

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 December 31, 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)

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 February 11, 2011: 96,760,132

GRYPHON GOLD CORPORATION

December 31, 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 December 31, 2010 \$ | As at March 31, 2010 \$ |
|---|---|--|
| ASSETS | | |
| Current | | |
| Cash | 474,076 | 937,056 |
| Held for trading securities | - | 191,966 |
| Accounts receivable | 13,997 | 20,183 |
| Accounts receivable – option agreement | - | 16,230 |
| Current portion of note receivable | 4,938 | 11,441 |
| Prepaid expenses | 272,122 | 30,980 |
| Assets held for sale at discontinued operations [note 3] | - | 3,788,691 |
| Total Current Assets | 765,133 | 4,996,547 |
| Equipment | 119,876 | 90,286 |
| Mineral properties [note 4] | 1,841,912 | 1,930,909 |
| Other assets [note 6] | 985,050 | 721,679 |
| Non-current portion of note receivable | - | 2,131 |
| Total Assets | 3,711,971 | 7,741,552 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 277,488 | 832,977 |
| Share consideration payable to former owners of discontinued operations | - | 270,000 |
| Liabilities held for resale and in discontinued operations [note 3] | - | 2,170,223 |
| Total Current Liabilities | 277,488 | 3,273,200 |
| Common stock payable | 88,000 | - |
| Asset retirement obligation liability | 48,254 | - |
| Total liabilities | 413,742 | 3,273,200 |
| Commitments & contingencies [note 8] | | |
| Stockholders' Equity | | |
| Common stock | 89,860 | 86,034 |
| Additional paid-in capital | 40,271,188 | 39,585,228 |
| Deficit accumulated during the exploration stage | (37,062,819) | (35,202,910) |
| Total Stockholders' Equity | 3,298,229 | 4,468,352 |
| Total Liabilities & Stockholders' Equity | 3,711,971 | 7,741,552 |

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)

| | Three months ended December 31, 2010 | Three months ended December 31, 2009 | Nine months ended December 31, 2010 | Nine months ended December 31, 2009 | Period from April 24, 2003 (inception) to December 31, 2010 |
|--|---|---|--|--|---|
| | \$ | \$ | \$ | \$ | \$ |
| Exploration [note 5] | 115,930 | 252,245 | 694,358 | 1,107,289 | 17,296,362 |
| Management salaries and consulting fees | 303,421 | 207,461 | 845,552 | 456,673 | 10,208,921 |
| General and administrative | 135,336 | 168,264 | 483,267 | 357,154 | 4,241,796 |
| Legal and audit | 48,865 | 71,989 | 232,686 | 215,434 | 2,338,124 |
| Travel and accommodation | 36,366 | 56,819 | 105,659 | 85,385 | 1,251,057 |
| Depreciation & amortization | 13,145 | 10,753 | 40,767 | 32,856 | 294,397 |
| Loss (gain) on disposal of equipment | (99) | - | (99) | (18,928) | 5,525 |
| Foreign exchange (gain) loss | 1,894 | (7,739) | 18,632 | (40,769) | 25,804 |
| Gain on change in liability of warrants [note 7[b]] | - | (42,560) | - | 212,130 | (2,676,000) |
| Interest income | 32 | (70) | (1,974) | (960) | (740,972) |
| Interest expense | 123 | 196 | 997 | 500 | 9,152 |
| Unrealized (gain) loss on securities | - | (4,893) | 104,293 | (88,653) | - |
| Realized (gain) loss on sale of securities | - | - | (28,521) | 13,484 | 126,283 |
| Loss for the period from continuing operations | \$(655,013) | \$(712,465) | \$(2,495,617) | \$(2,331,595) | \$(32,380,449) |
| Discontinued operations: | | | | | |
| Loss from discontinued operations | - | (141,568) | (18,241) | (579,523) | (5,336,319) |
| Gain on sale from discontinued operations | - | - | 653,949 | - | 653,949 |
| Income (loss) from discontinued operations | - | (141,568) | 635,708 | (579,523) | (4,682,370) |
| Net loss for period | \$(655,013) | \$(854,033) | \$(1,859,909) | \$(2,911,118) | \$(37,062,819) |
| Basic and diluted (loss) per share: | | | | | |
| Loss from continuing operations | (0.007) | (0.010) | (0.028) | (0.036) | |
| Income (loss) from discontinued operations | - | (0.002) | 0.007 | (0.009) | |
| Total loss per share | \$(0.007) | \$(0.012) | \$(0.021) | \$(0.045) | |
| Basic and diluted weighted average number of common shares outstanding | | | | | |
| | 89,755,784 | 70,197,405 | 88,357,009 | 64,582,997 | |

