

GRYPHON GOLD CORP

Form 424B1

May 13, 2011

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Filed Pursuant to Rule 424(b)(1)  
 Registration No. 333-172083

**PROSPECTUS**

**Gryphon Gold Corporation**

**80,000,000 Shares of Common Stock**

We are offering 80,000,000 shares of our common stock by this prospectus.

Our common stock is currently listed on the Over-the-Counter Bulletin Board under the symbol GYPH.OB and on the Toronto Stock Exchange under the symbol GGN . As of May 12, 2011, the last reported sale price of our common stock was \$0.18 per share on the Over-the-Counter Bulletin Board and Cdn.\$0.15 per share on the Toronto Stock Exchange.

**Investing in our common stock involves a high degree of risk. You should read this entire prospectus carefully, including the section entitled Risk Factors beginning on page 6.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 0.125	\$ 10,000,000
Underwriting discounts and commissions	\$ 0.0075	\$ 600,000
Proceeds to us, before expenses	\$ 0.1175	\$ 9,400,000

We have granted the U.S. underwriter and Canadian underwriter an option, exercisable within 30 days after the date of this prospectus, to purchase up to 12,000,000 additional shares of our common stock in the aggregate upon the same terms and conditions as the shares offered by this prospectus to cover over-allotments, if any.

In connection with this offering, we have agreed to pay the U.S. underwriter and Canadian underwriter certain additional fees, as described in the section entitled Underwriting beginning on Page 85.

The public offering price for shares of common stock offered in the United States is payable in US dollars, and the public offering price for shares of common stock offered in Canada is payable in Canadian dollars, except as may otherwise be agreed by the underwriters. The Canadian dollar amount of the public offering price will be Cdn.\$0.12 (the equivalent of the US dollar amount based on the closing buying rate of the Bank of Canada on the date immediately prior to the effective date of the registration statement of which this prospectus forms a part) and, for purposes of determining the maximum gross aggregate proceeds, will be translated into US dollar equivalents at the US-Canadian dollar exchange rate prevailing at the date of determination.

The U.S. underwriter and Canadian underwriter expect delivery of the shares of common stock will be made to purchasers on or about May 18, 2011.

**Roth Capital Partners**

The date of this prospectus is May 13, 2011

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You should rely only on the information contained or incorporated by reference in this prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. Neither we, the U.S. underwriter nor the Canadian underwriter has authorized any other person to provide you with additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we, the U.S. underwriter nor the Canadian underwriter is making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Some of the industry and market data contained in this prospectus are based on independent industry publications or other publicly available information, while other information is based on our internal sources. Although we believe that each source is reliable as of its respective date, the information contained in such sources has not been independently verified, and neither we, the U.S. underwriter nor the Canadian underwriter can assure you as to the accuracy or completeness of this information.

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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully, especially the Risk Factors section and our consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. Unless the context provides otherwise, all references to Gryphon, Gryphon Gold, we, us, our, or similar terms, refer to Gryphon Gold Corporation and its wholly owned subsidiaries.*

*In this prospectus all references to \$ or dollars mean the U.S. dollar, and unless otherwise indicated all currency amounts in this prospectus are stated in U.S. dollars. All references to Cdn.\$ refer to the Canadian dollar. All financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are reported in U.S. dollars.*

**The Company**

***Business Overview***

We are in the business of developing gold deposits principally on our Borealis property located in the Walker Lane gold belt of western Nevada (which we refer to as the Borealis Property). The Borealis Property contains volcanic-hosted high-sulphidation gold-bearing mineralized systems.

In April of 2011, we received an updated pre-feasibility study on the Borealis Property that evaluated a potential oxide heap leach mining and production operation. This study estimated that a potential oxide heap leach mining and production operation would have a six-year mine life with an average annual production in excess of 42,000 ounces per year gold equivalent and require \$12.7 million in initial capital costs (consisting of initial construction costs of \$8.61 million, bonding costs of \$3 million, \$0.41 million in additional indirect capital costs and a \$0.75 million contingency), with an average life-of-mine cash operating cost of \$851 per ounce of gold. Life of mine capital costs include \$12.9 million in direct costs, \$8.86 million of indirect costs and \$1.2 million of contingency costs, for total life of mine capital costs of \$23 million, which includes the initial capital costs set forth in the preceding sentence. The pre-feasibility study is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

Our development plan for the Borealis Property involves initiating mining and production in two phases, which we believe will reduce the amount of total capital required to bring the Borealis Property into production to approximately \$8.0 million. We have obtained all necessary major permits and approvals for an oxide heap leach mining and production operation on the Borealis Property. We expect to be in a position to begin gold production on our Borealis Property within six months of the closing of this offering.

***Borealis Property***

The Borealis Property in Nevada is our principal asset, the claims for which we hold through our subsidiary, Borealis Mining Company (which we refer to as Borealis Mining). The entire Borealis Property is approximately 23.5 square miles.

In the 1980s, previous operators of parts of the Borealis Property mined approximately 600,000 ounces of gold from near-surface oxide deposits on the property. Active mining operations were ceased by the prior operators in 1991. Full

site reclamation was completed in 1994. Reclamation bonds were released and Echo Bay Mines Limited (the previous operator of the property) relinquished its lease in 1996.

Given the prior production history of the Borealis Property, extensive drilling information exists in our database. Over 2,400 drill holes have been drilled on the property since 1978 and the information compiled by the various owners from this drilling activity is contained in our database.

The Borealis Property contains one large hydrothermal system with at least 13 known gold deposits, some of which are contiguous. There has been historical production from 8 of these deposits. In addition, the property has geological showings of gold mineralization in a number of places, which we believe offers the opportunity to potentially identify additional gold deposits. The known gold deposits include oxidized material, partial oxidized material, and predominantly sulfide material. We believe that numerous examples of favorable geology within the Borealis Property and initial exploration represent opportunities for discovery of additional mineable gold deposits.

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The Borealis Property is accessible by gravel road and is located about 16 road miles from Hawthorne, Nevada.

### ***Mineralization and Studies***

In May 2005, we initiated a drilling program on the Borealis Property. As of December 31, 2010, we had completed approximately 265 holes representing 158,601 feet of reverse circulation and sonic drilling. A majority of the holes are in the proximity of existing known mineralization.

In April of 2008, we completed a Canadian Institute of Mining compliant, National Instrument 43-101 of the Canadian Securities Administrators report (which we refer to as the Technical Report) that included all drilling results to date, which was furnished to the United States Securities and Exchange Commission (which we refer to as the SEC) as Exhibit 99.1 to our Form 8-K filed on May 12, 2008 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The Technical Report details mineralization on our Borealis Property. The Technical Report states that the recommended course of action for us is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralization on the Borealis Property.

During September, 2008, we released a preliminary assessment on the development of an oxide heap leach mine on the Borealis Property (which we refer to as the Preliminary Assessment). The Preliminary Assessment was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on October 7, 2008 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

On September 22, 2009, we released our pre-feasibility study entitled "NI 43-101 Pre-Feasibility Study of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, Revised and Restated" dated September 17, 2009 (which we refer to as the 2009 Study), which was furnished to the SEC as Exhibit 99.2 to our Form 8-K filed on September 22, 2009 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com).

On April 25, 2011, we released an updated pre-feasibility study entitled "NI 43-101 Pre-Feasibility Study Update of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA" dated April 25, 2011, (which we refer to as the Pre-Feasibility Study), which was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on April 26, 2011 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The mineralization data and economic analysis data contained in the Pre-Feasibility Study supercedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study.

**Cautionary Note to U.S. Investors:** The Pre-Feasibility Study and the 2009 Study use the terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Technical Report, the Preliminary Assessment, the 2009 Study and the Pre-Feasibility Study also 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 National Instrument 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into 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



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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.

***Leadership***

Our management team is highly experienced, which we are able to leverage to create shareholder value. Our Chief Executive Officer, John L. Key, has more than 32 years of experience managing mining projects, implementing large-scale capital expansions for mining operations and working as a mining engineer. Our management team and board of directors, collectively, have more than 170 years of experience in the industry.

***Recent Developments***

On January 21, 2011, we closed a private placement financing and raised net proceeds of approximately \$1.3 million. We issued 6,500,000 units in such private placement, each unit consisting of one share of our common stock and one-half of a warrant to purchase a share of our common stock. The warrants are exercisable for a period of twenty-four months following the date of issuance at an exercise price of \$0.30 per share. The purchasers of the units are entitled to registration rights on the shares of common stock and warrants. We intend to use the net proceeds from the private placement to take preliminary steps to implement the development plan of the Borealis Property as well as for working capital and general corporate purposes.

On April 26, 2011, we announced the release of the Pre-Feasibility Study as described above under the section heading Prospectus Summary The Company Mineralization and Studies.

***About the Company***

Gryphon Gold Corporation was formed under the laws of the State of Nevada on April 24, 2003.

Our principal business office, which also serves as our administration and financing office, is located in the United States at 611 N. Nevada Street, Carson City, Nevada, 89703 and our telephone number is (604) 261-2229.

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**The Offering**

<b>Offering:</b>	80,000,000 shares of common stock
<b>Amount:</b>	\$10,000,000
<b>Price to the Public:</b>	\$0.125 per share
<b>Shares of Common Stock Outstanding After Offering(1):</b>	176,983,632 shares of common stock
<b>Use of Proceeds:</b>	The net proceeds from the sale of the common stock in this offering are estimated to be approximately \$9.1 million, after deducting the U.S. underwriter's and Canadian underwriter's commissions and fees and estimated offering expenses. We intend to use the net proceeds from this offering to start oxide heap leach operations on our Borealis Property. Specifically, net proceeds will go to construct necessary facilities, purchase necessary equipment, fund the bonding of the affected areas for reclamation and closure, recruit and hire key operating positions, fund four months of mining operations and for general administrative and working capital needs.
<b>Risk Factors:</b>	Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 6 of this prospectus.
<b>Listing Symbols:</b>	Our common stock is currently listed on the Over-the-Counter Bulletin Board under the symbol GYPH.OB and on the Toronto Stock Exchange under the symbol GGN .

(1) These figures do not include 5,352,500 shares of common stock reserved for issuance pursuant to outstanding stock options, which are exercisable at a weighted average price of \$0.37 per share, 9,430,892 shares of common stock reserved for issuance pursuant to outstanding warrants, which are exercisable at a price of \$0.26 per share, 2,300,000 shares of common stock issuable upon exercise of warrants issued to the U.S. underwriter and the Canadian underwriter in connection with this offering and 12,000,000 shares of common stock issuable pursuant to the U.S. underwriter's and Canadian underwriter's over-allotment option.

To the extent any options are exercised, new options are issued under our equity incentive plans, or we otherwise issue additional shares of common stock or securities exercisable for or convertible into shares of common stock, there will be further dilution to new investors. As of the date of this prospectus, there are 1,197,500 shares of common stock available for issuance under our equity incentive plans.

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The following consolidated statements of operations data for the fiscal years ended March 31, 2010 and 2009 and consolidated balance sheet data as at March 31, 2010 and 2009 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following consolidated statements of operations for the nine months ended December 31, 2010 and 2009 and the consolidated balance sheet data as at December 31, 2010 have been derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. This unaudited financial information includes all adjustments, consisting of only normal recurring accruals, which our management considers necessary for the fair presentation of our financial position and results of operations for such interim periods. Our financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Our historical results for any period are not necessarily indicative of our future performance. You should read the following information in conjunction with Management's Discussion and Analysis of Financial Condition and Operating Results and our financial statements and related notes included elsewhere in this prospectus.

