1.35 per unit thereafter until expiry

**The warrants are exercisable through August 3, 2008 at Cdn\$0.80 and exercisable at Cdn\$1.10 per unit thereafter until expiry

***The warrants are exercisable through November 21, 26 and December 13, 2008 at Cdn\$1.00 and exercisable at Cdn\$1.25 per unit thereafter until expiry

**** Based on the December 31, 2007 exchange rate of Cdn\$1 equals US\$1.0088.

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

[c] Stock options:

On October 11, 2007, an investor relations firm was awarded 47,000 stock options. The options have vested 100% in this quarter and are exercisable for 5 years at a price of Cdn\$0.88 per share.

On September 6, 2007, a director was awarded 100,000 stock options. The options vest over one year and are exercisable for 5 years at a price of Cdn\$0.77 per share.

On September 13, 2007, an employee was granted 20,000 stock options that vest over 2.5 years and are exercisable for 5 years at a price of Cdn\$0.81 per share.

On September 21, 2007, four employees were granted 835,000 stock options that vest over two years and are exercisable for 5 years at a price of Cdn\$0.90 per share.

On July 27, 2007, a consultant was awarded 75,000 stock options that vest over 2 years and are exercisable for 5 years at a price of Cdn\$0.91 per share.

On May 11, 2007, two employees were granted a total of 60,000 stock options. The options vest over the next 18 months and are exercisable for 5 years at a price of Cdn\$0.95 per share. 40,000 of these options have been subsequently forfeited.

The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be 5.5%. Estimate of forfeitures is reviewed on a quarterly basis. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

7. CAPITAL STOCK (cont'd)

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

	Three months ended December 31, 2007 \$	Three months ended December 31, 2006 \$	Nine months ended December 31, 2007 \$	Nine months ended December 30, 2006 \$
Management salaries, exploration expense, & consulting fees	199,422	529,683	683,916	779,747

Stock option activity

The following table summarizes the Company's stock option activity for the nine months ended December 31, 2007:

	Number of Stock Options	Weighted Average exercise price*
Outstanding, beginning of year	5,282,500	\$1.02
Granted	1,137,000	\$0.90
Exercised	—	—
Forfeited	(630,000)	\$1.00
Total outstanding at period end	5,789,500	\$1.00
Vested and exercisable at period end	4,417,000	\$1.03

* Based on the December 31, 2007 exchange rate of Cdn\$1 equals US\$1.0088

The following table summarizes information about stock options outstanding as at December 31, 2007:

Stock Options Outstanding and Exercisable				
Stock Options Outstanding	Average Remaining Life (Years)	Stock Options Exercisable	Average Remaining Life of Exercisable (Years)	Exercise price
1,912,500	2.3	1,912,500	2.3	\$0.75
115,000	2.9	115,000	2.9	Cdn\$0.85
90,000	3.0	72,000	3.0	Cdn\$1.15
50,000	3.0	50,000	3.0	Cdn\$1.25
190,000	3.3	158,000	3.3	Cdn\$1.37
1,490,000	4.3	1,490,000	4.3	Cdn\$1.37
30,000	3.4	30,000	3.4	Cdn\$1.60
80,000	3.6	80,000	3.6	Cdn\$1.29
50,000	3.8	50,000	3.8	Cdn\$1.34
240,000	4.0	145,000	4.0	Cdn\$0.81
20,000	4.0	20,000	4.0	Cdn\$0.88
425,000	4.2	212,500	4.2	Cdn\$0.80
20,000	4.3	10,000	4.3	Cdn\$0.95
75,000	4.6	25,000	4.6	Cdn\$0.91
100,000	4.6	—	4.6	Cdn\$0.77
20,000	4.6	—	4.6	Cdn\$0.81
835,000	4.7	—	4.7	Cdn\$0.90
47,000	4.8	47,000	4.8	Cdn\$0.88
5,789,500		4,417,000		\$1.05*

* Based on the December 31, 2007 exchange rate of Cdn\$1 equals US\$1.0088

7. CAPITAL STOCK (cont'd.)

Valuation assumptions

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

	2008	2007
Dividend yield	0%	0%
Expected volatility	49% - 55%	55% - 59%
Risk free interest rate	4.09% - 4.63%	4.54% - 5.21%
Expected lives	3 years	3 years

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

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

[d] Restricted stock units:

On May 11, 2007, the Board of Directors approved the grant of 10,000 restricted stock units ('RSU') to an employee of the Company which were subsequently forfeited on July 31, 2007.

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

On November 30, 2007 a consulting Director retired from the company, therefore, forfeiting 50,000 RSU's.

The following table summarizes information about restricted stock units outstanding as at December 31, 2007:

	RSU's Granted	RSU's Vested	Weighted Average Fair Value at Grant Date
Outstanding at April 1, 2006	—	—	—
Issued April 18, 2006	8,000	8,000	Cdn\$1.63
Issued December 12, 2006	15,000	15,000	Cdn\$0.84
Issued January 10, 2007	508,750	277,500	Cdn\$0.82
Issued September 6, 2007	112,500	—	Cdn\$0.77
Issued September 6, 2007	50,000	—	Cdn\$0.77
Outstanding at December 31, 2007	694,250	300,500	\$0.83*

* Based on the December 31, 2007 exchange rate of Cdn\$1 equals US\$1.0088

8. RELATED PARTY TRANSACTIONS

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

During the nine months ended December 31, 2007, the Company paid consulting fees to a non-independent director in the amount of \$32,425 [December 31, 2006 - \$127,303] for services rendered on the exploration of the Borealis property.