See Note 1 – Nature of Operations and Going Concern Uncertainty

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

(An exploration stage company)
Consolidated Statements of Stockholders' Equity
(Unaudited) (Stated in US dollars)

| | 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 | 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 | — | — | 222,627 | — | 222,627 |
| Fair value of options granted to consultants | — | — | 49,558 | — | 49,558 |
| Fair value of underwriters' compensation warrants on IPO | — | — | 135,100 | — | 135,100 |
| Fair value of options granted | — | — | 2,274,508 | — | 2,274,508 |
| Fair value of vested stock grants | 429,250 | 428 | 520,379 | — | 520,807 |
| Fair value of stock granted | 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) |
| Balance, March 31, 2009 | 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 | — | — | 166,088 | — | 166,088 |
| Fair value of vested stock grants | 112,500 | 113 | — | — | 113 |
| Exercise of warrants | 7,161,500 | 7,162 | 1,453,204 | — | 1,460,366 |
| Settlement of debt | 5,905,356 | 5,905 | 964,095 | — | 970,000 |
| Reclassification of warrants to liability | — | — | (2,975,330) | 2,888,130 | (87,200) |
| FASB ASC 815-40-55 | — | — | — | (2,316,221) | (2,316,221) |
| Net loss for the period | — | — | — | — | — |
| Balance, March 31, 2010 | 86,033,774 | 86,034 | 39,585,228 | (35,202,910) | 4,468,352 |
| Shares issued: | | | | | |
| For private placements | 1,464,429 | 1,464 | 198,536 | — | 200,000 |
| Option consideration | 1,500,000 | 1,500 | 268,500 | — | 270,000 |
| Consultant compensation | 150,000 | 150 | 31,350 | — | 31,500 |
| Share issue costs | — | — | (13,736) | — | (13,736) |
| Fair value of stock granted | 275,000 | 275 | 42,198 | — | 42,473 |
| Fair value of options granted [note 7(c)] | — | — | 99,549 | — | 99,549 |
| Settlement of accounts payable [note 7(a)] | 436,929 | 437 | 59,563 | — | 60,000 |
| Net loss for the period | — | — | — | (1,859,909) | (1,859,909) |
| Balance, December 31, 2010 | 89,860,132 | 89,860 | 40,271,188 | (37,062,819) | 3,298,229 |

See Note 1 – Nature of Operations and Going Concern Uncertainty

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

Consolidated Statements of Cash Flows
(Unaudited) (Stated in US dollars)