	<b>Year Ended March 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
			<b>(Unaudited)</b>	
<b>CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>				
Revenue	\$ NIL	\$ NIL	\$ NIL	\$ NIL
Loss for the period from continuing operations	\$ (3,273,757)	\$ (3,988,457)	\$ (2,495,617)	\$ (2,331,595)
Net loss for period	\$ (2,316,221)	\$ (9,943,231)	\$ (1,859,909)	\$ (2,911,118)
Total loss per share	\$ (0.04)	\$ (0.16)	\$ (0.021)	\$ (0.045)
Basic and diluted weighted average number of common shares outstanding	68,494,268	61,781,770	88,357,009	64,582,997

	<b>At March 31,</b>		<b>At December 31,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
			<b>(Unaudited)</b>
<b>CONSOLIDATED BALANCE SHEET DATA:</b>			
Cash	\$ 937,056	\$ 799,517	\$ 474,076
Total assets	\$ 7,741,552	\$ 7,918,328	\$ 3,711,971
Total current liabilities(1)	\$ 3,273,200	\$ 5,233,444	\$ 277,488
Common stock payable	\$	\$	\$ 88,000
Asset retirement obligation liability	\$	\$	\$ 48,254
Total liabilities	\$ 3,273,200	\$ 5,233,444	\$ 413,742
Deficit accumulated during exploration stage	\$ (35,202,910)	\$ (35,774,819)	\$ (37,062,819)
Total stockholders' equity	\$ 4,468,352	\$ 2,684,884	\$ 3,298,229

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**RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors described below together with all of the other information contained in this prospectus, including our consolidated financial statements and the notes thereto, before deciding whether to invest in shares of our common stock. Each of these risks could have a material adverse effect on our business, operating results, financial condition and/or growth prospects. As a result, the trading price of our common stock could decline and you might lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations.*

***We will require future financing to enable us to continue operations.***

We are an early stage company and may not have sufficient capital to fully fund all of our obligations, and we recognize that additional resources are required to enable us to continue operations. Currently, we have sufficient cash on hand to fund limited exploration activity, regulatory permitting, claim maintenance fees, and general and administrative expenses through June 2011. We expect that the proceeds from this offering will provide enough capital to fund the first phase of production for an oxide heap leach mining operation, and that thereafter the profits from the early phases will fund the later phases of production. However, we will require additional financing to meet our general and administrative expenses after June 30, 2011 and for the remainder of the fiscal year and we may require substantial additional financing either for future development activities or if we encounter unexpected costs or delays.

If necessary, we may raise additional funds through debt and/or equity financing. However, access to additional capital may not be available on terms acceptable to us or at all. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration and development or production on any or all of the Borealis Property and any properties we may acquire in the future, or even a loss of our property interest. Further, even if we raise additional capital, there can be no assurance that we will achieve profitability or positive cash flow. If expected significant revenues do not result in positive cash flow and we are unable to raise additional capital, we will not be able to meet our obligations and may have to suspend or cease operations.

At December 31, 2010, we had working capital of \$487,645, with average cash expenditure rate of approximately \$200,000 per month in a typical month based on the 4 full time employees we have. This level of activity is subject to change based upon future events. At December 31, 2010, current assets consisted of \$474,076 in cash, \$13,997 in accounts receivable, \$4,938 in the current portion of note receivable, and \$272,122 in prepaid expenses. At December 31, 2010, current liabilities consisted of \$277,488 in accounts payable and accrued liabilities.

***Our lease for the Borealis Property is subject to our continuing to perform development work, an activity that requires capital.***

Our lease for the Borealis Property, which includes claims covering the principal deposits, states that after January 24, 2009 (twelve years from the effective date of the lease) we must be engaged in active mining, development or processing to automatically extend the term of the lease. Development is defined to mean work or construction in preparation for mining or processing a proven or possible reserve, including further exploration of development drilling of such a reserve. If we do not perform any qualifying development activities within a 365-day period, we are subject to losing our lease rights in the Borealis Property. If projected initial capital costs or operating costs for development of the heap leach mine at the Borealis Property exceed current projections, mine development is delayed or estimated potential production revenues are delayed or less than projected, without additional financing in the

future, we may not be able to continue our development process and we may lose the lease to the Borealis Property.

***We may not be able to exercise the option to buy down the royalty on our Borealis Property which would adversely affect our ability to put the property into production.***

On August 22, 2008, we 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 of shares of our common

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stock (subject to obtaining approval from the TSX) 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 our common stock. On February 12, 2010, we 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 we agreed to pay \$150,000 to the lessors comprised of cash in the amount of \$25,000 and shares of our 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.

On February 22, 2011, the option agreement was amended by agreement of the parties. The amended option agreement extends the option on a month-to-month basis for up to six months beginning February 22, 2011 in consideration for \$25,000 per month payable by us to the lessors. Under the terms of the amended option agreement, we have agreed to exercise the option and fix the net smelter return royalty at 5% on the tenth business day following the closing of any offering by us to raise \$8 million or more and the leaseholders have agreed to accept a two year, 5% promissory note in the principal amount of \$1.6 million in lieu of a portion of the original \$1,750,000 cash payment due on exercise of the option. Upon exercise of the option, we will pay the leaseholders \$150,000 in cash, the \$1.6 million promissory note, 5,000,000 shares of common stock at a deemed value of \$0.40 per share, subject to approval of the TSX, and a convertible promissory note in the principal amount of \$3 million.

There can be no assurance that we will be able to exercise the option to buy down the royalty on our Borealis Property or obtain TSX approval in respect of the issue of shares of common stock required in connection with the exercise of such option. If we are unable to exercise the option, our ability to put the Borealis Property into production would be adversely affected by the current royalty structure. This may make the Borealis Property less profitable or prevent us from putting the Borealis Property into production, which would adversely affect our future results of operations.

***Current global financial conditions have made access to financing more difficult.***

Since the fall of 2008 there has been severe deterioration in global credit and equity markets. This has resulted in the need for government intervention in major banks, financial institutions and insurers, and has also led to greater volatility, increased credit losses and tighter credit conditions. These unprecedented disruptions in the credit and financial markets have had a significant adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations.

***We have no history of producing metals from our mineral property and there can be no assurance that we will successfully establish mining operations or profitably produce precious metals.***

We have no history of producing metals from the Borealis Property. While our plan is to move the Borealis Property into the development stage, production there will be subject to completing construction of the mine, processing plants, roads, and other related works and infrastructure. As a result, we are subject to all of the risks associated with establishing new mining operations and business enterprises including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the ability to find sufficient gold reserves to support a mining operation;
- the availability and costs of skilled labor and mining equipment;
- the availability and cost of appropriate smelting and/or refining arrangements;

compliance with environmental and other governmental approval and permit requirements;

the availability of funds to finance construction and development activities;

potential opposition from non-governmental organizations, environmental groups, local groups or local inhabitants which may delay or prevent development activities; and

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potential increases in construction and operating costs due to changes in the cost of fuel, power, materials, supplies, and other costs.

The costs, timing and complexities of mine construction and development may be increased by the remote location of the Borealis Property. In addition, we do not have previous experience working with the companies with whom we have contracted to perform the mining operations. It is common in new mining operations to experience unexpected problems and delays during construction, development and mine start-up; delays in the commencement of mineral production often occur. Accordingly, we cannot assure you that our activities will result in profitable mining operations or that we will successfully establish mining operations or profitably produce metals at any of our properties.

***Historical production on the Borealis Property may not be indicative of the potential for future development.***

The Borealis mine actively produced gold in the 1980s, but we currently have no commercial production at the Borealis Property and have never recorded any revenues from gold production. You should not rely on the fact that there were historical mining operations at the Borealis Property as an indication that we will ever have future successful commercial operations at the Borealis Property. We expect to continue to incur losses unless and until such time, if ever, as our property enters into commercial production and generates sufficient revenues to fund our continuing operations. The development of new mining operations at the Borealis Property will require the commitment of substantial resources for operating expenses and capital expenditures, which may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of our properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, our acquisition of additional properties, and other factors, many of which are beyond our control. We may not be able to place the Borealis Property into production or generate any revenues or achieve profitability.

***Our exploration activities on the Borealis Property may not be commercially successful, which could lead us to abandon our plans to develop the property and our investments in exploration.***

Our long-term success depends on our ability to identify additional mineral deposits on the Borealis Property and other properties we may acquire, if any, that we can then develop into commercially viable mining operations. Mineral exploration is highly speculative in nature, involves many risks and is frequently non-productive. These risks include unusual or unexpected geologic formations, and the inability to obtain suitable or adequate machinery, equipment or labor. The success of gold exploration is determined in part by the following factors:

- the identification of potential gold mineralization based on surficial analysis;
- availability of government-granted exploration permits;
- the quality of our management and our geological and technical expertise; and
- the capital available for exploration.

Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade and proximity to



infrastructure; metal prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable mineral reserves. The decision to abandon a project may have an adverse effect on the market value of our securities and the ability to raise future financing. We cannot assure you that we will discover or acquire any mineralized material in sufficient quantities on any of our properties to justify commercial operations.

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***Actual capital costs, operating costs, production and economic returns may differ significantly from those we have anticipated and there are no assurances that our development activities will result in profitable mining operations.***

We plan to estimate operating and capital costs for the Borealis Property based on information available to us and that we believe to be accurate. However, costs for labor, regulatory compliance, energy, mine and plant equipment and materials needed for mine development and construction may significantly fluctuate. In light of these factors, actual costs related to our proposed mine development and construction may exceed any estimates we may make. We do not have an operating history upon which we can base estimates of future operating costs related to the Borealis Property, and we intend to rely upon our future economic feasibility of the project and any estimates that may be contained therein. Studies derive estimates of cash operating costs based upon, among other things:

anticipated tonnage, grades and metallurgical characteristics of the ore to be mined and processed;

anticipated recovery rates of gold and other metals from the ore;

cash operating costs of comparable facilities and equipment; and

anticipated climatic conditions.

Capital and operating costs, production and economic returns, and other estimates contained in feasibility studies may differ significantly from actual costs, and there can be no assurance that our actual capital and operating costs will not be higher than anticipated or disclosed.

In addition, any calculations of cash costs and cash cost per ounce may differ from similarly titled measures of other companies and are not intended to be an indicator of projected operating profit.

***A shortage of critical equipment, supplies and resources could adversely affect our operations.***

We are dependent on certain equipment, supplies and resources to carry out our mining operations, including input commodities, drilling equipment and skilled labor. A shortage in the market for any of these factors could cause unanticipated cost increases and delays in delivery times, which could in turn adversely impact production schedules and costs.

Operations at the Borealis Property will require a significant amount of water. The Borealis Property is located in an arid region with an over-appropriated water basin. Successful mining and processing will require careful control of project water usage and efficient reclamation of project solutions back into the process.

***The figures for our mineralization are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.***

Unless otherwise indicated, mineralization figures presented in this prospectus and in our filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our non-independent, internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineral reserves and grades of mineralization on our properties. Until ore is actually mined and processed, mineral reserves and grades of mineralization must be considered as estimates only.

These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that:

these estimates will be accurate;

reserve or other mineralization estimates will be accurate; or

this mineralization can be mined or processed profitably.

Any material changes in mineral reserve estimates and grades of mineralization may affect the economic viability of placing a property into production and a property's return on capital.

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Because we have not started mine construction at our Borealis Property and have not commenced actual production, mineralization estimates, including reserve estimates, for the Borealis Property may require adjustments or downward revisions based upon actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by our feasibility studies and drill results. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. The mineralization estimates contained in this prospectus, reports filed with or furnished to the SEC and press releases have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Declines in market prices for gold and silver may render portions of our mineralization, reserve estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability of our Borealis Property. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our results of operations or financial condition.

***Changes in the market price of gold, silver and other metals, which in the past has fluctuated widely, will affect the profitability of our operations and financial condition.***

Our profitability and long-term viability depend, in large part, upon the market price of gold and other metals and minerals produced from our mineral properties. The market price of gold and other metals is volatile and is impacted by numerous factors beyond our control, including:

expectations with respect to the rate of inflation;

the relative strength of the U.S. dollar and certain other currencies;

interest rates;

global or regional political, financial, or economic conditions;

supply and demand for jewelry and industrial products containing metals; and

sales by central banks and other holders, speculators and producers of gold and other metals in response to any of the above factors.

