Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED BALANCE SHEETS
(Stated in U.S. dollars)
(Unaudited)

	As at June 30, 2008 $	As at March 31, 2008 $
ASSETS		
Current		
Cash	**2,637,991**	4,196,394
Held for trading securities	**116,411**	151,543
Accounts receivable	**98,116**	92,104
Prepaid expenses	**112,429**	142,540
Total Current Assets	**2,964,947**	4,582,581
Equipment *[note 4]*	**148,460**	142,511
Mineral properties *[notes 3 & 5]*	**12,177,866**	12,209,864
Other assets *[note 7]*	**268,100**	257,844
	15,559,373	17,192,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**289,441**	626,843
Current portion of capital lease *[note 8]*	—	18,127
Total current liabilities	**289,441**	644,970
Convertible promissory note *[note 9]*	**4,499,337**	4,432,134
Commitments and contingencies *[note 12]*		
Stockholders' equity		
Common stock	**61,777**	61,735
Additional paid-in capital	**37,979,312**	37,885,549
Deficit accumulated during the exploration stage	**(27,270,494)**	(25,831,588)
Total stockholders' equity	**10,770,595**	12,115,696
	15,559,373	17,192,800

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in U.S. dollars)
(Unaudited)

	Three months ended		Period from April 24, 2003 (inception) to June 30, 2008
	June 30, 2008	June 30, 2007	
	$	$	$
Exploration *[note 6]*	686,668	1,478,472	14,460,300
Management salaries and consulting fees *[note 11]*	328,026	438,363	7,633,063
General and administrative	149,072	242,861	2,731,103
Legal and audit	89,090	71,297	1,541,885
Travel and accommodation	27,935	52,652	919,623
Depreciation & amortization	16,882	13,847	170,371
(Gain) loss on disposal of equipment	(820)	—	25,454
Foreign exchange (gain) loss	(5,513)	3,200	(10,990)
Interest income	(16,042)	(74,139)	(722,373)
Interest expense	130,169	—	447,132
Unrealized loss on securities	33,439	—	74,926
Net loss for the period	(1,438,906)	(2,226,553)	(27,270,494)
Basic and diluted loss per share	$(0.02)	$(0.05)	
Basic and diluted weighted average number of common shares outstanding	61,759,206	47,485,585	

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Stated in U.S. 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	38,326,370	38,326	20,731,825	—	20,770,151
Share issue costs	—	—	(740,553)	—	(740,553)
Initial Public Offering (IPO)	6,900,000	6,900	5,029,597	—	5,036,497
Share issue costs (IPO)	—	—	(2,241,940)	—	(2,241,940)
Compensation component of shares issued	—	—	226,000	—	226,000
Fair value of agents' warrants issued on private placements [*note 10[b]*]	—	—	168,137	—	168,137
Fair value of options granted to consultants [*note 10[c]*]	—	—	49,558	—	49,558
Fair value of underwriters' compensation warrants on IPO [*note 10[b]*]	—	—	135,100	—	135,100
Fair value of options granted [*note 10[c]*]	—	—	1,314,961	—	1,314,961
Fair value of vested stock grants	108,000	108	151,138	—	151,246
Exercise of warrants	1,855,775	1,856	1,742,979	—	1,744,835
Exercise of options	107,500	108	83,066	—	83,174
Net loss since inception	—	—	—	(17,980,822)	(17,980,822)
Balance, March 31, 2007	47,297,645	47,298	26,649,868	(17,980,822)	8,716,344
Shares issued:					
For private placements [*note [10[a]*]	9,486,500	9,487	7,346,431	—	7,355,918
Share issue costs	—	—	(523,288)	—	(523,288)
For mineral properties [*note 3]*	4,500,000	4,500	3,444,918	—	3,449,418
Fair value of agents' warrants issued on private placements [*note 10[a] &[b]]*]	—	—	54,490	—	54,490
Fair value of options granted [*note 10[c]*]	—	—	459,519	—	459,519
Fair value of vested stock grants [*notes 10 [a] &[d]*]	321,250	320	369,241	—	369,561
Exercise of warrants [*note 10[b]*]	130,000	130	84,370	—	84,500
Net loss for the period	—	—	—	(7,850,766)	(7,850,766)
Balance, March 31, 2008	**61,735,395**	**61,735**	**37,885,549**	**(25,831,588)**	**12,115,696**
Shares issued:					
Shares issue cost	—	—	(9,246)	—	(9,246)
Fair value of options granted [*note 10[c]*]	—	—	71,156	—	71,156
Fair value of vested stock grants [*notes 10 [a] &[d]*]	41,670	42	31,853	—	31,895
Net loss for the period	—	—	—	(1,438,906)	(1,438,906)
Balance, June 30, 2008	**61,777,065**	**61,777**	**37,979,312**	**(27,270,494)**	**10,770,595**