| | Nine months ended December 31, 2010 | Nine months ended December 31, 2009 | Period from April 24, 2003 (inception) to December 31, 2010 |
|--|--|--|---|
| | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | |
| Net loss for the period | (1,859,909) | (2,911,118) | (37,062,819) |
| Items not involving cash: | - | | |
| Depreciation | 40,767 | 32,856 | 294,397 |
| (Gain) loss on disposal of equipment | (99) | (18,928) | 5,525 |
| Write down of accrued liability | (124,008) | - | (124,008) |
| Fair value of options, warrants and other non-cash compensation [note 7[c]] | 142,022 | 121,735 | 3,478,995 |
| Non-cash interest expense on discontinued operations [note 3] | 10,364 | 277,052 | 725,304 |
| Realized (gain) loss on securities | (28,521) | 13,484 | 126,282 |
| Unrealized (gain) loss on sale of securities | 104,292 | (88,653) | - |
| Held for trading securities included in lease revenue | - | - | (9,598) |
| Impairment of carrying value of exploration properties [note 3] | - | - | 5,100,000 |
| Loss (gain) on disposal of mineral properties | - | 58,553 | 53,168 |
| Loss (gain) on change in warrant liability [note 7[b]] | - | 212,749 | (2,676,000) |
| Gain on extinguishment of debt [note 3] | - | - | - |
| Gain on sale of discontinued operations [note 3] | (653,949) | - | (1,981,025) |
| Changes in non-cash working capital items: | | | |
| Accounts receivable | 22,416 | 11,821 | (10,247) |
| Accounts payable and accrued liabilities | (371,481) | 421,324 | 343,311 |
| Prepaid expenses | (121,642) | 15,575 | (152,620) |
| Cash used in operating activities | (2,839,248) | (1,853,550) | (31,889,335) |
| INVESTING ACTIVITIES | | | |
| Other assets [note 6] | (69,115) | - | (225,892) |
| Option payment received [note 4] | 100,000 | - | 100,000 |
| Purchase of equipment | (58,307) | (734) | (364,502) |
| Cash received from sale of discontinued operations Nevada Eagle acquisition and related non-compete agreement [note 3] | 2,250,000 | - | 2,250,000 |
| Mineral property expenditures [note 4] | (11,003) | (24,333) | (2,003,133) |
| Mineral property lease payments received | - | 291,550 | 1,499,854 |
| Proceeds from sale of mineral properties | - | 50,000 | 200,000 |
| Option payment to amend royalty [note 6] | (150,000) | - | (460,902) |
| Proceeds from sales of held for trading securities | 116,195 | 9,951 | 177,149 |
| Proceeds from note receivable | 8,634 | 7,000 | 19,062 |
| Proceeds from sale of equipment | 100 | 1,571 | 16,503 |
| Cash provided (used) by investing activities | 2,190,504 | 335,005 | (1,860,201) |
| FINANCING ACTIVITIES | | | |
| Cash paid on extinguishment of debt [note 3] | - | - | (500,000) |
| Capital lease principal payments | - | - | (53,523) |
| Exercise of warrants | - | 1,161,036 | 1,161,036 |
| Shares issued for cash | 200,000 | - | 36,570,369 |
| Share issue costs | (13,736) | - | (3,343,395) |
| Subscription receivables collected | - | - | 389,125 |
| Cash provided by financing activities | 186,264 | 1,161,036 | 34,223,612 |
| Increase (decrease) in cash during the period | (462,980) | (357,509) | 474,076 |
| Cash, beginning of period | 937,056 | 799,517 | |
| Cash, end of period | 474,076 | 442,008 | 474,076 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| 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 |
| Share consideration paid to former owners of discontinued operations | 270,000 | | 270,000 |
| Asset retirement obligation | 48,254 | | 48,254 |
| Stock issued for prepaid asset | 31,500 | | 31,500 |
| Stock payable for prepaid asset | 88,000 | | 88,000 |

See Note 1 – Nature of Operations and Going Concern Uncertainty

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

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Gryphon Gold Corporation was incorporated in the State of Nevada in 2003 and wholly owns its subsidiary, Borealis Mining Company, (collectively, “Gryphon Gold” or “the Company”). The Company is an exploration stage company in the process of exploring 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”), and 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. 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 \$37,062,819 as at December 31, 2010 and has cash on hand of \$474,076. 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.

On January 21, 2010 the company closed a private placement with net proceeds to the Company of C\$1,230,839, see Note 9, Subsequent Events.

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 and nine month periods ended December 31, 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 became the exclusive source of authoritative U.S. generally accepted accounting principles (“U.S. GAAP”) to be applied by all nongovernmental entities. ASC 105-10-65 was effective for the Company’s 2009 second fiscal quarter. The adoption of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, COUNTINUED:

Fair value measurements, continued:

The Company measures it's 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.

Asset Retirement Obligations

The Company accounts for reclamation costs by the allocation of the expense over the life of the related assets which are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. Such costs include care and maintenance, removal of mining infrastructure, filling in of the mine area, and re-vegetation of the land. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, its asset retirement obligation in accordance with ASC 410, "Asset Retirement and Environmental Obligations".

NEW ACCOUNTING PRONOUNCEMENTS

Fair Value Accounting

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was effective beginning January 1, 2010, with the exception of the level 3 disaggregation which is effective for the Company's fiscal year beginning March 31, 2010. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

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 and nine month periods ended December 31, 2009 have been classified as such for comparative purposes for the three and nine-month periods ended December 31, 2010.

3. 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.