We do not currently engage in commodity hedging, either for inputs or for future sales of gold or other precious metals.

A decrease in the market price of gold and other metals could affect the commercial viability of our Borealis Property and our anticipated development and production assumptions. Lower gold prices could also adversely affect our ability to finance future development at the Borealis Property, all of which would have a material adverse effect on our financial condition and results of operations. There can be no assurance that the market price of gold and other metals will remain at current levels or that such prices will improve.

***Mining is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business.***

Mining involves various types of risks and hazards, including:

environmental hazards;

power outages;

metallurgical and other processing problems;  
unusual or unexpected geological formations;  
flooding, fire, explosions, cave-ins, landslides and rock-bursts;  
inability to obtain suitable or adequate machinery, equipment, or labor;  
metals losses; and  
periodic interruptions due to inclement or hazardous weather conditions.

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These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability.

*We do not insure against all risks to which we may be subject in our planned operations.*

We currently maintain insurance to insure against general commercial liability claims and losses of equipment. Our insurance will not cover all of the potential risks associated with a mining company's operations, and we may be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, we expect that insurance against certain hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of our size and financial means.

We might also become subject to liability for pollution or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available to us or to other companies within the mining industry.

Losses from events that are not covered by our insurance policies may cause us to incur significant costs that could negatively affect our financial condition and ability to fund our activities on the Borealis Property. A significant loss could force us to terminate our operations.

*We are subject to significant governmental regulations.*

Our primary properties, operations and exploration and development activities are in Nevada and are subject to extensive federal, state, and local laws and regulations governing various matters, including:

environmental protection;

management and use of toxic substances and explosives;

management of natural resources;

exploration, development of mines, production and post-closure reclamation;

exports controls;

price controls;

regulations concerning business dealings with native groups;

labor standards and occupational health and safety, including mine safety; and

historic and cultural preservation.

Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory or judicial authorities enjoining or curtailing operations or requiring corrective measures, installation of additional equipment or remedial actions, any of which could result in us

incurring significant expenditures. We may also be required to compensate private parties suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or a more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of our operations and delays in the development of our properties.

***Our activities are subject to environmental laws and regulations that may increase our costs of doing business and restrict our operations.***

All of our exploration and potential development and production activities are in the United States and are subject to regulation by governmental agencies under various environmental laws. These laws address, among other

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things, emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations.

If and when production begins at the Borealis Property, operations will involve the use of sodium cyanide, which is a toxic material. The use of sodium cyanide is normal for the industry, and appropriate steps are taken to prevent leakage into the environment. However, if the material is discharged, we could incur significant liabilities associated with containment and clean-up, against which we might not be insured.

Additionally, our operations result in emissions of greenhouse gases, which may be subject to increased regulation in the future. In general, environmental legislation is evolving and the trend has been towards stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations requires significant capital outlays, and future changes in these laws and regulations may cause material changes or delays in our financial position, operations and future activities. It is possible that future changes in these laws or regulations could have a significant adverse impact on the feasibility of our operations at the Borealis Property, or some portion of our business, causing us to re-evaluate those activities at that time.

***Land reclamation requirements for our Borealis Property may be burdensome.***

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

- control dispersion of potentially deleterious effluents; and
- reasonably re-establish pre-disturbance land forms and vegetation.

In order to carry out reclamation obligations imposed on us in connection with our potential development activities, we must allocate financial resources that might otherwise be spent on further exploration and development programs. We have set up a provision for our reclamation obligations at the Borealis Property, but this provision may not be adequate. If we are required to carry out unanticipated reclamation work, our financial position could be adversely affected.

***Our operations require us to obtain government permits and approvals.***

Permits and approvals from various government agencies, such as the United States Forest Service, are required in order to enter production on the Borealis Property. All major operating permits are currently in place, but there are still some additional minor permits or permit modifications to be secured. Though these additional permits should be easy and straightforward to obtain, there can be no assurance that delays will not occur in connection with obtaining these additional permits or later renewing the existing ones. In addition, our permits may be revoked in the future for failure to comply with applicable regulations or for other reasons that may be beyond our control.

***We may experience difficulty attracting and retaining qualified management to meet the needs of our anticipated growth, and the failure to manage our growth effectively could have a material adverse effect on our business and financial condition.***



We are dependent on the services of key executives including, John L. Key, CEO, Matthew A. Fowler, Interim CFO, and other highly skilled and experienced consultants focused on bringing our Borealis Property into production and managing our interests and on-going exploration programs on our other properties. Our management is also responsible for the identification of new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees required for our development activities may have a material adverse effect on our business or future operations. The failure to

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hire qualified people for these positions could adversely affect planned operations of the Borealis Property. We do not maintain key-man life insurance on any of our key management employees.

***We compete with larger, better capitalized competitors in the mining industry.***

The mining industry is intensely competitive in all of its phases, including financing, technical resources, personnel and property acquisition. It requires significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have an advantage over us. We face strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than us. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. As a result of this competition, we may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms we consider acceptable or at all.

***Title to the Borealis Property may be subject to other claims, which could affect our property rights and claims.***

Although we believe we have exercised commercially reasonable due diligence with respect to determining title to properties we own or control through the Borealis Mining Company and the claims that are subject to the Borealis Property mining lease, there is no guarantee that title to such properties will not be challenged or impugned. The Borealis Property may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of these properties which, if successful, could impair development and/or operations. This is particularly the case in respect of those portions of the Borealis Property in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

All of the mineral rights to the Borealis Property consist of unpatented mining claims created and maintained in accordance with the U.S. General Mining Law. Unpatented mining claims are unique property interests, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the U.S. General Mining Law, including the requirement of a proper physical discovery of valuable minerals within the boundaries of each claim and proper compliance with physical staking requirements. Also, unpatented mining claims are always subject to possible challenges by third parties or validity contests by the federal government. The validity of an unpatented mining or millsite claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of U.S. federal and state statutory and decisional law. In addition, there are few public records that definitively determine the issues of validity and ownership of unpatented mining claims.

***There are differences in U.S. and Canadian practices for reporting reserves and resources.***

We are a reporting issuer in Canada and report under Canadian reporting standards outside the United States. Our disclosure outside the United States differs from the disclosure contained in our SEC filings. We generally furnish our disclosure released outside the United States with the SEC as Regulation FD disclosure.

Our reserve and resource estimates disseminated outside the United States are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC. In the United

States, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will

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ever be converted into reserves. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report resources as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in disclosure released outside the United States, or in the documents incorporated herein by reference, may not be comparable to information made public by other United States companies subject to the reporting and disclosure requirements of the SEC.

***We will be required to locate mineral reserves for our long-term success.***

Mines have limited lives based on proven and probable mineral reserves that are depleted in the course of production. To ensure continued viability we must offset depleted reserves by replacing and expanding our mineral reserves, through further exploration at existing properties and/or the acquisition of new properties. Even if additional reserves are discovered, the process from exploration to production can take many years, during which the economic feasibility of production may change. Therefore, our ability to maintain or increase annual production of gold and other base or precious metals once the Borealis Property is restarted, if at all, will be dependent almost entirely on our ability to bring new mines into production.

***Our directors and officers may have conflicts of interest as a result of their relationships with other companies.***

Certain of the directors and officers of Gryphon Gold have served as officers and directors for other companies engaged in natural resource exploration and development and may also serve as directors and/or officers of other companies involved in natural resource exploration and development.

***Legislation, including the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract officers and directors.***

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of rules and regulations which govern publicly-held companies. Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the SEC that increase responsibilities and liabilities of directors and executive officers. We are a small company with a very limited operating history and no revenues or profits, which may influence the decisions of potential candidates we may recruit as directors or officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles.

***While we believe we have adequate internal control over financial reporting, we may be required to provide an auditors attestation on the effectiveness of our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such attestation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our shares of common stock.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by management on our internal control over financial reporting in our annual report on Form 10-K for the year ended March 31, 2010. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective.

We are currently a smaller reporting company as defined under the rules and regulations of the SEC, and therefore, do not have to provide an auditor's report on the effectiveness of such internal control over financial reporting pursuant to

recent changes to Section 404 of the Sarbanes-Oxley Act of 2002. However, if we lose our status as a smaller reporting company in the future, we would be required in our annual report on Form 10-K for the following fiscal year to provide an attestation report from our auditors on the effectiveness of such internal control over financial reporting.

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While we have evaluated our internal control over financial reporting and have concluded that our internal control over financial reporting is effective, our auditors have not conducted the evaluation necessary to provide an attestation report on the effectiveness of our internal control over financial reporting. During the auditor's evaluation and testing process, they may identify one or more material weaknesses in our internal control over financial reporting, and they will be unable to attest that such internal control is effective. If our auditors are unable to attest that our internal control over financial reporting is effective, if and when required, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our stock price.

Failure to comply may make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

## **Risks Related To Our Securities**

***Broker-dealers may be discouraged from effecting transactions in shares of our common stock because they are considered a penny stock and are subject to the penny stock rules.***

Rules 15c-1 through 15c-9 promulgated under the Exchange Act impose sales practice and disclosure requirements on certain brokers-dealers who engage in certain transactions involving a penny stock. Subject to certain exceptions, a penny stock generally includes any non-NASDAQ equity security that has a market price of less than \$5.00 per share. Our common stock has traded below \$5.00 per share throughout its trading history. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our shares, which could severely limit the market liquidity of the shares and impede the sale of our shares in the secondary market.

A broker-dealer selling penny stock to anyone other than an established customer or accredited investor, generally, an individual with net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse, must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the SEC relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

***In the event that your investment in our shares is for the purpose of deriving dividend income or in expectation of an increase in market price of our shares from the declaration and payment of dividends, your investment will be compromised because we do not intend to pay dividends.***

We have never paid a dividend to our shareholders, and we intend to retain our cash for the continued development of our business. We do not intend to pay cash dividends on our common stock in the foreseeable future. As a result, your return on investment will be solely determined by your ability to sell your shares in a secondary market.

***Our historic stock price has been volatile and purchasers of our common stock could incur substantial losses.***

Historically, our stock price has been volatile. The stock market in general, particularly recently, has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell our common stock at or above their respective purchase prices. The market price for our common stock may be influenced by many factors, including, but not limited to, variations in our financial results or those of companies that are perceived to be similar to us, investors' perceptions

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of us, the number of our shares available in the market, future sales of our common stock and securities convertible into our common stock, and general economic, industry and market conditions. In addition, in the past two to three years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our Company, and these fluctuations could materially reduce our share price and cause you to lose all or part of your investment. Further, in the past, market fluctuations and price declines in a company's stock have led to securities class action litigations. If such a suit were to arise, it could have a substantial cost and divert our resources regardless of the outcome.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concern our anticipated results and developments in our operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of our management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as *expects* or *does not expect*, *is expected*, *anticipates* or *does not anticipate*, *plans*, *estimates* or *intends* (including stating that certain actions, events or results *may*, *could*, *would*, *might* or *will* be taken, occur or be achieved) are forward-looking statements of historical fact and may be forward-looking statements.