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in U.S. dollars)
(Unaudited)

	Three months ended June 30, 2008 $	Three months ended June 30, 2007 $	Period from April 24, 2003 (inception) to June 30, 2008 $
OPERATING ACTIVITIES			
Net loss for the period	(1,438,906)	(2,226,553)	(27,270,494)
Items not involving cash:			
Depreciation	16,882	13,847	170,371
(Gain) loss on disposal of equipment	(820)	—	25,454
Fair value of options, warrants and other non-cash compensation	103,051	213,032	2,752,271
Non-cash interest expense *[note 9]*	67,203	—	226,978
Unrealized loss on securities	33,439	—	74,926
Changes in non-cash working capital items:			
Amounts receivable	(6,012)	(21,769)	(98,116)
Accounts payable and accrued liabilities	(335,709)	21,119	291,134
Prepaid expenses	30,111	(108,348)	(112,429)
Cash used in operating activities	(1,530,761)	(2,108,672)	(23,939,905)
INVESTING ACTIVITIES			
Reclamation deposit	(13,801)	(9,700)	(209,437)
Purchase of equipment	(33,139)	(23,830)	(284,781)
Nevada Eagle acquisition and related non-compete agreement *[note 3]*	—	(103,813)	(3,068,340)
Mineral property expenditures *[note 5]*	(36,002)	—	(1,965,492)
Mineral property lease payments received	68,000	—	313,805
Proceeds from sale of equipment	—	—	6,264
Cash used by investing activities	(14,942)	(137,343)	(5,207,981)
FINANCING ACTIVITIES			
Capital lease principal payments	(3,454)	(5,753)	(53,523)
Cash received for shares	—	84,500	34,607,555
Share issue costs	(9,246)	—	(3,157,280)
Subscription receivables collected	—	—	389,125
Cash provided by financing activities	(12,700)	78,747	31,785,877
(Decrease) increase in cash during the period	(1,558,403)	(2,167,268)	2,637,991
Cash and cash equivalents, beginning of period	4,196,394	7,150,154	—
Cash and cash equivalents, end of period	2,637,991	4,982,886	2,637,991

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

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

NEW POLICIES ADOPTED

September 2006, the FASB issued SFAS No. 157, " *Fair Value Measurements* ". The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material effect on its financial statements.

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

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

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value. The fair value of the held for trading securities using the following inputs at June 30, 2008 is:

Fair Value Measurements at Reporting Date Using

Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
$ 116,411	$ 116,411	$ —	$ —

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

3. ACQUISTION 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 $4,272,359.

3. ACQUISITION OF NEVADA EAGLE RESOUCES LLC (cont'd.)

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 does not include revenues generated or arising from any new agreements entered into by the Company regarding the acquired properties executed after August 21, 2007.

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

4. EQUIPMENT

	June 30, 2008		
	Cost $	Accumulated Depreciation $	Net Book Value $
Office and lab equipment	199,532	90,287	109,245
Trucks under capital lease	64,097	24,882	39,215
Total	**263,629**	**115,169**	**148,460**

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

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 note 3. $10,719,209 of the purchase price was allocated to the value of the exploration properties acquired.

	Total $
Mineral property costs, March 31, 2006	**1,898,207**
Expenditures during the year	22,164
Mineral property costs, March 31, 2007	**1,920,371**
Nevada Eagle acquisition *[note 3]*	10,719,209
Lease payments received (cash)	(245,805)
Lease payments received (shares & warrants)	(193,030)
Expenditures during the period	9,119
Mineral property costs, March 31, 2008	**12,209,864**
Lease payments received (cash)	(68,000)
Expenditures during the period	36,002
Mineral property cost, June 30, 2008	**12,177,866**

6. EXPLORATION

	Three Months Ended		Period from April 24, 2003 (inception) to June 30, 2008
	June 30, 2008 $	June 30, 2007 $	$
NEVADA, USA			
Borealis property			
Exploration:			
Drilling	**285,500**	995,147	6,990,879
Property maintenance	**137,246**	132,953	2,682,335
Geologic and assay	**35,036**	300,291	2,003,361
Project management	**68,101**	35,245	1,469,891
Engineering	**130,492**	—	956,277
Metallurgy	**17,990**	14,836	314,826
Subtotal Borealis property	**674,365**	1,478,472	14,417,569
Other exploration	**12,303**	—	42,731
Total exploration	**686,668**	1,478,472	14,460,300

