

Gryphon Gold Corporation
(an exploration stage company)

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

	As at December 31, 2006 \$ (Unaudited)	As at March 31, 2006 \$ (Audited)
ASSETS		
Current		
Cash	4,874,822	9,390,925
Accounts receivable	54,576	81,250
Prepaid expenses	123,973	110,090
Total current assets	5,053,371	9,582,265
Reclamation deposit <i>[note 8]</i>	111,900	59,800
Equipment <i>[note 3]</i>	186,826	152,946
Mineral property costs <i>[note 4]</i>	1,920,371	1,898,207
	7,272,468	11,693,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	710,527	1,197,823
Current portion of capital lease <i>[note 10]</i>	35,217	10,058
Total current liabilities	745,744	1,207,881
Capital lease <i>[note 10]</i>	20,661	19,324
Commitments and contingencies <i>[notes 8 & 9]</i>		
Stockholders' equity		
Common stock	42,130	40,295
Additional paid-in capital	22,199,292	19,669,399
Deficit accumulated during the exploration stage	(15,735,359)	(9,243,681)
Total stockholders' equity	6,506,063	10,466,013
	7,272,468	11,693,218

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended		Period from April 24, 2003 (inception) to December 31, 2006
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005	
	\$	\$	\$	\$	\$
Exploration <i>[note 5]</i>	1,328,514	926,361	3,649,732	1,764,827	8,758,147
Management salaries and consulting fees <i>[note 6c]</i>	855,562	478,582	1,746,164	919,525	4,356,522
General and administrative	240,219	120,549	721,437	251,462	1,405,370
Legal and audit	106,258	58,223	271,017	247,694	901,499
Travel and accommodation	96,678	6,317	282,117	102,474	646,662
Depreciation	14,625	5,421	40,107	9,565	72,169
Loss on disposal of equipment	19,135	—	19,135	—	19,135
Foreign exchange (gain) loss	25,776	(3,886)	4,801	6,337	(1,677)
Interest income	(66,303)	(33,921)	(242,832)	(113,050)	(422,468)
Net loss for the period	(2,620,464)	(1,557,646)	(6,491,678)	(3,188,834)	(15,735,359)
Basic and diluted loss per share	\$(0.06)	\$(0.05)	\$(0.16)	\$(0.12)	
Basic and diluted weighted average number of common shares outstanding	41,703,926	28,472,370	40,518,405	27,453,037	

See accompanying notes

Gryphon Gold Corporation
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**CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY**

(Stated in U.S. dollars)

(Unaudited)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Deficit accumulated during the exploration stage</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
	#	\$	\$	\$	\$
Balance, March 31, 2004	14,376,000	14,376	2,480,824	(1,115,925)	1,379,275
Shares issued:					
For private placements	7,315,962	7,316	4,598,059	—	4,605,375
Share issue costs	—	—	(156,015)	—	(156,015)
Compensation component of shares issued	—	—	150,000	—	150,000
Fair value of agent's warrants issued [<i>note 6[b]</i>]	—	—	45,100	—	45,100
Fair value of options granted to a consultant [<i>note 6[c]</i>]	—	—	34,300	—	34,300
Net loss for the year	—	—	—	(2,525,420)	(2,525,420)
Balance, March 31, 2005	21,691,962	21,692	7,152,268	(3,641,343)	3,532,615
Shares issued:					
For private placements	11,505,408	11,505	9,762,404	—	9,773,909
Share issue costs	—	—	(489,013)	—	(489,013)
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)
Fair value of agents' warrants issued on private placements [<i>note 6[b]</i>]	—	—	111,640	—	111,640
Fair value of underwriters' compensation warrants on IPO [<i>note 6[b]</i>]	—	—	135,100	—	135,100
Exercise of warrants	197,500	198	194,085	—	194,283
Fair value of options granted to consultants [<i>note 6[c]</i>]	—	—	15,258	—	15,258
Net loss for the year	—	—	—	(5,602,336)	(5,602,336)
Balance, March 31, 2006	40,294,870	40,295	19,669,399	(9,243,681)	10,466,013
Shares issued:					
For private placements	129,000	129	165,722	—	165,851
Share issue costs	—	—	(3,533)	—	(3,533)
Fair value of options granted [<i>note 6[c]</i>]	—	—	779,747	—	779,747
Exercise of warrants	1,658,275	1,658	1,548,894	—	1,550,552
Exercise of options	47,500	48	39,063	—	39,111
Net loss for the period	—	—	—	(6,491,678)	(6,491,678)
Balance, December 31, 2006	42,129,645	42,130	22,199,292	(15,735,359)	6,506,063