With respect to forward-looking statement and information contained in this prospectus, we have made assumptions regarding, among other things:

the future price of gold;

estimates related to future costs of production, establishing mining operations, capital requirements, operating and exploration expenditures;

continued government regulation of mining operations in accordance with past regulatory practices;

our ability to phase-in production at the Borealis Property to reach full production within expected timeframes;

our ability to complete the offering of our shares of common stock contemplated by this prospectus; and

our ability to raise any additional capital required to fund our exploration, development and working capital requirements.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

the timing and possible outcome of pending regulatory and permitting matters;

the timing and outcome of our possible feasibility study;



the parameters and design of any potential mining facilities on the Borealis Property;

future financial or operating performances of Gryphon Gold, its subsidiaries, and its projects;

the estimation of mineralization and the realization of mineral reserves, if any, based on mineralization estimates;

the timing of exploration, development, and production activities and estimated future production, if any;

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estimates related to future costs of production, establishing mining operations, capital requirements, operating and exploration expenditures;

use of proceeds of this offering;

requirements for additional capital and our ability to raise additional capital;

government regulation of mining operations, environmental risks, reclamation and rehabilitation expenses;

title disputes or claims;

limitations of insurance coverage; and

the future price of gold, silver, or other minerals.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled Risk Factors , Business and Management s Discussion and Analysis of Financial Condition and Operating Results of this prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

We qualify all the forward-looking statements contained in this prospectus by the foregoing cautionary statements.

**USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering will be approximately \$9.1 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the U.S. underwriter s and Canadian underwriter s over-allotment option is exercised in full, we estimate that we will receive additional net proceeds of approximately \$1.3 million.

We intend to use the net proceeds from this offering to start heap leach operations on our Borealis Property. Based on the Board of Directors Plan ground breaking would be scheduled for June 2011 with completion of construction of the leach pad and 2 process ponds, carbon columns with pumps and piping, and office with support facilities scheduled in late August or early September 2011. The reclamation and closing bond would be funded by the time ground breaking begins and the remaining would fund the required operating capital for the first four months of operations.

We anticipate using the net proceeds from this offering as follows:

Building of facilities at Borealis Property and purchase of equipment (includes building the leach pad and 2 waste ponds, purchase and installation of carbon columns with pumps and piping, mobilization, power, construction of office and support facilities and completion of water system design and installation)	Approximately \$4.2 million
Reclamation and closing bonds	Approximately \$3.0 million

Costs of mining operations (four months)

Approximately \$1.9 million

Any additional net proceeds received from exercise of the over-allotment option, if any, will be applied to cover the working capital contingency of \$0.75 million for the initial construction costs at the Borealis Property and to cover general and administrative expenses.

Until such time as the net proceeds of the offering are used as described above, we intend to invest the net proceeds primarily in bank deposits or other substantially similar secure deposits in financial institutions.

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The expected use of net proceeds of this offering represents our intentions based on our current plans and business conditions. The amounts and timing of our actual expenditures will depend on numerous factors. We may find it necessary or advisable to use portions of the proceeds for other purposes, and we will have broad discretion in the application of the net proceeds. Additionally, we may use a portion of the net proceeds of this offering to finance acquisitions of, or investments in, competitive and complementary businesses or products as a part of our growth strategy. However, we currently have no commitments or plans with respect to any such acquisitions or investments.

**PRICE RANGE OF COMMON STOCK**

Our common stock trades on the Toronto Stock Exchange (TSX) and is quoted on the Over-the-Counter Bulletin Board in the United States. Our common stock commenced trading on the TSX on December 22, 2005. Before trading on the TSX our stock was not publicly traded on any exchange. On June 1, 2006, our stock became eligible to be quoted on the Over-the-Counter Bulletin Board market in the United States.

The following table sets forth the high and low sales prices of our common stock on the TSX for the monthly and quarterly periods indicated:

<b>Period</b>	<b>High</b>		<b>Low</b>		<b>Volume</b>
May 2011 (through May 12)	Cdn.\$	0.17	Cdn.\$	0.15	857,235
April 2011	Cdn.\$	0.17	Cdn.\$	0.14	2,228,100
March 2011	Cdn.\$	0.22	Cdn.\$	0.13	6,742,900
February 2011	Cdn.\$	0.24	Cdn.\$	0.20	1,938,400
January 2011	Cdn.\$	0.245	Cdn.\$	0.215	3,045,913
December 2010	Cdn.\$	0.24	Cdn.\$	0.19	3,082,500
November 2010	Cdn.\$	0.28	Cdn.\$	0.20	2,696,800
October 2010	Cdn.\$	0.28	Cdn.\$	0.15	5,209,200
September 2010	Cdn.\$	0.18	Cdn.\$	0.10	2,556,100
August 2010	Cdn.\$	0.15	Cdn.\$	0.09	880,700
July 2010	Cdn.\$	0.12	Cdn.\$	0.09	463,100
June 2010	Cdn.\$	0.15	Cdn.\$	0.10	731,900
May 2010	Cdn.\$	0.18	Cdn.\$	0.12	593,900
April 2010	Cdn.\$	0.20	Cdn.\$	0.14	1,124,800
March 2010	Cdn.\$	0.17	Cdn.\$	0.13	793,100
February 2010	Cdn.\$	0.20	Cdn.\$	0.15	1,028,800
January 2010	Cdn.\$	0.23	Cdn.\$	0.16	2,412,000
<b>2011</b>					
First Quarter	Cdn.\$	0.245	Cdn.\$	0.13	11,727,700
Second Quarter (through May 12)	Cdn.\$	0.17	Cdn.\$	0.14	3,085,335
<b>2010</b>					
First Quarter	Cdn.\$	0.23	Cdn.\$	0.13	4,233,900
Second Quarter	Cdn.\$	0.20	Cdn.\$	0.10	2,450,600
Third Quarter	Cdn.\$	0.18	Cdn.\$	0.09	3,899,900
Fourth Quarter	Cdn.\$	0.28	Cdn.\$	0.15	10,988,500
<b>2009</b>					
First Quarter	Cdn.\$	0.22	Cdn.\$	0.11	2,872,800
Second Quarter	Cdn.\$	0.25	Cdn.\$	0.14	2,053,600
Third Quarter	Cdn.\$	0.31	Cdn.\$	0.10	3,819,200

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Fourth Quarter <b>2008</b>	Cdn.\$	0.33	Cdn.\$	0.17	5,943,800
Third Quarter	Cdn.\$	0.44	Cdn.\$	0.21	2,614,100
Fourth Quarter	Cdn.\$	0.23	Cdn.\$	0.05	4,586,400

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The following table sets forth the high and low bid prices of our common stock on the Over-the-Counter Bulletin Board for the quarterly periods indicated. Such prices reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions

<b>Period</b>	<b>High</b>	<b>Low</b>
<b>2011</b>		
First Quarter	\$ 0.25	\$ 0.127
Second Quarter (through May 12)	\$ 0.18	\$ 0.1377
<b>2010</b>		
First Quarter	\$ 0.23	\$ 0.123
Second Quarter	\$ 0.19	\$ 0.10
Third Quarter	\$ 0.18	\$ 0.061
Fourth Quarter	\$ 0.28	\$ 0.13
<b>2009</b>		
First Quarter	\$ 0.17	\$ 0.088
Second Quarter	\$ 0.21	\$ 0.11
Third Quarter	\$ 0.28	\$ 0.0985
Fourth Quarter	\$ 0.29	\$ 0.162
<b>2008</b>		
Third Quarter	\$ 0.45	\$ 0.20
Fourth Quarter	\$ 0.35	\$ 0.04

As of May 12, 2011, the last reported sale price of our common stock was \$0.18 per share on the Over-the-Counter Bulletin Board and Cdn.\$0.15 per share of the Toronto Stock Exchange.

As of May 12, 2011, we had 96,983,632 shares of common stock issued and outstanding, held by approximately 2,100 registered shareholders.

**Table of Contents****PRIOR SALES**

The following table sets forth details of the price at which securities have been issued or are issuable by us, the number of securities issued at that price and the date on which the securities were issued in the 12-month period prior to the date of this prospectus:

<b>Date of Issue</b>	<b>Type of Securities</b>	<b>Number</b>	<b>Issue or Exercise Price per Security</b>	<b>Reason for Issue</b>
February 5, 2010	Common	4,000,000	\$0.50	Conversion of \$2.5 million principal amount of convertible note
February 18, 2010	Common	10,897,353	Cdn.\$0.17	Private financing to fund working capital
February 18, 2010	Warrants	5,448,677	\$0.25	Warrants issued in connection with private financing
February 18, 2010	Options	990,500	\$0.21	Compensation to brokers
March 22, 2010	Common	939,016	\$0.13	Satisfaction of amounts due under lease
June 17, 2010	Common	1,464,429	Cdn.\$0.14	Private financing to fund working capital
June 17, 2010	Warrants	732,214	\$0.20	Warrants issued in connection with private financing
August 23, 2010	Common	1,500,000	\$0.20	Consideration for amendment to terms of convertible note(1)
September 20, 2010	Restricted Stock Units	275,000		Employee compensation
December 2, 2010	Common	150,000	Cdn.\$0.21	Investor relations contract
January 14, 2011	Common	100,000	Cdn.\$0.23	Investor relations contract
January 21, 2011	Common	6,500,000	Cdn.\$0.20	Private financing to fund working capital
January 21, 2011	Warrants	3,250,000	\$0.30	Warrants issued in connection with private financing
January 28, 2011	Common	300,000	Cdn.\$0.24	Investor Relations Contract
February 15, 2011	Common	223,500	\$0.21	Common stock issued upon exercise of Broker Warrants

(1) Our obligations under the Convertible Note due March 30, 2012 were assumed by a third party effective April 23, 2010.

**DIVIDEND POLICY**

We have not declared or paid any dividend since inception on our common stock. We do not anticipate that we will declare or pay dividends in the foreseeable future on our common stock.



**Table of Contents****CONSOLIDATED CAPITALIZATION**

Since December 31, 2010, we have issued 6,500,000 shares of common stock on January 21, 2011, in relation to our private financing, 100,000 shares of common stock on January 18, 2011, for an investor relations contract, 300,000 shares of common stock on January 28, 2011, for an investor relations contract and 223,500 shares of common stock on February 15, 2011, upon exercise of broker warrants.

The following table sets forth our cash and consolidated capitalization as at December 31, 2010 on an actual basis and as adjusted to give effect to the distribution of the shares of our common stock offered under this prospectus after deducting the underwriting discount and commissions and the estimated expenses of the offering payable by us (assuming the application of the net proceeds from this offering as described under the section entitled "Use of Proceeds").

The table should be read in conjunction with our audited annual consolidated financial statements as at and for the year ended March 31, 2010, our unaudited consolidated financial statements as at and for the three and nine months ended December 31, 2010, in each case including the notes thereto, and the management's discussion and analysis thereof.

	<b>Actual (Unaudited)</b>	<b>As at December 31, 2010 As Adjusted for January 21, 2011 Private Placement (Unaudited)</b>	<b>As Adjusted for this Offering(2) (Unaudited)</b>
Cash	\$ 474,076	\$ 1,616,203	\$ 9,564,079(3)
Shareholders' equity			
Share Capital: Authorized capital stock consists of 250,000,000 shares of common stock with a par value of \$0.001 per share and 15,000,000 preferred shares with a par value of \$0.001 per share; 89,860,132 shares of common stock issued and outstanding as of December 31, 2010; 96,360,132 shares of common stock issued and outstanding as adjusted for the January 2011 private placement and 176,983,632 shares of common stock as adjusted for this offering(1)	89,860	96,360	176,984
Additional paid-in capital	40,271,188	41,502,082	49,664,674
Deficit accumulated during the exploration stage	(37,062,819)	(37,164,043)	(37,923,487)
Total Stockholders' Equity	3,298,229	4,434,399	11,918,171
Total Capitalization	\$ 3,298,229	\$ 4,434,399	\$ 11,918,171

- (1) These figures do not include 4,937,500 shares of common stock reserved for issuance pursuant to outstanding stock options, which are exercisable at a weighted average price of \$0.41 per share, 7,171,382 shares of common stock reserved for issuance pursuant to outstanding warrants, which are exercisable at a price of \$0.22 per share, as at December 31, 2010. Additionally, the As Adjusted issued and outstanding for January 21, 2011 Private Placement and the As Adjusted issued and outstanding for this Offering does not include 3,250,000 shares of common stock issuable pursuant to warrants issued after December 31, 2010.
- (2) Does not include 2,300,000 shares of common stock issuable upon exercise of the U.S. underwriter's and the Canadian underwriter's warrants issued pursuant to this offering or 12,000,000 shares of common stock issuable upon exercise of the U.S. underwriter's and Canadian underwriter's over-allotment option. Assuming exercise of all the warrants and the over-allotment option, the aggregate shares of common stock outstanding would be 191,283,632. Does not include 3,250,000 shares of common stock issuable pursuant to warrants issued after December 31, 2010.
- (3) Represents current cash of \$464,079 as at May 12, 2011 plus \$9,100,000 anticipated net proceeds from this offering.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS**

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under Risk Factors and elsewhere in this prospectus.*

**Overview**

In May 2005, we initiated a drilling program on our Borealis Property in the State of Nevada (which we refer to as the Borealis Property). As of December 31, 2010, approximately 265 holes and 158,601 feet of reverse circulation drilling have been completed. A majority of the holes were in the area of existing mineralization in order to allow us to start a feasibility study with the aim of identifying gold reserves and, if economically feasible, building a mine.