4. MINERAL PROPERTIES

| | 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 |
| Mineral property costs, March 31, 2008 | 1,920,371 |
| Expenditures during the year | 10,538 |
| Mineral property costs, March 31, 2009 and 2010 | 1,930,909 |
| Sage Gold Inc. option payment received | (100,000) |
| Mineral property expenditures | 11,003 |
| Mineral property costs, December 31, 2010 | 1,841,912 |

5. EXPLORATION

| | Three months ended December 31, 31, 2010 \$ | Three months ended December 31, 2009 \$ | Nine months ended December 31, 2010 \$ | Nine months ended December 31, 2009 \$ | Period from April 24, 2003 (inception) to December 31, 2010 \$ |
|----------------------------|---|---|---|---|---|
| NEVADA, USA | | | | | |
| Borealis property | | | | | |
| Exploration: | | | | | |
| Drilling | 28,755 | 49,569 | 275,490 | 212,832 | 7,633,487 |
| Property maintenance | 41,555 | 70,956 | 253,760* | 356,028 | 3,762,965 |
| Geologic and assay | 5,585 | 172 | 44,757 | 910 | 2,078,043 |
| Project management | 15,635 | 67,695 | 25,218 | 193,807 | 1,896,749 |
| Engineering | 3,200 | 63,175 | 72,441 | 341,982 | 1,529,010 |
| Metallurgy | 6,800 | — | 6,800 | — | 338,010 |
| Subtotal Borealis property | 101,530 | 251,567 | 678,466 | 1,105,559 | 17,238,264 |
| Other exploration | 14,400 | 678 | 15,892 | 1,730 | 58,097 |
| Total exploration | 115,930 | 252,245 | 694,358 | 1,107,289 | 17,296,361 |

*Property maintenance was reduced by \$124,008 during the three months ended September 30, 2010, due to an accrued liability at year end that was written down as the Company has determined it has no legal obligation to pay.

Gryphon Gold Corporation
(An Exploration Stage Company)
Notes to Consolidated Financial Statements (Unaudited)

6. OTHER ASSETS

| | December 31, 2010 | March 31, 2010 |
|--|------------------------------|-------------------|
| | \$ | \$ |
| Reclamation bond & deposits | 225,893 | 160,777 |
| Option to amend Borealis Property mining lease | 710,903 | 560,902 |
| Asset retirement obligation | 48,254 | - |
| Total | 985,050 | 721,679 |

On December 31, 2010 the Company had \$216,885 (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 \$9,008 (March 31, 2010 - \$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 nine months ended December 31, 2010 by \$83,285.

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 February 12, 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. On August 11, 2010 the option was extended until February 22, 2011 at a cost of \$150,000 paid in cash.

Reclamation and mine closure costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Company uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels, capital costs and reclamation costs. Such assumptions are based on the Company's current mining plan and the best available information for making such estimates. In calculating the present value of the asset retirement obligation the Company used a risk free interest rate of 4%. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

Changes to the Company's asset retirement obligations on its Borealis property are as follows:

| | Nine months ended December 31, 2010 \$ |
|---|--|
| Asset retirement obligation – beginning balance | - |
| Incurred | 48,254 |
| Accretion | - |
| Addition and changes in estimates | - |
| Settlements | - |
| Asset retirement obligation ending balance | 48,254 |

7. 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 nine months ended December 31, 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 Gold Inc. ("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.

On February 5, 2010 the Company and the Debt holders, also previous owners of the Company's discontinued operations, 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 was subject to obtaining Company shareholder and TSX approval (the "Approvals"). In connection with the amendment the Company recorded a liability of \$270,000 based upon the fair value of the common shares. On August 22, 2010 after obtaining shareholder approval, the Company issued these 1,500,000 common shares and extinguished the liability.

On September 20, 2010 the Company issued 275,000 restricted stock units to three employees valued at \$42,473.

On October 21, 2010 ("effective date") the Company entered into a consulting agreement with a stock media consultant whereby the Company had agreed to pay the consultant cash, shares of common stock and options. The consulting agreement called for the payment of \$100,000 in cash upon signing of the agreement, \$25,000 paid in cash over five monthly installments, 550,000 shares of the Company's restricted common stock payable over 90 days from the effective date of the agreement, and 550,000 stock options vesting over 90 days from the effective date of the agreement. In connection with the agreement the Company recorded a prepaid expense based upon the fair value of the shares of restricted common stock and stock options to be paid to the consultant. The prepaid expense is being amortized ratably over the life of the a consulting agreement (180 days). During the quarter ended December 31, 2010 the Company had issued 150,000 shares of its common stock valued at \$31,500 to the consultant and recorded a common stock payable of \$88,000 relating to the 400,000 shares yet to be issued at December 31, 2010. In addition, the stock options were valued at \$69,355 at the time of the effective date using a Black Scholes option pricing model.