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended		Period from
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005	April 24, 2003 (inception) to December 31, 2006
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss for the period	(2,620,464)	(1,557,646)	(6,491,678)	(3,188,834)	(15,735,359)
Items not involving cash:					
Depreciation	14,625	5,421	40,107	9,565	72,169
Loss on disposal of equipment	19,135	—	19,135	—	19,135
Fair value of options, warrants and other non-cash compensation	529,683	7,560	779,747	7,560	1,133,680
Changes in non-cash working capital items:					
Amounts receivable	5,325	(36,129)	26,674	(47,924)	(54,576)
Accounts payable and accrued liabilities	101,677	86,988	(506,431)	543,192	691,392
Prepaid expenses	(54,536)	707,300	(13,883)	(25,658)	(123,973)
Cash used in operating activities	(2,004,555)	(786,506)	(6,146,329)	(2,702,099)	(13,997,532)
INVESTING ACTIVITIES					
Reclamation deposit	—	(28,400)	(52,100)	(28,400)	(111,900)
Purchase of equipment	(17,802)	(73,060)	(35,173)	(113,513)	(190,799)
Mineral property expenditures	—	(250,000)	(22,164)	(849,865)	(1,920,371)
Cash used by investing activities	(17,802)	(351,460)	(109,437)	(991,778)	(2,223,070)
FINANCING ACTIVITIES					
Capital lease principal payments	(5,437)	—	(12,318)	—	(12,318)
Cash received for shares	662,053	5,036,497	1,755,514	8,956,262	23,317,278
Share issue costs	—	(2,106,840)	(3,533)	(2,167,128)	(2,598,661)
Subscription receivables collected	—	—	—	54,360	389,125
Cash provided by financing activities	656,616	2,929,657	1,739,663	6,843,494	21,095,424
Increase (decrease) in cash during the period	(1,365,741)	1,791,691	(4,516,103)	3,149,617	4,874,822
Cash, beginning of period	6,240,563	4,423,362	9,390,925	3,065,436	—
Cash and cash equivalents, end of year	4,874,822	6,215,053	4,874,822	6,215,053	4,874,822

See accompanying notes

Gryphon Gold Corporation
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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

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

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

2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements, applied on a consistent basis. These interim financial statements follow the same significant accounting policies and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2006 (the "Annual Financial Statements"), with the exception of Stock Based Compensation. 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.

Stock-based compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 123R, Share-Based Payment, ("SFAS 123 (R)") a revision to SFAS 123. SFAS 123(R) requires all share-based payments to be recognized in the financial statements based on their values using either a modified-prospective or modified-retrospective transition method.

Prior to March 31, 2006, the Company's stock-based employee compensation plans were accounted for under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company did not recognize employee stock-based compensation costs in its statement of operations for the periods prior to March 31, 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective-transition method. The Company's total employees are relatively few in number and turnover is considered remote, therefore the Company currently estimates forfeitures to be zero. Estimation of forfeitures will be reviewed on a quarterly basis. As a result of adopting FAS 123(R) the net loss for the quarter

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

Stock-based compensation (cont'd)

ending and for the nine months ended December 31, 2006 increased by \$490,567 and \$679,941 respectively. Both basic and diluted loss per share for the three months and nine months ended December 31, 2006 increased by \$0.01 and \$0.02, respectively.

3. EQUIPMENT

	December 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office and lab equipment	183,813	50,776	133,037
Trucks under capital lease	71,319	17,530	53,789
Total	255,132	68,306	186,826

	March 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office and lab equipment	152,504	27,974	124,530
Truck under capital lease	32,504	4,088	28,416
Total	185,008	32,062	152,946

4. MINERAL PROPERTY

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.

	Total \$
Mineral property costs, March 31, 2005	1,775,326
Expenditures during the year	122,881
Mineral property costs, March 31, 2006	1,898,207
Expenditures during the period	22,164
Mineral property costs, December 31, 2006	1,920,371

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

5. EXPLORATION

	Three months ended		Nine months ended		Period from
	December 31,	December 31,	December 31,	December 31,	April 24, 2003
	2006	2005	2006	2005	(inception) to
	\$	\$	\$	\$	December 31,
	2006				
	\$	\$	\$	\$	\$
NEVADA, USA					
Borealis property					
Exploration :					
Property maintenance	96,035	242,593	527,395	438,600	1,828,107
Project management	215,037	—	490,281	8,393	1,098,506
Drilling	764,180	426,554	1,872,538	808,782	3,842,681
Engineering	123,777	147,168	275,646	215,381	723,195
Geological	109,950	41,612	445,978	223,797	1,011,941
Metallurgy	19,535	68,434	37,894	69,874	253,717
Total exploration	1,328,514	926,361	3,649,732	1,764,827	8,758,147

6. 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.

On April 4, 2006, the Board of Directors approved, reserving 1,000,000 common shares to be granted as Restricted Stock Units. On July 24, 2006 the plan name was revised to the 2006 Omnibus Incentive Plan.