In April of 2008, we completed the Technical Report that included all drilling results to date, which was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on May 12, 2008. The Technical Report details mineralization on our Borealis Property. The Technical Report states that the recommended course of action for us is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralization on the Borealis Property.

During September 2008, we released the Preliminary Assessment on the development of an oxide heap leach mine on the Borealis Property. The Preliminary Assessment was furnished to the SEC as Exhibit 99.1 to our Form 8-K as filed on October 7, 2008 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the Borealis Property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

A water well necessary for the construction of an oxide heap leach mine was installed during the quarter ended June 30, 2008.

Two water monitoring wells were installed during the quarter ended September 30, 2008. Under our permits, a water-monitoring program must be active for at least six months prior to the placement of material on a leach pad, and these wells were therefore necessary prior to the start of any leaching operation.

On July 15, 2009, we announced the completion and results of our 2009 Study for the development of the Borealis Property. On September 22, 2009, we filed our 2009 Study with securities regulatory authorities in Canada, pursuant to Canadian securities laws and the rules of Toronto Stock Exchange, and furnished it to the SEC as Exhibit 99.1 to our Form 8-K, filed on September 22, 2009. The 2009 Study shows an average annual production of over 50,000 ounces a year gold-equivalent for five years, \$22.6 million in initial capital costs (consisting of initial construction costs of \$14.8 million (including a \$1 million contingency), bonding costs of \$3 million, \$3.5 million in working capital and \$1.3 million in additional indirect capital costs) and average life of mine cash operating cost of \$476 per ounce of gold. The 2009 Study is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property

On April 25, 2011, we released the Pre-Feasibility Study for the development of the Borealis Property, which was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on April 26, 2011 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The mineralization data and economic analysis data contained in the Pre-Feasibility Study supercedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study. The Pre-Feasibility Study evaluated a potential oxide heap leach mining and production operation on the Borealis Property and estimated that such an operation would have a six-year mine life with an average annual production in excess of 42,000 ounces per year gold equivalent and require \$12.7 million in initial capital costs (consisting of initial construction costs of \$8.61 million, bonding costs of \$3 million,

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\$0.41 million in additional indirect capital costs and a \$0.75 million contingency) with an average life-of-mine cash operating cost of \$851 per ounce of gold. Life of mine capital costs include \$12.9 million in direct costs, \$8.86 million of indirect costs, \$1.2 million of contingency costs, for total life of mine capital costs of \$23 million. The Pre-Feasibility Study is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

On October 15, 2009, a second water production well was installed. Under our water rights permit for the Borealis Property, this well needed to be installed by December 31, 2009 in order to keep our permit active.

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 confirm certain resources contained in the 2009 Study, which we released in 2009.

**Cautionary Note to U.S. Investors:** The Pre-Feasibility Study and the 2009 Study use the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Technical Report, the Preliminary Assessment, the 2009 Study and the Pre-Feasibility Study also 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 National Instrument 43-101 of the Canadian Securities Administrators; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into 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.

### ***Administration and Capital Resource Activities***

On December 31, 2009, Mr. Michael K. Longinotti resigned as Chief Financial Officer.

On January 6, 2010, we announced that R. William Wilson had been appointed as our interim Chief Financial Officer. On May 28, 2010, Mr. Wilson resigned as Chief Financial Officer and Matthew A. Fowler of Sharp Executive Associates, Inc. was appointed as our Interim Chief Financial Officer.

On February 5, 2010, we and Gerald W. and Fabiola Baughman (who we refer to as the Debt holders) entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 (which we refer to as Amendment No. 1) pursuant to which, among other items, (i) we obtained the right, in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated

private placement or February 19, 2010; (ii) to delete certain unmet conditions required to be satisfied by us in connection with the exercise of the Option; and (iii) update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, we and the Debt holders entered into an Option Consideration Agreement (which we refer to as the Option Consideration Agreement) pursuant to

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which we agreed to (i) issue the Debt holders 1,500,000 of our shares of common stock and (ii) amend the terms of the Amended Note to reduce the conversion price (which we refer to as the Amendment Consideration), which Amendment Consideration was subject to obtaining the approval of our shareholders and Toronto Stock Exchange approval (which we refer to as the Approvals). The conversion price of Amended Note was amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012.

On February 5, 2010, we exercised the Option to restructure our 5% convertible note in the principal amount of \$5,000,000 (which we refer to as the Convertible Note) by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 shares of our common stock and a promissory note in the principal amount of \$500,000 to the Debt holders and issuing the Amended Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

On February 12, 2010, we and Richard J. Cavell TTTEE F/T Richard J. Cavell Trust dated 02/23/1994 (which we refer to as the Cavell Trust), Hardrock Mining Company and John W. Whitney (which, collectively, we refer to as the Lessors) entered into Amendment No. 2 to the Option Agreement Amendment to Mining Lease dated August 22, 2008 (which we refer to as the Mining Lease Option Agreement). Pursuant to Amendment No. 2, the Mining Lease Option Agreement was amended to provide for the extension of the option term (as defined in the Mining Lease Option Agreement) from February 22, 2010 until August 22, 2010 and the extension of the Condemnation Period as defined in the Mining Lease Option Agreement) from August 22, 2010 to August 22, 2011. As consideration for entering into Amendment No. 2 to the Mining Lease Option Agreement, we agreed to pay the Lessors \$150,000 comprised of cash in the amount of \$25,000 and shares of our 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 February 18, 2010, we closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn.\$0.17 per unit for gross proceeds of \$1,762,701 (Cdn.\$1,852,550). Each unit consists of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of \$0.25. The units were offered for sale directly by us. In connection with the private placement, we paid qualified registered dealers cash commissions in the aggregate amount of \$162,003 (Cdn.\$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of our common stock, exercisable at a price of \$0.21 for a period of up to twelve months from the date of closing of the private placement.

On March 7, 2010, Gerald W. Baughman resigned from his positions as an employee, officer and director of the Company in order to pursue other business opportunities. We and Mr. Baughman entered into a separation agreement for the purpose of facilitating a transition of Mr. Baughman's duties as an employee, officer and director of the Company. Under the terms of the separation agreement, Mr. Baughman's employment agreement was terminated and we agreed to pay Mr. Baughman \$50,000 to assist in the transition period following his resignation.

On April 23, 2010, we sold our wholly owned subsidiary, Nevada Eagle Resources LLC (which we refer to as Nevada Eagle) to Fronteer Development (USA) Inc. (which we refer to as Fronteer) for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming our obligations under the Convertible Note, which was retired. In addition, we retained the Copper Basin property located in Idaho.

On June 16, 2010, we closed the private placement with Sage Gold, Inc. (which we refer to as Sage) and issued 1,464,429 units at a purchase price of Cdn.\$0.14 per unit for gross proceeds of \$200,000 (Cdn.\$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to

purchase one additional share of common stock at an exercise price of \$0.20.

On August 2, 2010, Lisanna M. Lewis was appointed as one of our Vice Presidents. Ms. Lewis also serves as our Controller, Treasurer and Secretary.

On January 21, 2011, we closed a private financing and raised net proceeds of approximately \$1.3 million. We issued 6,500,000 units in a private placement, each unit consisting of one share of our common stock and one-half of a warrant to purchase a share of our common stock. The warrants are exercisable for a period of twenty-four months



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following the date of issuance at an exercise price of \$0.30 per share. The purchasers of the units are entitled to registration rights on the shares of common stock and warrants. We intend to use the net proceeds from the private placement to take preliminary steps to implement the development plan of the Borealis Property as well as for working capital and general corporate purposes.

After completing this financing, we had \$1,640,019 cash on hand.

## **Fiscal 2012 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 April 2011, we released the Pre-Feasibility Study on the development of an oxide heap leach mine. We plan to 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 its 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 submitted to the United States Forest Service (which we refer to as 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 2012:

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.

## **Discussion and Analysis**

This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and related notes. The discussion and analysis of the financial condition and results of operations are based upon the 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 us 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 we review our estimates and assumptions. The estimates were based on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations. Critical accounting policies, the policies we believe are most

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important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined below in Critical Accounting Policies, and have not changed significantly.

**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. Property payments we received under lease or joint venture arrangements were recorded as a reduction in the carrying value of the property unless the carrying value of the property was at or near zero, in which case the payments were recognized as gain on disposal of mineral properties of discontinued operations in the Statement of Operations (see note 5 of our consolidated financial statements).

***Year ended March 31, 2010 compared to year ended March 31, 2009***

For the year ended March 31, 2010 we had a net loss from continuing operations of \$3,273,757 or \$0.05 per share and net income from discontinued operations of \$957,536 or \$0.01 per share compared to a net loss from continuing operations of \$3,988,457 or \$0.06 per share and a net loss from discontinued operations of \$5,954,774 or \$0.10 per share for the prior year.

The prior years expenses, now in discontinued operations, included a charge to earnings of \$5,100,000 for the impairment of the carrying value of the Nevada Eagle exploration properties. The decrease in the net loss from continuing operations is due to decreased spending on exploration activities, management salaries and consulting fees, and general and administrative costs as a result of our efforts to conserve cash.

Exploration expenses from continuing operations during the year ended March 31, 2010 were \$1,405,165 or 43% of our net expense from continuing operations compared to \$1,429,559 or 36% of our total net expenses from continuing operations in the prior year. No drilling was completed during the year ended March 31, 2010. Much of the current year's exploration expense covered the completion of the 2009 Study plus permitting efforts for drilling in the pediment areas of the Borealis Property.

Management salaries and consulting fees from continuing operations for the year ended March 31, 2010 were \$682,814 compared to \$1,375,518 incurred in the prior year as two of the three employees went to part time and non-cash compensation decreased. Total non-cash compensation expense recognized in the year totaled \$166,088 compared to non-cash compensation expense of \$521,665 recognized in the prior year. General and administrative from continuing operations expenses totaled \$521,774, compared to \$654,908 in the prior year. The decrease is due to reduced spending on investor relations and our efforts to conserve cash. Legal and audit fees from continuing operations for the period increased to \$429,314 from \$226,549 for the year ended March 31, 2010. The increase resulted from an increase in corporate activities including our financing efforts activity. Travel and accommodation expense for the year ended March 31, 2010 was \$119,777, compared to \$133,933 for the prior year.

Interest income from continuing operations earned on cash deposits was \$1,052 for the year ended March 31, 2010, compared to \$32,364 in the prior year due to lower cash balances held on average through the current year versus the prior year and a declining interest rate environment in the current fiscal year.

***Year ended March 31, 2009 compared to year ended March 31, 2008***

For the year ended March 31, 2009 we had a net loss of \$9,943,231 or \$0.16 per share compared to a net loss of \$7,850,766 or \$0.13 per share for the prior year.