9. OTHER ASSETS

	December 31, 2007 \$	March 31, 2007 \$
Reclamation bond & deposits	195,636	134,759
Non-compete agreement	70,908	—
Accumulated Amortization	(5,155)	—
	261,389	134,759

During the nine months ended December 31, 2007, the Company increased the amount of their performance bond from \$113,759 to \$168,459 by purchasing a further performance bond totaling \$54,700 from an insurance company. The total bond purchase is in support of the potential future obligations the Company may incur under a Plan of Operation for exploration within the brown-field area of the Borealis property filed with the U.S. Forest Service. The Company also holds a deposit with the Bureau of Land Management (“BLM”) for \$27,177 (March 31, 2007 - \$21,000), which supports its potential future obligations for reclamation during the Company’s exploration activities within the BLM area. The company increased the amount of this bond by \$6,177 in December 2007. At December 31, 2007, the Company has recorded an estimated reclamation liability of \$5,600 (June 30, 2006 – \$7,000) representing future obligations related to its drilling activities completed to December 31, 2007.

As part of the acquisition of Nevada Eagle (footnote 3), the primary interest holder entered into a non-compete agreement. The non-compete agreement is being amortized over 5 years.

10. COMMITMENTS & CONTINGENCIES

[a] A portion of the Borealis Property is subject to a mining lease. The Company is required to make monthly lease payments of \$9,485, adjusted annually based on the Consumer Price Index, for the duration of the lease term. In addition, production of precious metals from the Borealis Property will be subject to the payment of a royalty under the terms of the mining lease. The mining lease expires in 2009, but may be renewed by the Company annually thereafter, so long as mining related activity continues on the Borealis Property. The Company has the option to terminate the mining lease at any time prior to expiry in 2009.

[b] The Company rents office space in Vancouver, BC for a 3 year term. The following are rental lease commitments in relation to the office lease:

	\$
2008	10,565
2009	17,609

[c] In September 2007, the Company entered into a Transition Agreement with an individual under which, the individual will cease to be an employee and will continue as a director of the Company. The agreement requires the Company to pay \$12,500 per month, for 18 months beginning October 2007, and the individual was granted 112,500 Restricted Stock Units the will vest at 37,500 each on April 1, 2009, July 1, 2009 and October 1, 2009. The agreement provides for certain incidental expenses for 18 months beginning October 2007. The Company recorded a charge to expense of \$322,464 during the quarter ended September 30, 2007 to accrue the cost of the agreement.

[d] Nevada Eagle holds approximately 23 exploration properties that are not leased out. Annual claim fees to hold these properties are approximately \$34,000.

11. CAPITAL LEASE

The Company leases two trucks that are both accounted for as capital leases, with the present value of the required lease payments recorded as a liability and an asset at inception and thereafter lease payments reduce the liability and result in interest expense and the asset is depreciated. The actual combined lease payments are \$2,371 per month with a residual payment of \$12,000 due December 2007 (will be paid in January 2008) and \$13,854 due May 2008.

The present value of required payments during each fiscal year:

	\$
2008	15,353
2009	17,308

12. CONVERTIBLE PROMISSORY NOTE

Convertible promissory note, with a face value of \$5,000,000 due March 30, 2010 unsecured, bearing interest at 5%. Interest is payable each January 1st and June 1st. Discount accretion for the period from August 21, 2007 (date of issue) to December 31, 2007, totalled \$94,297.

December 31, 2007	March 31, 2007
\$ 4,366,656	\$ 0

Gryphon Gold issued a Convertible Promissory Note to the former owner of Nevada Eagle with a face amount of \$5,000,000, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note is convertible at the holder's option into shares for the first 12 months after closing at a conversion price of \$1 per common share; for the next 12 months at \$1.25 per common share; for the period 24 months from closing to March 29, 2010 at \$1.50 per common share and on March 30, 2010 at \$1.75 per common share. The conversion rate is subject to certain anti-dilution adjustments and is also subject to adjustment on payment of cash dividends by Gryphon Gold. Upon an event of default, which includes amongst other things a change in control of Gryphon Gold, the holder may demand repayment of the principal amount of the debenture or exercise the conversion feature for a fixed number of shares. After an event of default, the interest rate on the convertible debenture increases to 9%. The change in control in an event of default is considered an embedded derivative however its issue date fair value is not considered to be significant, nor is it considered to be significant at December 31, 2007. The conversion feature does not require bifurcation in the financial statements because it is not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion are never successfully registered. The Convertible Promissory Note, including the conversion feature and change in control event of default embedded derivative, has been recorded at its estimated issue date fair value of \$4,272,359 at date of issue, in the unaudited consolidated balance sheet. Interest and discount accretion of \$63,014 and \$65,930, for the three months ended December 31, 2007, has been recorded as interest expense in the unaudited consolidated income statements. The former owner of Nevada Eagle is also an employee of the Company (see note 3).

13. SUBSEQUENT EVENTS

On January 10, 2008, 31,250 RSU's vested for three directors and one employee and common shares were issued.