During the quarter ended June 30, 2006, the Company completed private placements to an officer and an employee of 129,000 units at Cdn\$1.35, with each unit comprising of one common share and ½ of one common share 'series D' warrant. Each whole warrant entitles the holder to purchase a common share at a price of Cdn\$1.82 per share until June 10, 2007. Compensation expense in the amount of \$7,740 was recorded in relation to the discount received by the participants of the private placement.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

6. CAPITAL STOCK (cont'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	—
Exercised	(1,658,275)	—
Expired	(12,157,410)	—
Warrants outstanding, December 31, 2006	3,353,508	291,840

The following table summarizes information about warrants outstanding and exercisable as at December 31, 2006:

Warrants Outstanding and Exercisable			
Warrants #	Average Remaining Life Years #	Exercise Price	Expiry date
280,500	0.2	Cdn\$1.40	March 23, 2007
2,737,500	0.2	Cdn\$1.65	March 23, 2007
130,000	0.3	\$0.65	April 1, 2007
64,500	0.5	Cdn\$1.82	June 10, 2007
141,008	1.1	\$0.65	January 28, 2008
3,353,508	0.2	\$1.01*	

* Based on the December 31, 2006 exchange rate of Cdn\$1.1654 equals US\$1.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

6. CAPITAL STOCK (cont'd.)

[c] Stock options:

On April 4, 2006 (amended July 24, 2006), the Board of Directors approved the 2006 Omnibus Incentive Plan, which increased the number of reserved shares of common stock for issuance to employees, officers, directors, consultants and advisors, from 3,000,000 to 6,000,000 shares. On April 4, 2006, 1,570,000 options were granted to directors, officers and a consultant, of which 1,475,000 have been granted under the 2006 Omnibus Incentive Plan and 95,000 options were granted under the previous incentive plan. On vesting, the options granted are exercisable for 5 years at a price of Cdn\$1.37 per share.

On April 18, 2006, the Board of Directors approved the grant of 290,000 stock options to an officer, employee and a consultant. The options vest over 12 to 30 months and are exercisable, once vested, for 5 years at a price of Cdn\$1.37 per share.

On May 26, 2006, the Board of Directors approved the grant of 30,000 stock options to an outside consulting firm who will be providing certain investor relations services to the company. The options vest over the next 24 months and are exercisable for 5 years from the date of grant at a price of Cdn\$1.60 per share.

On July 24, 2006, the Board of Directors approved the grant of 80,000 stock options to two outside consulting firms who will be providing certain investor relations and consulting services to the company. The options vest within 12 months and are exercisable for 5 years from the date of grant at a price of Cdn\$1.29 per share.

The 2006 Omnibus Incentive Plan was ratified by the shareholders at the company's annual general meeting on September 12, 2006, along with all options previously granted that were pending such ratification.

On September 25, 2006, the Board of Directors approved the grant of 40,000 stock options to an employee of the Company. The options vest over 4 to 24 months and are exercisable for 5 years at a price of Cdn\$1.37 per share.

On October 31, 2006, the Board of Directors approved the grant of 50,000 stock options to an outside consulting firm who are providing certain investor relations services to the company. The options vest over the next 15 months and are exercisable for 5 years from the date of grant at a price of Cdn\$1.34 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. Stock-based compensation is expensed on a straight-line basis over the requisite service period.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

6. CAPITAL STOCK (cont'd.)

For the three months and nine months ended December 31, 2006, the Company recorded total stock-based compensation expense related to stock options and restricted stock units as follows:

	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Nine Months Ended December 31, 2005
Management salaries	490,567	—	679,941	—
Consulting fees	39,116	7,560	99,806	7,560
Total stock-based compensation	529,683	7,560	779,747	7,560

Stock option activity

The following table summarizes the Company's stock option activity for the nine months ended December 31, 2006:

	Options
Outstanding at April 1, 2006	2,879,000
Granted	2,060,000
Exercised	(47,500)
Forfeited	(144,000)
Outstanding at December 31, 2006	4,747,500
Vested and exercisable at December 31, 2006	2,587,500

The following table summarizes information about stock options outstanding as at December 31, 2006:

Stock Options Outstanding and Exercisable

Stock Options Outstanding	Average Remaining Life (Years)	Stock Options Exercisable	Average Remaining Life of Exercisable (Years)	Weighted Average exercise price
2,262,500	3.3	2,187,500	3.3	\$0.75
215,000	3.8	120,000	3.8	Cdn\$0.85
90,000	4.0	36,000	4.0	Cdn\$1.15
50,000	4.0	50,000	4.0	Cdn\$1.25
255,000	4.3	84,000	4.3	Cdn\$1.37
1,715,000	5.3	30,000	5.3	Cdn\$1.37
30,000	5.4	—	5.4	Cdn\$1.60
80,000	4.6	55,000	4.6	Cdn\$1.29
50,000	4.8	25,000	4.8	Cdn\$1.34
4,747,500		2,587,500		\$0.94*

* Based on the December 31, 2006 exchange rate of Cdn\$1.1654 equals US\$1.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

6. CAPITAL STOCK (cont'd.)

Valuation assumptions

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

	2007	2006
Dividend yield	0%	0%
Expected volatility	55%	53% - 70%
Risk free interest rate	4.54% - 5.21%	3.38% - 4.7%
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 on the grant date 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. 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.