The 2009 expenses include a charge to earnings of \$5,100,000 for the impairment of the carrying value of the Nevada Eagle exploration properties. The loss before the impairment charge is \$4,843,231 and is less than the 2008 comparable loss. The reduction in the comparable loss is due to decreased spending on exploration activities, management salaries and consulting fees, and general and administrative costs as a result of our efforts to conserve cash.

Exploration expenses during the year ended March 31, 2009 were \$1,429,559 or 36% of our net expenses (before the effect of the non-cash impairment charge) compared to \$3,845,525 or 49% of our total net expenses in the prior year. No exploration drilling was completed during the year ended March 31, 2009. During the prior year

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we drilled a total of 31 holes at the Borealis Property, representing 36,485 feet. During the year ended March 31, 2009, we completed a CIM compliant NI 43-101 report and in September 2008, we released the results of our Preliminary Assessment of the development of an oxide heap leach gold mine on the Borealis Property. Much of the current year's exploration expense covered the completion of these two reports plus permitting efforts for exploration drilling in the pediment areas of the Borealis Property.

Management salaries and consulting fees for the year ended March 31, 2009 were \$1,375,518 compared to \$2,061,885 incurred in the prior year as the number of employees and consultants decreased during the year and non-cash compensation decreased. Total non-cash compensation expense recognized in the year totaled \$521,665 compared to non-cash compensation expense of \$829,080 recognized in the prior year. General and administrative expenses totaled \$654,908, compared to \$1,007,053 in the prior year. The decrease is due to reduced spending on investor relations and our efforts to conserve cash. Legal and audit fees for the period decreased from \$492,308 to \$226,549 for the year ended March 31, 2009. The decrease resulted from a larger number of registration statements being completed for shares issued under private placements, an increase in audit fees due to the acquisition of Nevada Eagle during the prior year, and legal fees related to potential acquisition activity in the prior year. Travel and accommodation expense for the year ended March 31, 2009 was \$133,933, compared to \$202,118 for the prior year. The decrease is due to decreased investor relations related travel and fewer property site visits.

Loss on disposal of mineral properties for the year ended March 31, 2009 was \$302,276, compared to \$0 in the prior year. The loss is due a \$340,014 loss on two properties we had released our interest in offset by a gain of \$37,738 on two sold properties.

Interest income earned on cash deposits was \$32,364 for the year ended March 31, 2009, compared to \$203,970 in the prior year due to lower cash balances held on average through the current year versus the prior year and a declining interest rate environment in the current fiscal year. Interest expense totaled \$527,456, of which \$350,151 was non-cash compared to \$316,963 of which \$159,775 was non-cash, in the prior period. The increase is due to interest being charged for 7 months in the prior period compared to 12 months during the current year ended. The interest expense was related to the note payable for the purchase of Nevada Eagle during fiscal 2008.

***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 \$42,812 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

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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 source of liquidity is cash that is raised by way of sale of common stock from treasury and other equity securities.

### ***Capital Resources***

Currently, we only have sufficient cash on hand to fund limited exploration activity, regulatory permitting, claim maintenance fees and general and administrative expenses through the end of June 2011. The expected proceeds from this offering are anticipated to be used for development of our Borealis project in order to move the project towards production. In addition, we anticipate we will require additional debt, project or equity financing to place our Borealis project into production. Therefore, we anticipate we will need to raise additional capital through either another equity or debt raise or through bank financing before the end of June 2011 to cover our general and administrative expenses for the remainder of the fiscal year ending March 31, 2012. If we are unable to raise sufficient capital to meet our general and administrative expenses, our development plans may be delayed and we may be unable to fund our continuing operational requirements.

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.

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.



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Subsequent to December 31, 2010, on January 21, 2011, we closed a private financing and raised net proceeds of approximately \$1.3 million. Following this private financing, we had \$1,640,019 in cash. We intend to use the net proceeds from the private placement to take preliminary steps to implement the development plan of the Borealis Property as well as for working capital and general corporate purposes.

Updated share capital as of May 12, 2011:

Basic Common Stock Issued and Outstanding	96,983,632
Warrants, Options and other Convertible Securities (reserved)	14,783,392
Fully Diluted Common Stock	111,767,024

***Borealis Lease***

We anticipate continuing to take all steps necessary to preserve our rights to the Borealis Property under the existing terms of the property lease. We also intend to work with the United States Forest Service to maintain our permits under the Plan of Operations. These steps are intended to preserve the existing value of the Borealis Property for our shareholders.

***Borealis Property***

In the event we make the decision to construct and operate a gold heap leach mine on the Borealis Property, we will need to raise capital and will consider debt, equity or forms of joint venture to raise the required capital. We cannot make any assurance that financing will be available to us on acceptable terms or at all. We intend to use the net proceeds from the offering under this prospectus to begin construction of Phase 1 of our oxide heap leach mining project on the Borealis Property and begin production with-in six months of completing this offering. See Use of Proceeds.

***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 the Lessors. These advance royalty payments are subject to annual adjustments based on changes in the United States Consumer Price Index.

On August 22, 2008, we 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 shares of our common stock (subject to obtaining approval from the TSX) 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 shares of our common stock. On February 12, 2010, we 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 we agreed to pay \$150,000 to the Lessors comprised of cash in the amount of \$25,000 and shares of our 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.

On February 22, 2011, the option agreement was amended by agreement of the parties. The amended option agreement extends the option on a month-to-month basis for up to six months beginning February 22, 2011 in consideration for \$25,000 per month payable by us to the Lessors. Under the terms of the amended option agreement,

we have agreed to exercise the option and fix the net smelter return royalty at 5% on the tenth business day following the closing of any offering by us to raise \$8 million or more and the leaseholders have agreed to accept a two year, 5% promissory note in the principal amount of \$1.6 million in lieu of a portion of the original \$1,750,000 cash payment due on exercise of the option. Upon exercise of the option, we will pay the Lessors \$150,000 in cash, the \$1.6 million promissory note, 5,000,000 shares of common stock at a deemed value of \$0.40 per share, subject to approval of the TSX, and a convertible promissory note in the principal amount of \$3 million.

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 Lessors in respect of the sale of gold (and other minerals) extracted from those

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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 we will be able to exercise the option to buy down the royalty before August 22, 2011 or obtain TSX approval in respect of the issue of the shares of common stock required in connection with the exercise of such option. If we are unable to exercise the option, our ability to put the Borealis Property into production would be adversely affected by the current royalty structure, as discussed above. This may make the Borealis Property less profitable or prevent us from putting the Borealis Property into production, which would adversely affect our future results of operations.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**Contractual Obligations**

We make advance royalty payments of \$9,762 per month to certain lease holders while our efforts are proceeding on the Borealis Property (which are included as an exploration expense in our financial statements). Also, to maintain its existing claims on the Borealis Property, we make payments totaling approximately \$94,000 annually, however such payments in 2010 were \$158,000 due to a one-time fee imposed by the State of Nevada. These payments are contingent upon us maintaining an interest in the property.

As of December 31, 2010, we had the following non-cancelable contractual obligations:

	Total	Payments Due by Period			More than 5 Years
		Less than 1 Year	2-3 Years	4-5 Years	
Operating Lease Obligation(1)	171,871	64,034	107,837		
Operating Lease Obligation(2)	35,265	25,110	10,155		

(1) Obligation for the rental of office space in Vancouver, BC, 5-year term, terminating August 2013 and payments of approximately \$5,010 per month for the first 3 years and \$5,363 per month for the remaining two years.

The Vancouver office has been sub-leased commencing May 1, 2010 for 3 years and 5 months (remaining life on lease) for Cdn.\$4,200 per month. As at December 31, 2010, we had accrued \$40,646, being the difference between the

required lease payments and the estimated future sub-lease receipts.

- (2) Obligation for rental of office space in Hawthorne, Nevada, one-year term, terminating April 30, 2011 and payments of \$1,200 per month. We also commenced renting an office in Carson City, Nevada for a term of two years, terminating June 30, 2012.

### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements is in accordance with accounting principles generally accepted in the United States. The following are critical accounting policies and estimates which we believe are important to understanding our financial results.

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### ***Use of estimates***

The preparation of financial statements requires us to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the revenues and expenses for the period reported. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Actual results could differ from these estimates.

### ***Revenue recognition***

Mineral lease rentals are treated as reductions of the cost of the property as the payor is accumulating an interest in the mineral property; payments in excess of capitalized costs are recognized in income. Some agreements provide for payments in the form of stock and other equity instruments as well as cash payments. Stock and other equity instruments are recognized based on their fair market value at the time of receipt. Fluctuations incurred during the holding period are accounted for as gains or losses from held for trading securities. The leases provide for the receipt of royalty payments upon production being generated from the property. Royalty payments will be recognized in the period in which production occurs. There are no properties in the production stage at this time.

### ***Mineral property interests***

We expense exploration costs as they are incurred. When we determine that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, development costs incurred after such determination will be capitalized. The establishment of proven and probable reserves is based on results of final feasibility studies which indicate whether a property is economically feasible. Upon commencement of commercial production, we will transfer capitalized costs to the appropriate asset category and amortize them over their estimated useful lives and/or ounces produced, as appropriate. We capitalize the cost of acquiring mineral property interests (including claims establishment and maintenance) until we have determined the viability of the property. We expense capitalized acquisition costs if we determine that the property has no future economic value. We will also write down capitalized amounts if estimated future cash flows, including potential sales proceeds, related to the mineral property are estimated to be less than the carrying value of the property.

### ***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) (since codified as FASB ASC 718-10) 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, our 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 ). We 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, we adopted the fair value recognition provisions of ASC 718-10, using the modified-prospective-transition method. Our total employees are relatively few in number and turnover is considered remote, therefore we currently estimates forfeitures to be 7%. Estimation of forfeitures will be reviewed on a quarterly basis.

*Asset retirement obligations*

We record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development or normal use of the assets with a corresponding increase in the carrying amount of the related long-lived asset. This amount is then depreciated over the estimated useful life of the asset. Over time, the liability is increased to reflect an interest element considered in its initial measurement at fair value. The amount of the liability

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will be subject to re-measurement at each reporting period. Currently, we have a reclamation liability of \$5,600 which is disclosed further in Note 9 of the consolidated financial statements.

### ***Tax valuation allowance***

We have recorded a valuation allowance that fully reserves for our deferred tax assets because at this time we cannot establish that we will be able to utilize the tax loss carryforwards in the future. If in the future we determine that we will be able to use all or a portion of our deferred tax assets in the future, based on our projections of future taxable income, we will reduce the valuation allowance, thereby increasing income in that period.

### ***Foreign currency translation***

The United States dollar is our functional currency. Transactions involving foreign currencies for items included in operations are translated into U.S. dollars using average exchange rates; monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date and all other balance sheet items are translated at the historical rates applicable to the transactions that comprise those amounts. Translation gains and losses are included in our determination of net income.

### ***Recent Accounting Pronouncements***

In March 2008, the FASB issued FASB ASC 815-10-15 (Prior authoritative literature: FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities* ). FASB ASC 815-10-15 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB ASC 815-20-25, and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. FASB ASC 815-10-15 is effective for fiscal years beginning after November 15, 2008. The provisions of FASB ASC 815-10-15 are only related to disclosure of derivative and hedging activities, and the adoption of FASB ASC 815-10-15 is not expected to have a material impact on our consolidated operating results, financial position, or cash flows.

On May 9, 2008, the FASB issued FASB ASC 470-20-55, (Prior authoritative literature: APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). FASB ASC 470-20-55 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial settlement) are not addressed by paragraph 12 of FASB ASC 470-20-55, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FASB ASC 470-20-55-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP FASB ASC 470-20-55 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP FASB ASC 470-20-55 did not have a material impact on our consolidated operating results, financial position, or cash flows.