- [b] Warrants:

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2010:

| Warrants # | Average Remaining Life | Exercise Price | Expiry date |
|---------------|------------------------|----------------|-------------------|
| | Years # | | |
| 5,448,667 | 1.1 | \$0.25 | February 18, 2012 |
| 990,500 | 0.1 | \$0.21 | February 18, 2011 |
| 732,215 | 1.5 | \$0.20 | June 16, 2012 |
| 7,171,382 | 0.9 | \$0.22 | |

- [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. ASC 718-10-55 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.

7. CAPITAL STOCK, CONTINUED:

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

| | Three months ended December 31, 2010 \$ | Three months ended December 31, 2009 \$ | Nine months ended December 31, 2010 \$ | Nine months ended December 31, 2009 \$ |
|---------------------|--|--|---|---|
| Management salaries | 11,669 | 49,656 | 104,951 | 121,735 |
| Consulting expense | 31,143 | - | 37,071 | - |
| Total | 42,812 | 49,656 | 142,022 | 121,735 |

Stock option activity

The following table summarizes the Company's stock option activity (excluding options issued a consultant, above) for the nine months ended December 31, 2010:

| | Number of Stock Options | Weighted Average exercise price |
|--|--|--|
| Outstanding, April 1, 2010 | 4,507,500 | \$0.48* |
| Granted | 1,125,000 | \$0.11 |
| Forfeited | (695,000) | \$0.40* |
| Total outstanding at December 31, 2010 | 4,937,500 | \$0.41* |
| Vested and exercisable at December 31, 2010 | 4,418,750 | \$0.44* |

* Based on the December 31, 2010 exchange rate of Cdn\$1 equals US\$0.9946.

Valuation assumptions

Compensation and consulting 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:

| | 2010 | 2009 |
|-------------------------|---------------------|----------------------|
| Dividend yield | 0% | 0% |
| Expected volatility | 99% -119% | 51% - 80% |
| Risk free interest rate | 0.52% -1.62% | 1.31% - 2.06% |
| Expected lives | 2-3 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 2-3-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.

Notes to Consolidated Financial Statements (Unaudited)

7. CAPITAL STOCK, CONTINUED:

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 December 31, 2010:

| | 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 | 607,500 | 488,750 | 118,750 | — | Cdn\$0.82 |
| Issued September 6, 2007 | 154,170 | 154,170 | — | — | Cdn\$0.77 |
| Issued September 20, 2010 | 275,000 | 275,000 | — | — | \$0.16 |
| Outstanding at December 31, 2010 | 1,073,670 | 940,920 | 132,750 | — | — |

All issued restricted stock units have vested.

8. 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. The lease payments are recorded as exploration expenses in the Company's statements of operations. 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, office space in Hawthorne, Nevada for a one year term, and office space in Carson City, Nevada for a one year term. The following are the remaining rental lease commitments in relation to the office lease:

| | \$ |
|------|-----------|
| 2011 | 15,507 |
| 2012 | 64,702 |
| 2013 | 64,702 |
| 2014 | 26,959 |

[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.

9. SUBSEQUENT EVENTS

On January 21, 2011 the Company closed a private placement in which we issued 6,500,000 units at C\$0.20 per unit for gross proceeds of \$1,300,000. Each unit consisted of one share of common stock and one half purchase warrant, each full warrant is exercisable for a period of two years from the date of closing at a price of US\$0.30. Certain registered dealers were paid cash commission of C\$69,161. The net proceeds will be used for working capital purposes.

On February 4, 2011 the Company announced that it had filed a registration statement on Form S-1 with the Securities and Exchange Commission in the United States and has submitted for filing a preliminary short form prospectus with securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, Canada in relation to a proposed \$10,000,000 public offering of its common stock in both the United States and Canada. Roth Capital Partners, LLC, will act as sole book-running manager for the offering in the United States, with Acumen Capital Finance Partners Limited acting as sole Canadian agent in Canada. The number of shares to be sold in the proposed offering and the offering price have not yet been determined.

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”, the negative of such 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, our emphasis is 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 in the State of Nevada (which we refer to as the 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 submitted to the United States Forest Service (which we refer to as 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 Operations was based on the general economic concepts as presented in our Preliminary Assessment.