The Black-Scholes option-pricing model used by the Company to calculate option values was developed to estimate the fair value of freely tradeable, 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.

[d] Restricted stock units:

On April 4, 2006, the Board of Directors approved the grant of 8,000 restricted stock units ('RSU') to an officer of the company. The RSU's will vest over 12 to 24 months from the date of grant and once vested will entitle the grantee to 8,000 common shares in the Company.

On December 12, 2006, the Board of Directors approved the grant of 15,000 restricted stock units ('RSU') to an employee of the company. The RSU's will vest over 12 months from the date of grant and once vested will entitle the grantee to 15,000 common shares in the Company.

The following table summarizes information about restricted stock units outstanding as at December 31, 2006:

	RSU's	Weighted Average Fair Value at Grant Date
Outstanding at April 1, 2006	—	—
Issued April 18, 2006	8,000	Cdn\$1.37
Issued December 12, 2006	15,000	Cdn\$0.84
Outstanding at December 31, 2006	23,000	\$0.88

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

7. RELATED PARTY TRANSACTIONS

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

During the nine months ended December 31, 2006, the Company paid consulting fees to a non-independent director in the amount of \$127,303 [December 31, 2005 - \$70,484] for services rendered on the exploration of the Borealis property.

8. RECLAMATION DEPOSIT

During the nine months ended December 31, 2006, the Company increased the amount of their performance bond from \$59,800 to \$90,900 by purchasing a further performance bond in the amount of \$31,100 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 deposited directly \$21,000 with the Bureau of Land Management ("BLM") in support of its potential future obligations for reclamation during the Company's exploration activities within the BLM area. At December 31, 2006, the Company recorded a reclamation liability of \$5,600 (December 31, 2005 - \$10,000) representing future obligations related to its drilling activities completed to December 31, 2006. The Company continues to hold the bond in support of potential future obligations under the Plan of Operation for exploration filed with the U.S. Forest Service.

9. 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 \$9,094, 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 activity continues on the Borealis Property. The Company has the option to terminate the mining lease at any time prior to expiry in 2009.

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

	\$
2007	8,537
2008	34,149
2009	14,229

[c] During December 2006, the Company closed its Lakewood, Colorado office and terminated certain office staff. Estimated closure costs in the amount of \$96,964, which includes various lease buyouts, were recorded during the quarter.

[d] On January 18, 2007, the Company was served with a motion to compel arbitration regarding the non-payment of severance totaling \$228,511 to the former Chief Operating Officer. The Company believes the claim for severance is without merit and is investigating all legal options and intends to vigorously defend itself.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

(Unaudited)

10. CAPITAL LEASE

The Company entered into a lease, maturing in May 2008, to acquire a second truck. The trucks are both accounted for as capital leases, with the present value of the required lease payments recorded as a liability and an asset at inception and thereafter lease payments reduce the liability and result in interest expense and the asset is depreciated. The actual combined lease payments are \$2,371 per month with a residual payment of \$12,000 due October 2007 and \$13,854 due May 2008.

The present value of required payments during each fiscal year:

	\$
2007	6,412
2008	32,158
2009	17,308

11. SUBSEQUENT EVENTS

- [a] On January 10, 2007, the Board of Directors approved the grant of 240,000 stock options and 650,000 restricted stock units to officers, employees, directors and a consulting firm of the Company. The options vest over 6 – 12 months and are exercisable for 5 years from the date of grant at a price of Cdn\$0.81 per share. The restricted stock units vest over 3 – 18 months with 100,000 units vesting at the date of grant.
- [b] On February 12, 2007, the Company completed a private placement of 5,000,000 units at Cdn\$0.90 for net proceeds of approximately C\$4,390,000. Each unit consisted of one common share and one series E warrant. Each series E warrant entitles the holder to purchase a common share at a price of Cdn\$1.10 per share in year one and Cdn\$1.35 per share in year two until February 9, 2009. 85,050 compensation warrants (series F) were issued to agents and are exercisable until February 9, 2008 at a price of Cdn\$0.90 per share. The Company has a right to force warrant holders to exercise warrants, if the common share price of the Company remains equal to or greater than, Cdn\$1.85 per common share, for a period of twenty consecutive days. The proceeds will be used to continue exploration and development of the Borealis gold property.