In June 2008, the EITF reached consensus on FASB ASC 815-40-55 (Prior authoritative literature *EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). FASB ASC 815-40-55 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under FASB ASC 815-20-25 (Prior authoritative literature: FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities*). If the terms of an instrument, or embedded feature, are such that it is not considered to be indexed to the entity's own stock, equity classification would be precluded and the instrument would not be within the scope of FASB ASC 815-40-55 (Prior authoritative literature: EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a*

*Company's Own Stock*). FASB ASC 815-40-55 is effective for our fiscal year beginning April 1, 2009 and required the reclassification of the value of all warrants with an exercise price denominated in Canadian dollars from equity to liabilities, and this liability is stated at fair value each reporting period. At April 1, 2009, a reclassification of \$2,975,330 reduced additional paid in capital (the value of the warrants using Black-Scholes at time of original issue), deficit accumulated during the exploration stage was reduced by \$2,888,130 and a liability of \$87,200 (the value of the warrants at April 1, 2009) was recorded.



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In May 2009, the FASB issued FASB ASC 855-10-25 (Prior authoritative literature: FASB Statement 165, *Subsequent Events*), which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. FASB ASC 855-10-25 is effective for our fiscal year commencing April 1, 2009. The adoption of FASB ASC 855-10-25 had no impact on our consolidated financial position, results of operations or cash flows.

During the second quarter of 2009, the FASB issued FASB ASC 820-10-65, (Prior authoritative literature: *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). FASB ASC 820-10-65:

Affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction.

Clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.

Eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. FASB ASC 820-10-65 instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.

Includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.

Requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of FASB ASC 820-10-65 and to quantify its effects, if practicable.

Applies to all fair value measurements when appropriate.

FASB ASC 820-10-65 must be applied prospectively and retrospective application is not permitted. FASB ASC 820-10-65 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FASB ASC 820-10-65 must also early adopt FASB ASC 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments*. The adoption of FASB ASC 820-10-65 had no impact on our consolidated operating results, financial position, or cash flows.

During the second quarter of 2009, FASB issued FASB ASC 320-10-65 (Prior authoritative literature: FASB FSP 115-2/124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). ASC Topic 320-10-65-1 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. It also contains additional disclosure requirements related to debt and equity securities and changes existing impairment guidance under Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. For debt securities, the ability and intent to hold provision is eliminated, and impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). This new framework does not apply to equity securities (i.e., impaired equity securities will continue to be evaluated under previously existing guidance). The probability standard relating to the collectability of cash flows is eliminated, and impairment is now considered to be other-than-temporary

if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. ASC Topic 320-10-65-1 also provides that for debt securities which (i) an entity does not intend to sell and (ii) it is not more likely than not that the entity will be required to sell before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into the amount related to estimated credit losses and the amount related to all other factors. The amount of the total impairment related to all other factors is recorded in other comprehensive loss and the amount related to estimated credit loss is recognized as a charge against current period earnings. ASC Topic 320-10-65-1 is effective for interim and annual periods ending

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after June 15, 2009, with early adoption permitted. We elected to adopt ASC Topic 320-10-65-1 in the first quarter of 2009. FASB ASC 320-10-65 had no impact on our consolidated operating results, financial position, or cash flows.

In April 2009, the FASB issued FASB ASC Topic 270-10-05, *Interim Disclosures about Fair Value of Financial Instruments* (Prior authoritative literature: FSP FAS 107-1 and APB 28-1). FASB ASC Topic 270-10-05 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Before this guidance was adopted, fair values for these assets and liabilities were disclosed only once a year. The guidance now requires these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This pronouncement is effective for periods ending after June 15, 2009. We adopted this standard effective June 30, 2009, and it did not have a material impact on our financial position and results of operations.

In June 2009, the FASB issued FASB ASC 105-10-65 (Prior authoritative literature: FASB Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). Under FASB ASC 105-10-65 the FASB Accounting Standards Codification (which we refer to as the Codification) will become the exclusive source of authoritative U.S. generally accepted accounting principles (which we refer to as U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards, with the exception of certain non- SEC accounting literature which will become non-authoritative.

FASB ASC 105-10-65 was effective for our 2009 second fiscal quarter. The adoption of FASB ASC 105-10-did not have a material impact on our financial statements. All references to U.S. GAAP provided in the notes to the financial statements have been updated to conform to the Codification.

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**BUSINESS**

**Name and Incorporation**

Gryphon Gold Corporation was formed under the laws of the State of Nevada on April 24, 2003.

Our principal business office, which also serves as our administration and financing office, is located in the United States at 611 N. Nevada Street, Carson City, Nevada, 89703 and our telephone number is (604) 261-2229.

We own 100% of the issued and outstanding shares of our operating subsidiaries, Borealis Mining Company (which we refer to as Borealis Mining) and Gryphon Nevada Eagle Holding Company. Gryphon Nevada Eagle Holding Company owned 100% of the membership interests in Nevada Eagle Resources LLC until it was sold in its entirety on April 23, 2010. We have no other subsidiaries. Borealis Mining was formed under the laws of the State of Nevada on June 5, 2003, Gryphon Nevada Eagle Holding Company was formed under the laws of the State of Nevada on July 27, 2007, and Nevada Eagle Resources LLC was organized under the laws of the State of Nevada on April 28, 2005.

Steven D. Craig, CPG, the Company's Vice-President of Exploration, a qualified person as defined in National Instrument 43-101 of the Canadian Securities Administrators (NI 43-101), has supervised the preparation of the technical information relating to the Borealis Property referred to in this prospectus which is not otherwise referred to in the Technical Report on the Mineral Resources of the Borealis Gold Project located in Mineral County, Nevada USA dated April 28, 2008 the NI 43-101 Pre-Feasibility Study of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, Revised and Restated dated September 22, 2009 or in the NI 43-101 Pre-Feasibility Study Update of the Mineral Resources of the Borealis Gold Project Located in Mineral County, Nevada, USA, dated April 25, 2011.

**Business Objectives**

Gryphon Gold is in the business of acquiring, exploring, and developing gold properties in the United States, emphasizing 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, located in Nevada's Walker Lane Gold Belt. 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 business plan for the Borealis Property is to advance the development of the oxide heap leachable gold and silver to the production stage and to further expand and develop the significant sulphide resource through exploration, metallurgical design and sulphide project permitting and development. A successful oxide heap leach is anticipated to provide the revenue that would allow for the further development of the Borealis Property. The Borealis Property is unpatented mining claims of approximately 20 acres each, totaling about 15,020 acres, that has successful past production. The Borealis Property is a property that we believe has excellent potential exploration targets as defined by past exploration success, geophysical targets and past successful mining.

The development of the oxide heap leachable gold and silver has progressed through the issuance of the Preliminary Assessment, the 2009 Study and then the Pre-Feasibility Study. In the September to December 2009 period Gryphon Gold pursued project financing for a full-scale oxide heap leach start-up based on the 2009 Study. Based upon the financing requirement of \$27.5 million, which included \$2.5 million in relinquishing debt and \$1.75 million in royalty buy-down payments, the financing did not receive enough support to proceed.

The April 2011 Pre-Feasibility Study shows an average annual production of over 42,000 ounces a year gold-equivalent for six years, \$12.7 in initial capital costs (consisting of initial construction costs of \$8.61 million, bonding costs of \$3 million, \$0.41 million in additional indirect capital costs and a \$0.75 million contingency) and average life of mine cash operating cost of \$851 per ounce of gold. While the Pre-Feasibility Study forms the basis for the classification of some of the gold and silver resources on the Borealis Property as proven or probable reserves, as defined in accordance with the Definition Standards on Mineral Resources and Mineral Reserves of the Canadian Institute of Mining, Metallurgy and Petroleum, adopted for the purposes of NI 43-101, the Pre-Feasibility Study is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis

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Property for the purposes of U.S. securities laws. For the purposes of reporting under U.S. securities laws, only a final or bankable feasibility study which uses the three-year, historical average price may form the basis of the classification of mineralization as proven reserves or probable reserves.

In the spring of 2010, our engineers developed a plan for the start-up of the Borealis Property oxide heap leach on a staged basis. The object of the plan was to raise sufficient capital to begin gold recovery and to use internal cash flow to grow the operation to the full 50,000 ounces per year 2009 Study design. All of the capital and operating cost were based upon the 2009 Study design and numbers, with updates of critical operating parameters and confirmation of critical capital expenditures.

On October 21, 2010, we announced that our board of directors had developed a strategy to potentially expedite production at the Borealis Property. The focus was to finalize critical data pertaining to the Freedom Flats re-leach at the Borealis Property and then to finance the scaled down version of the mine start-up. The Phase 1 concept of the board of directors plan is to begin gold recovery from the previously mined and partially leached Freedom Flats oxide heap. The plan required the construction of a new leach pad and ponds. Gold recovery to bullion was planned to occur in the fourth month after ground breaking and would have occurred through a toll process or at a ADR plant scheduled for shut down in March, 2011.

In November 2010, we began the sample collection from the Freedom Flats re-leach to confirm the critical data pertaining to heap gold grade (oz. per ton) and gold and silver recovery. Metallurgical test work, being conducted by an independent Nevada testing firm, began in November and a final report is anticipated for the end of May, 2011.

In April 2011, we received the Pre-Feasibility Study which provided updated capital and operating cost estimates for the board of directors scaled down version of the mine start-up. The object of Phase 1 remains to raise sufficient capital to begin gold recovery and to use internal cash flow to expand operations to allow us to extract in excess of 42,000 ounces per year gold equivalent Pre-Feasibility Study design. The plan still contemplates the construction of a new leach pad and ponds.

Pursuant to the Pre-Feasibility Study, Phase 1 of the board of directors plan is anticipated to cost approximately \$12.7 million and to provide gross profits that will fund Phase 2. This next Phase is anticipated to expand the leach pad; mobilize the crushing and mining equipment; construct the permanent gold recovery plant and begin mining in the Borealis Property's East Ridge open pit. Gross profits from the Phase 2 are expected to provide the capital required to expand the mine to full production. The main activities associated with full production are: push back of the Freedom Flats pit exposing high grade oxide gold, development of roads and infrastructure and pre-stripping and development of the remaining oxide reserves. The capital is also anticipated to provide the resources needed to continue the exploration required to expand the oxide resources for expansion of mine life.

The plan will be initially primarily externally financed with \$3 million of debt financing and after Phase 1 is expected to be funded internally for completion of full production. The initial capital estimate need for Phase 1 of the plan is \$12.7 million, with any additional funds being used as additional contingency, recruiting, training and overhead. The mine life is scheduled for 6 years with additional gold recovery in year 7 with heap wash down. Expansion of the mine life past the initial 6 years is dependent on upgrading of current mineralization or the discovery of additional mineralization through exploration on the property.

Based upon the board of directors plan under the Pre-Feasibility Study, if adequate financing is received, ground breaking would be scheduled for June 2011, loaded carbon sales would be expected to begin in October 2011, and full production would be anticipated in February 2012.

A successful oxide heap leach project is expected to provide the cash required to fulfill the long-term plan to fully explore the Borealis Property and expand its current mineralization. We believe the Borealis Property represents one of the best exploration targets in the State of Nevada. We believe that past exploration success, past successful mining and geophysical data confirm the value of the Borealis Property.

The plan for the Borealis Property will be based on the Plan of Operations that has been approved by the U.S. Forest Service. The Plan of Operations 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

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revenues, or projected cash flows. The Plan of Operations was based on the general economic concepts as presented in the Pre-Feasibility Study.

## **History and Background of Company**

### ***Borealis Property***

In July 2003, through our wholly-owned subsidiary Borealis Mining, we acquired from Golden Phoenix Minerals, Inc. (which we refer to as Golden Phoenix) an option to earn up to a 70% joint venture interest in the mining lease for the Borealis Property (July 2003 Option and Joint Venture Agreement) by making qualified development expenditures on that property.