7. OTHER ASSETS

	June 30, 2008 $	March 31, 2008 $
Reclamation bond & deposits	209,437	195,636
Non-compete agreement (net of accumulated amortization $12,245)	58,663	62,208
	268,100	257,844

During the quarter ended June 30, 2008, the Company increased the amount of their performance bond from $168,459 to $182,260 by purchasing a further performance bond totaling $13,801 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, 2008 - $27,177), which supports its potential future obligations for reclamation during the Company's exploration activities within the BLM area. At June 30, 2008, the Company has recorded an estimated reclamation liability of $5,600 (March 31, 2008 – $5,600) representing future obligations related to its drilling activities completed to June 30, 2008.

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

8. CAPITAL LEASE

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

9. CONVERTIBLE PROMISSORY NOTE

	June 30, 2008 $	March 31, 2008 $
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 June 30, 2008, totalled $226,980.	4,499,337	4,432,134

Gryphon Gold issued a Convertible Promissory Note to the former owner of Nevada Eagle with a face amount of $5,000,000, due March 30, 2010, bearing interest at 5% per annum, payable on January 1 and June 1 of each year. The note is convertible at the holder's option into shares for the first 12 months after closing at a conversion price of $1 per common share; for the next 12 months at $1.25 per common share; for the period 24 months from closing to March 29, 2010 at $1.50 per common share and on March 30, 2010 at $1.75 per common share. The conversion rate is subject to certain anti-dilution adjustments and is subject to adjustment on payment of cash dividends by Gryphon Gold. Upon an event of default, which includes amongst other things a change in control of Gryphon Gold, the holder may demand repayment of the principal amount of the debenture or exercise the conversion feature for a fixed number of shares. After an event of default, the interest rate on the convertible debenture increases to 9%. The change in control event of default acceleration feature is considered an embedded derivative however its issue date fair value is not considered to be significant, nor is it considered to be significant at June 30, 2008. The conversion feature does not require bifurcation in the financial statements because it is not a beneficial conversion feature and a cash payment is not required if common shares issued at time of conversion are never successfully registered. The Convertible Promissory Note, including the conversion feature and change in control event of default acceleration feature embedded derivative, was recorded at its estimated issue date fair value of $4,272,359 at date of issue. Interest and discount accretion of $62,329 and $67,203, for the quarter ended June 30, 2008, has been recorded as interest expense in the unaudited consolidated income statement. The former owner of Nevada Eagle is also an employee of the Company (see note 3) and subsequent to June 30, 2008 an option agreement to amend the terms of the note payable was executed (see note 13).

10. CAPITAL STOCK

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

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

[b] Warrants:

The following table contains information with respect to all warrants:

	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	(290,558)	—
Forfeited	(14,000)	—
Warrants outstanding, March 31, 2008	**14,827,080**	**357,727**
Expired	(265,050)	—
Warrants outstanding, June 30, 2008	**14,562,030**	**357,727**

10. CAPITAL STOCK (cont'd)

The following table summarizes information about warrants outstanding and exercisable as at June 30, 2008:

Warrants Outstanding and Exercisable

Warrants #	Average Remaining Life Years #	Exercise Price	Expiry date
5,000,000	0.6	Cdn$1.35	February 9, 2009
5,000,000	1.1	Cdn$0.80*	August 3, 2009
3,254,000	1.4	Cdn$1.00**	November 22, 2009
1,050,000	1.4	Cdn$1.00**	November 27, 2009
182,500	1.5	Cdn$1.00**	December 14, 2009
17,780	0.2	Cdn$0.80	August 22, 2008
57,750	0.2	Cdn$0.80	August 27, 2008
14,562,030	0.9	$1.10***	

**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, November 26, and December 13, 2008 at Cdn$1.00 and exercisable at Cdn$1.25per unit thereafter until expiry*
**** Based on the June 30, 2008 exchange rate of Cdn$1 equals US$0.9807.*

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

[c] Stock options:

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

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 10%. Estimate of forfeitures is reviewed on a quarterly basis. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

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

	Three Months Ended	
	June 30, 2008 $	June 30, 2007 $
Management salaries, exploration expense & consulting fees	103,051	187,921

Stock option activity

The following table summarizes the Company's stock option activity for the three month ended June 30, 2008:

	Three months ended June 30, 2008	Weighted Average exercise price
Outstanding, April 1, 2008	6,069,500	$0.97
Granted	500,000	$0.40
Exercised	-	-
Forfeited	(125,000)	$0.83
Total outstanding at June 30, 2008	6,444,500	$0.91
Vested and exercisable at June 30, 2008	5,127,000	$0.97

** Based on the June 30, 2008 exchange rate of Cdn$1 equals US$0.9807.*

10. CAPITAL STOCK (cont'd)

The following table summarizes information about stock options outstanding as at June 30, 2008:

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	1.8	1,912,500	1.9	$0.75
115,000	2.3	115,000	2.4	Cdn$0.85
90,000	2.5	90,000	2.5	Cdn$1.15
50,000	2.5	50,000	2.5	Cdn$1.25
185,000	2.8	185,000	2.7	Cdn$1.37
1,490,000	3.8	1,490,000	3.8	Cdn$1.37
30,000	2.9	30,000	2.9	Cdn$1.60
50,000	3.1	50,000	3.1	Cdn$1.29
50,000	3.3	50,000	3.3	Cdn$1.34
165,000	3.5	165,000	3.5	Cdn$0.81
20,000	3.6	20,000	3.6	Cdn$0.88
425,000	3.7	425,000	3.7	Cdn$0.80
20,000	3.8	10,000	3.8	Cdn$0.95
100,000	4.2	50,000	4.2	Cdn$0.77
10,000	0.3	10,000	0.3	Cdn$0.81
750,000	4.2	187,500	4.2	Cdn$0.90
47,000	4.3	47,000	4.3	Cdn$0.88
150,000	4.5	0	4.5	Cdn$0.62
250,000	4.8	100,000	4.8	Cdn$0.49
35,000	4.8	15,000	4.8	Cdn$0.43
500,000	4.8	125,000	4.8	Cdn$0.41
6,444,500		**5,127,000**		

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:

	2009	2008
Dividend yield	**0%**	**0%**
Expected volatility	**54%**	**49% - 55%**
Risk free interest rate	**2.06%**	**1.79% -4.63%**
Expected lives	**3 years**	**3 years**

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

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.

10. CAPITAL STOCK (cont'd)

The weighted-average fair value of options granted during the three months ended June 30, 2008 was US$0.24(exercise price Cdn$0.41). Options granted under the Company Option Plan are not available to be granted again under the Company Option Plan upon exercise.

[d] Restricted stock units:

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

On 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. Effective April 8, 2008, the individual resigned from the Board and 41,670 RSU's vested.

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

The following table summarizes information about restricted stock units outstanding as at June 30, 2008:

	RSU's Granted	RSU's Vested	RSU's Forfeited	RSU's Outstanding	Weighted Average Fair Value at Grant Date
Outstanding at April 1, 2006	—	—	—	—	—
Issued April 18, 2006	8,000	8,000	—	—	Cdn$1.63
Issued December 12, 2006	29,000	15,000	14,000	—	Cdn$0.84
Issued January 10, 2007	627,500	308,750	118,750	200,000	Cdn$0.82
Issued May 1, 2007	10,000	—	10,000	—	—
Issued September 6, 2007	154,170	41,670	—	112,500	Cdn$0.77
Outstanding at June 30, 2008	**828,670**	**373,420**	**142,750**	**312,500**	**$0.80***

** Based on the June 30, 2008 exchange rate of Cdn$1 equals US$0.9807*

11. RELATED PARTY TRANSACTIONS

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

On March 20, 2008, the Company entered into a consulting agreement with a director, former employee and shareholder for certain financial services. The individual was paid $31,500 during the quarter ended June 30, 2008.

12. COMMITMENTS & CONTINGENCIES

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

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

	$
2009	6,847

In July 2008, a new 5-year lease was executed and provides for rental cost of approximately $5,010 per month for the first 3 years and $5,232 per month for the remaining two years.

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

13. SUBSEQUENT EVENTS

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

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

On July 8, 2008, four employees and one consultant were granted 235,000 options. These options vest over one year and are exercisable at a price of Cdn$0.38 for a term of five years.

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

In August 2008, the Company entered into a Transition Agreement (TA) with an individual under which, the individual will cease to be an employee effective August 31, 2008 and cease to be a director of the Company during September, 2008. The individual will receive monthly payments of $12,500 and certain incidental expenses for 12 monthly beginning September 2008. The Company will record a charge to expense during the quarter ended September 30, 2008 to accrue the cost of the agreement. The same individual has entered into a consulting agreement with the Company that becomes effective September 2008. Under the agreement, the individual is eligible for 200,000 stock options and a success fee of 0.67% of any financing initiated during the term of agreement.

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