Borealis Property

During the nine months ended December 31, 2010, three separate drilling programs were completed on the Borealis Property. The first program consisted of 21 holes for 5,795 feet of reverse circulation drilling, the second consisted of 3 holes for 110 feet of metallurgical core drilling, and the third was 28 holes of reverse circulation drilling for 1630 feet. As of December 30, 2010, we had completed approximately 252 holes and 149,430 feet of reverse circulation drilling and 3 holes and 110 feet of metallurgical core drilling have been completed on the Borealis Property. All the holes were in area of existing mineralization and were drilled to upgrade the 2008 resource model and confirm certain resources contained in the independent Feasibility study.

For a complete history of our Borealis Property, please see our 10-K for the fiscal year ended March 31, 2010 filed with the SEC.

Administration and Capital Resource Activities

The Company had no changes in its Administrative and Capital resources during the three months ended December 31, 2010.

On January 21, 2011, we closed a private placement in which we issued 6,500,000 units at C\$0.20 per unit for gross proceeds of \$1,300,000. Each unit consisted of one share of common stock and one half purchase warrant, each full warrant is exercisable for a period of two years from the date of closing at a price of US\$0.30. Certain registered dealers were paid cash commission of C\$69,161. The net proceeds will be used for working capital purposes.

On February 4, 2011, we announced that we had filed a registration statement on Form S-1 with the Securities and Exchange Commission in the United States and has submitted for filing a preliminary short form prospectus with securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, Canada in relation to a proposed \$10,000,000 public offering of our common stock in both the United States and Canada. Roth Capital Partners, LLC, will act as sole book-running manager for the offering in the United States, with Acumen Capital Finance Partners Limited acting as sole Canadian agent in Canada. The number of shares to be sold in the proposed offering and the offering price have not yet been determined.

Fiscal 2011 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 the 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 our 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:

- Begin construction of Phase 1 of our oxide heap leach mining project on the Borealis Property and begin production within six months of completing this offering.

- Continue our drill program to expand the oxide mineralization within the permitted footprint of the Borealis Property.
- Continue our 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, if 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 December 31, 2010 compared to three months ended December 31, 2009

For the three months ended December 31, 2010, we had a net loss of \$655,013 or \$0.007 per share from continuing operations compared to a net loss of \$712,465 or \$0.010 per share from continuing operations and \$141,568 net loss or \$0.002 per share from discontinued operations in the same period in the prior year.

Exploration expenses during the quarter ended December 31, 2010 were \$115,930 or 18% of our total expenses compared to \$252,245 or 35% of our total expenses in the same period in the prior year. The majority of exploration expenses in the current quarter were from property lease payments and ongoing water monitoring on the Borealis property. Our exploration expenses decreased compared to the same period in the prior year primarily due to reduced engineering work.

Management salaries and consulting fees in the quarter ended December 31, 2010 were \$303,421 compared to \$207,461 incurred in the quarter ended December 31, 2009. Total non-cash compensation expense due to the recognition of costs related to stock options was \$65,255 in the quarter ended December 31, 2010 compared to the prior year's fiscal third quarter of \$49,656. Management salaries and consulting fees during the quarter increased due to the hiring of an investor relations consultant, the additional of geological and engineering staff. General and administrative costs decreased to \$135,336 compared to \$168,264 the prior year's quarter. Legal and audit fees for the period were \$48,865, a decrease from the prior year's quarter of \$71,989. Travel and accommodation costs during the quarter ended December 31, 2010 were \$36,366, compared to \$56,819 expended on travel in the prior year's comparable quarter.

Nine months ended December 31 2010 compared to nine months ended December 31, 2009

For the nine-month period ended December 31, 2010 we incurred a net loss of \$2,495,617 or \$0.028 per share from continuing operations and a net income of \$635,708 or \$0.007 per share from discontinued operations compared to a net loss of \$2,331,595 or \$0.036 per share from continuing operations and a net loss of \$579,523 or \$0.009 per share from discontinued operations incurred during the same period in the prior year.

Exploration expenses during the nine-month period ended December 31, 2010 were \$694,358 or 37% of our net expenses compared to \$1,107,289 or 47% of net expenses in the same period in the prior year. The decrease is due to significantly less engineering work compared to the prior year.

Management salaries and consulting fees in the nine months ended December 31, 2010 were \$845,552 compared to \$456,673 for the same period in the prior year. The increase is due to the CEO returning to full time employment, the hiring of an investor relations consultant, and the addition of two employees and two part time contractors. Total non-cash compensation costs included in the nine months ended December 31, 2010 were \$142,022 versus \$121,735 in the prior year's comparable period.

