

GRYPHON GOLD CORP
Form 10QSB
November 15, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2006**

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

Commission file number: **333-127635**

Gryphon Gold Corporation

(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

92-0185596
(I.R.S. Employer
Identification No.)

390 UNION BLVD, SUITE 360
LAKEWOOD, CO
(Address of principal executive offices)

80228
(zip code)

Issuer's Telephone Number: **(303) 988-5777**

Check whether the issuer (1) 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 such filing requirements for the past 90 days.

Yes No

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

Yes No

As of September 30, 2006 there were 41,373,120 shares of common stock outstanding. Transitional Small Business Disclosure Format (check one)

Yes No

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GRYPHON GOLD CORPORATION
September 30, 2006

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Gryphon Gold Corporation

(an exploration stage company)

CONSOLIDATED BALANCE SHEETS

(Stated in U.S. dollars)

	As at September 30 2006 \$ (Unaudited)	As at March 31, 2006 \$ (Audited)
ASSETS		
Current		
Cash	6,240,563	9,390,925
Accounts receivable	59,901	81,250
Prepaid expenses	69,437	110,090
Total current assets	6,369,901	9,582,265
Reclamation deposit <i>[note 8]</i>	111,900	59,800
Equipment <i>[note 3]</i>	183,649	152,946
Mineral property costs <i>[note 4]</i>	1,920,371	1,898,207
	8,585,821	11,693,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	589,715	1,197,823
Current portion of capital lease <i>[note 10]</i>	18,963	10,058
Total current liabilities	608,678	1,207,881
Capital lease <i>[note 10]</i>	42,352	19,324
Commitments <i>[note 8 & 9]</i>		
Stockholders' equity		
Common stock	41,373	40,295
Additional paid-in capital	21,008,313	19,669,399
Deficit accumulated during the exploration stage	(13,114,895)	(9,243,681)
Total stockholders' equity	7,934,791	10,466,013
	8,585,821	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	Six months ended		Period from	
	September 30,	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005	(inception) to
	\$	\$	\$	\$	September 30,
					2006
					\$
Exploration <i>[note 5]</i>	1,067,703	503,248	2,321,218	843,320	7,429,633
Management salaries and consulting fees	482,009	244,643	890,602	440,943	3,500,960
General and administrative	240,176	46,968	481,218	126,059	1,165,151
Legal and audit	87,393	19,612	164,759	189,471	795,241
Travel and accommodation	65,762	42,170	185,439	96,157	549,984
Depreciation	13,937	2,409	25,482	4,144	57,544
Foreign exchange (gain) loss	(1,798)	(4,540)	(20,975)	10,223	(27,453)
Interest income	(84,102)	(41,240)	(176,529)	(79,129)	(356,165)
Net loss for the period	(1,871,080)	(813,270)	(3,871,214)	(1,631,188)	(13,114,895)
Basic and diluted loss per share	\$(0.05)	\$(0.03)	\$(0.10)	\$(0.06)	
Basic and diluted weighted average number of common shares outstanding	41,154,718	27,722,370	40,435,024	26,940,586	

See accompanying notes

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Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

	Common stock		Additional	Deficit	Total
	Shares	Amount	paid-in	accumulated	
	#	\$	capital	during the	
			\$	exploration	\$
				stage	
				\$	\$
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>			250,064		250,064
Exercise of warrants	901,750	901	887,598		888,499
Exercise of options	47,500	48	39,063		39,111
Net loss for the period				(3,871,214)	(3,871,214)
Balance, September 30, 2006	41,373,120	41,373	21,008,313	(13,114,895)	7,934,791

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended		Period from
	September 30,	September 30,	September 30,	September 30,	April 24, 2003
	2006	2005	2006	2005	(inception) to
	\$	\$	\$	\$	September 30,
					2006
					\$
OPERATING ACTIVITIES					
Net loss for the period	(1,871,080)	(813,270)	(3,871,214)	(1,631,188)	(13,114,895)
Items not involving cash:					
Depreciation	13,937	2,409	25,482	4,144	57,544
Fair value of options, warrants and other non-cash compensation	225,691		250,064		603,997
Changes in non-cash working capital items:					
Amounts receivable	45,527	(17,222)	21,349	(11,795)	(59,901)
Accounts payable and accrued liabilities	(55,280)	512,026	(608,108)	456,204	589,715
Prepaid expenses	17,655	(732,177)	40,653	(732,958)	(69,437)
Cash used in operating activities	(1,623,550)	(1,048,234)	(4,141,774)	(1,915,593)	(11,992,977)
INVESTING ACTIVITIES					
Reclamation deposit	(52,100)		(52,100)		(111,900)
Purchase of equipment	(3,015)	(37,837)	(17,370)	(40,453)	(172,996)
Mineral property expenditures	(665)	(349,865)	(22,164)	(599,865)	(1,920,371)
Cash used by investing activities	(55,780)	(387,702)	(91,634)	(640,318)	(2,205,267)
FINANCING ACTIVITIES					
Capital lease principal payments	(4,466)		(6,881)		(6,881)
Cash received for shares	399,302		1,093,460	3,919,765	22,655,224
Share issue costs			(3,533)	(60,288)	(2,598,661)
Subscription receivables collected				54,360	389,125
Cash provided by financing activities	394,836		1,083,046	3,913,837	20,438,807
Increase (decrease) in cash during the period					
	(1,284,494)	(1,435,936)	(3,150,362)	1,357,926	6,240,563
Cash, beginning of period	7,525,057	5,859,298	9,390,925	3,065,436	
	6,240,563	4,423,362	6,240,563	4,423,362	6,240,563

See accompanying notes

Gryphon Gold Corporation
(an exploration stage company)

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 and pre-development stage company in the process of exploring its mineral properties and developing, subject to financing, its fully permitted Borealis Heap Leach Gold Mine.

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. As a result of adopting FAS 123(R) the net loss for the quarter ending September 30, 2006 increased by \$179,261 and for the six months ended September 30, 2006 by \$189,374.

Gryphon Gold Corporation
(an exploration stage company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

3. EQUIPMENT

September 30, 2006			
	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Office and lab equipment	166,012	41,834	124,178
Trucks under capital lease	71,319	11,848	59,471
Total	237,331	53,682	183,649

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, September 30, 2006	1,920,371

Gryphon Gold Corporation
(an exploration stage company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

5. EXPLORATION

	Three months ended September 30, 2006 \$	September 30, 2005 \$	Six months ended September 30, 2006 \$	September 30, 2005 \$	Period from April 24, 2003 (inception) to September 30, 2006 \$
NEVADA, USA					
Borealis property					
Exploration :					
Property maintenance	224,231	127,118	431,360	193,921	1,732,071
Project management	145,660	8,224	275,244	13,247	883,470
Drilling	540,855	221,866	1,108,357	382,228	3,078,501
Engineering	37,006	68,015	151,870	68,015	599,418
Geological	119,526	76,585	336,028	184,469	901,991
Metallurgy	425	1,440	18,359	1,440	234,182
Total exploration	1,067,703	503,248	2,321,218	843,320	7,429,633

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. On April 4, 2006, 8,000 common shares were granted to an officer of the company which will vest over 12 to 24 months.

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.

Gryphon Gold Corporation
(an exploration stage company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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:		