Legal and audit fees for the nine month period increased to \$232,686 from \$215,434 incurred in the prior year's comparable period. Travel and accommodation during the nine months ended December 31, 2010 was \$105,659 compared to \$85,385 reported in prior year nine-month period ended December 31, 2009. The increase resulted from increased travel surrounding the Sage Option Agreements well as financing activities. General and administrative expenses were \$483,267, versus \$357,154 in the prior year's comparable period. The increase is due to increased investor relations activity, opening of new office in Carson City and increased activity in the field office in Hawthorne, Nevada.

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.

Borealis Mine

Sage Option Agreement

The Sage Option Agreement was terminated by both parties on August 16, 2010. For full disclosure on the Option Agreement, please refer to our 10K filed on June 28, 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. On August 11, 2010, the option was extended until February 22, 2011 for a cash payment of \$150,000.

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 a further extension of the agreement before February 22, 2011. 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 December 31, 2010, we had working capital of \$487,645 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 \$474,076 in cash, \$13,997 in accounts receivable, \$4,938 in the note receivable, and \$272,122 in prepaid expenses. We had \$277,488 in accounts payable and accrued liabilities, a long term asset retirement obligation liability of \$48,254, and a long term liability to issue shares for \$88,000.

As we expect our reliance on equity financings to continue into the future, 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.

We recognize that additional resources are required to enable us to 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.

During the nine months ended December 31, 2010, we used cash in operating activities of \$2,839,748 which included our net loss during the nine months of \$1,859,909 off-set by depreciation of \$40,767, \$99 gain on the disposal of assets, non-cash compensation of \$142,022, non-cash interest expense of \$10,364, unrealized loss of \$104,292 and a \$28,521 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 \$22,416 decrease in accounts receivable, a \$371,481 decrease in accounts payable, a \$121,642 increase in prepaid expenses.

We received cash from investing activities of \$2,190,504 including \$65,116 increase in reclamation bond, \$100,000 from the Sage Option Agreement, \$58,307 in purchase of equipment, \$2,250,000 in sale of discontinued operations, \$11,003 in mineral property expenditures, \$150,000 option payment to amend royalty, \$116,195 from the sale of securities, \$8,634 from the payments on the note receivable and \$100 from the sale of equipment.

We received cash from financing activities of \$186,264 including \$200,000 from the sale of common shares, and \$13,736 in share issue costs for the nine months ended December 31, 2010. Cash decreased during the period by \$462,980 to \$474,076 as at December 31, 2010.

Updated share capital as of February 11, 2010:

| | |
|--|--------------------|
| Basic Common Stock Issued and Outstanding | 96,760,132 |
| Warrants, Options and other Convertible Securities | <u>15,908,892</u> |
| Fully Diluted Common Stock | <u>112,669,024</u> |

Critical Accounting Policies and Estimates

Please see the notes to our audited financial statements included in our 10-K for the fiscal year ended March 31, 2010 for a complete list of our critical accounting policies and estimates.

Recent Accounting Pronouncements

Please see the notes to our unaudited financial statements for a complete list of recent accounting pronouncements.

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 CEO and CFO, 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.

The Company has not been involved in any new legal proceedings during the three or nine-month period ended December 31, 2010. For more information on past legal proceedings please see our 10-K for the fiscal year ended March 31, 2010 filed with the SEC.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended March 31, 2010 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 nine months ended December 31, 2010, all transactions in which we have offered and sold 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

- 31.1 CEO Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.
- 31.2 CFO Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.
- 32.1 CEO Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.
- 32.2 CFO Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 12, 2010.

I, John L. Key, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gryphon Gold Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2010

/s/ John L. Key

John L. Key

Chief Executive Officer, Principal
Executive Officer

I, Matthew A. Fowler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gryphon Gold Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2010

/s/ Matthew A. Fowler

Matthew A. Fowler

Interim Chief Financial Officer, Principal
Accounting and Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Gryphon Gold Corporation, (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2010 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2010

/s/ John L. Key

John L. Key

Chief Executive Officer and Principal
Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Gryphon Gold Corporation, (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2010 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2010

/s/ Matthew A. Fowler

Matthew A. Fowler

Interim Chief Financial Officer, Principal
Financial and Accounting Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.