On January 10, 2005, Borealis Mining entered into a purchase agreement with Golden Phoenix which gave Borealis Mining the right to purchase the interest of Golden Phoenix in the Borealis Property for \$1,400,000. Golden Phoenix transferred its interest in the Borealis Property to Borealis Mining on January 28, 2005. Borealis Mining paid \$400,000 of the purchase price to Golden Phoenix upon closing of the purchase, and four additional quarterly payments of \$250,000 were made to Golden Phoenix. With the final payment of \$250,000 on January 24, 2006, Borealis Mining completed all the required payments under the purchase agreement and now has 100% control of the Borealis Property. A portion of the Borealis Property is subject to mining leases, as described under the caption Borealis Property, below.

As sole shareholder of Borealis Mining, we control all of the lease rights to a portion of the Borealis Property, subject to advance royalty, production royalty, and other payment obligations imposed by the lease. Our acquisition of the interest of Golden Phoenix in the Borealis Property terminated the July 2003 Option and Joint Venture Agreement.

In addition to our leasehold interest to a portion of the Borealis Property, we also own through Borealis Mining numerous unpatented mining claims that make up the balance of the Borealis Property, and all of the documentation and samples from years of exploration and development programs carried out by the previous operators of the Borealis Property.

On November 30, 2006, our board of directors concluded that we would not proceed with near term construction and production financing of a heap leach mine on the Borealis Property. The feed for the proposed mine was remnants from the previously mined open pits, and heap and dump material associated with the historical mining operations. The decision not to proceed was made due to the impact of certain technical corrections to the previously announced feasibility study and related NI 43-101 technical report, dated August 15, 2006. The technical corrections reduced the anticipated quantity of recoverable gold and silver over the project life, and resulted in a marginal projected return on investment. In light of the decision not to proceed with development of a mine, in December 2006, we closed our Denver office and terminated operations and engineering staff, including our Chief Operating Officer, Mr. Allen Gordon and Mr. Matt Bender, our Vice President of Borealis Project Development. Mr. Steven Craig, our Vice President of Exploration, was relocated to Nevada. As of December 1, 2006, our Chief Financial Officer, Mr. Michael Longinotti commenced working on a part-time basis. Under this agreement, his time spent in the office was reduced by 50% along with his salary. Mr. Longinotti resumed full time employment in mid-2007.

In January 2007, we started the process of completing a mineralization estimate covering the entire Borealis Property that included all drilling results obtained during calendar year 2007.

In April of 2008, we completed the Technical Report that included all drilling results to date, which was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on May 12, 2008 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The Technical Report details mineralization on our Borealis Property. The Technical



Report states that the recommended course of action for us is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralization on the Borealis Property.

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In the calendar year 2007, we continued extension drilling, focused on the expansion of the Graben deposit and exploration drilling for a new gold deposit within the two newly identified potentially gold-bearing hydrothermal systems in the pediments. This drilling program consisted of a series of Graben deposit expansion drilling and extension drilling north and west of the successful G3 G13 fence of holes. The drilling of the Graben deposit alternated with follow up exploration drilling in the Central and Western Pediments where 10 holes have intersected two distinct hydrothermal systems hidden beneath the pediments.

On August 22, 2008, we 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 is \$1,750,000 in cash, 7,726,250 shares of our common stock and a three year, \$1,909,500 5% note payable.

During September, 2008, we released the Preliminary Assessment on the development of an oxide heap leach mine on the Borealis Property. The Preliminary Assessment was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on October 7, 2008 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

Two water monitoring wells were installed during the quarter ended September 30, 2008. Under our permits, a water-monitoring program must be active for at least six months prior to the placement of material on a leach pad, and these wells were therefore necessary prior to the start of any leaching operation.

No exploration drilling was completed during the year ended March 31, 2009. A water well necessary for the construction of an oxide heap leach mine was installed during the quarter ended June 30, 2008. As of March 31, 2008, approximately 203 holes and 142,220 feet of reverse circulation (which we refer to as RC) drilling had been completed by us. A majority of the holes are in the area of existing mineralization in order to allow us to complete the Preliminary Assessment with the aim of identifying gold reserves and, if economically feasible, building a mine. During fiscal 2008, the majority of the holes drilled were to attempt to expand the Graben mineralization or complete exploration in the Pediment areas of the Borealis Property.

During September 2009, we released the 2009 Study on the development of an oxide heap leach mine. The 2009 Study was furnished to the SEC as Exhibit 99.2 to our Form 8-K as filed on September 22, 2009 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The 2009 Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The 2009 Study is not a bankable feasibility study. Cautionary Note to U.S. Investors: The 2009 Study uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

On February 12, 2010, we and the Lessors entered into Amendment No. 2 to the Option Agreement Amendment to Mining Lease dated August 22, 2008 (which we refer to as the Mining Lease Option Agreement). Pursuant to Amendment No. 2, the Mining Lease Option Agreement was amended to provide for the extension of the Option Term 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 Amendment No. 2, we agreed to pay the Lessors \$150,000 comprised of cash in the amount of \$25,000 and shares of our 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.

On March 5, 2010, we and Sage entered into an Option Agreement (which we refer to as the Sage Option Agreement) pursuant to which we granted Sage the option (which we refer to as the Sage Option) to enter into a Joint Venture Agreement (which we refer to as the Joint Venture Agreement) and earn a 50% joint venture interest (which we refer to as the Joint Venture) in the Borealis Property. The Sage Option Agreement was negotiated and entered into pursuant to the terms of a binding Letter of Intent between us and Sage, dated February 23, 2010.

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On March 26, 2010, we and Sage entered into Amendment No. 1 to the Sage Option Agreement and Amendment No. 1 to the Sage Subscription Agreement (which we refer to as Amendment 1). Amendment 1 amends the Sage Option Agreement, dated March 5, 2010 by extending the due diligence period to April 19, 2010, and amends the Sage Subscription Agreement, dated March 5, 2010, by extending the closing of the private placement to on or before May 11, 2010.

On April 19, 2010, we and Sage entered into Amendment No. 2 to the Sage Option Agreement and Amendment No. 2 to the Sage Subscription Agreement (which we refer to as Amendment 2). Pursuant to Amendment 2, the Sage Option Agreement and Sage Subscription Agreement were amended to extend the termination date of the due diligence period from April 19, 2010 to April 30, 2010.

On April 28, 2010, we and Sage entered into Amendment No. 3 to the Sage Option Agreement and Amendment No. 2 to the Sage Subscription Agreement (which we refer to as Amendment 3). Pursuant to Amendment 3, the Sage Option Agreement and the Sage Subscription Agreement were amended to extend the option expiry date, as defined in the Sage Option Agreement, until June 30, 2011 and to permit Sage to satisfy its commitment to invest US\$400,000 in the private placement through a subscription in the amount of US\$200,000 by June 16, 2010 and a further subscription in the amount of US\$200,000 by August 16, 2010, based on a subscription price equal to the greater of (i) the maximum discounted price permitted by the TSX Company Manual, and (ii) a 5% premium to the 30-day volume weighted average trading price of our common stock on the day immediately preceding the subscription date.

On June 15, 2010, we and Sage entered into Amendment No. 4 to the Sage Option Agreement and Amendment No. 4 to the Sage Subscription Agreement (which we refer to as Amendment 4). Pursuant to Amendment 4, the Sage Option Agreement and the Sage Subscription Agreement were amended to extend the JV Agreement Condition, as defined in the Sage Options Agreement, until July 15, 2010.

The Sage Option Agreement was terminated by both parties on August 16, 2010.

On April 25, 2011, we released the Pre-Feasibility Study for the development of the Borealis Property, which was furnished to the SEC as Exhibit 99.1 to our Form 8-K filed on April 26, 2011 and filed pursuant to Canadian securities laws and available on [www.sedar.com](http://www.sedar.com). The mineralization data and the economic analysis data contained in the Pre-Feasibility Study supersedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study. The Pre-Feasibility Study evaluated a potential oxide heap leach mining and production operation on the Borealis Property and estimated that such an operation would have a six-year mine life with an average annual production in excess of 42,000 ounces per year gold equivalent and require \$12.7 million in initial capital costs (consisting of initial construction costs of \$8.61 million, bonding costs of \$3 million, \$0.41 million in additional indirect capital costs and a \$0.75 million contingency) with an average life-of-mine cash operating cost of \$851 per ounce of gold. Life of mine capital costs include \$12.9 million in direct costs, \$8.86 million of indirect costs, \$1.2 million of contingency costs, for total life of mine capital costs of \$23 million. The Pre-Feasibility Study is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property.

**Cautionary Note to U.S. Investors:** The Pre-Feasibility Study and the 2009 Study use the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Technical Report, the Preliminary Assessment, the 2009 Study and the Pre-Feasibility Study also 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 National Instrument 43-101 of the Canadian Securities Administrators; however, these terms are not defined terms under Guide

7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into 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

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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.

***Substantial Capital Raises***

On December 22, 2005, we completed our initial public offering of 6.9 million units for gross proceeds of approximately \$5,036,497 with net proceeds of \$2,794,557 after deducting costs of \$2,241,940. The units were sold at a price of \$0.73 (Cdn.\$0.85) each and consisted of one share of common stock and one Class A warrant. Each Class A warrant was exercisable for a period of 12 months at a price of Cdn.\$1.15. The shares of our common stock are listed on the Toronto Stock Exchange under the symbol GGN. The offering was underwritten by a syndicate of Canadian underwriters which included Desjardins Securities, CIBC World Markets, Bolder Investment Partners and Orion Securities. The units were offered for sale pursuant to a prospectus filed in four Canadian provinces (British Columbia, Alberta, Manitoba and Ontario). The units were also registered in a registration statement filed with the United States Securities and Exchange Commission. The proceeds of the offering were used principally for the completion of our feasibility study for our Borealis Property and our exploration program on the Borealis Property, as well as for working capital.

On March 24, 2006, we closed a private placement of 5,475,000 units for sale at a purchase price of Cdn.\$1.25 to a limited number of accredited investors in Canada and the United States. Each unit consisted of one share of common stock and one half of one Series B purchase warrant. The Series B warrants were exercisable until March 23, 2007 at a price of Cdn.\$1.65. The private offering raised gross proceeds of Cdn.\$6.8 million. We paid qualified registered dealers a 7% cash commission and issued compensation options to acquire 280,500 shares of our common stock at price of Cdn.\$1.40 until March 23, 2007 on a portion of the private placement. The shares, warrants and underlying shares were not qualified by prospectus and were not registered under U.S. securities laws. We granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were used to fund the continuation of our exploration and development program on the Borealis Property.

In June 2006, we closed a private placement with our newly appointed Chief Financial Officer and our Corporate Controller. Mr. Longinotti was appointed as new Chief Financial Officer, effective May 15, 2006, and we entered into a formal employment agreement with him in due course. Mr. Longinotti received through a private placement as compensation: 100,000 units at a price of Cdn.\$1.35; each unit consisted of one (1) share of common stock with a par value of \$0.001 and one-half (1/2) of one (1) share purchase Series D Warrant. The common stock was issued May 26, 2006, and the Series D warrants were issued June 10, 2006. Mr. Longinotti's employment commenced April 18, 2006. Mr. Rajwant Kang was appointed Corporate Controller. In June of that year, as part of a private placement, Mr. Kang was issued 29,000 units at a price of Cdn.\$1.35; each unit consisted of one (1) share of common stock with a par value of \$0.001 and one-half (1/2) of one (1) share purchase Series D Warrant. The common stock was issued June 2, 2006, and the Series D warrants were issued June 10, 2006.

On February 9, 2007, we completed a private placement of 5.0 million units at a price of Cdn.\$0.90 per unit for gross proceeds of Cdn.\$4.5 million. Each unit consisted of one share of common stock and one full purchase warrant. The two year warrants were exercisable at a price of Cdn.\$1.10 if exercised within twelve months of the closing and at a price of Cdn.\$1.35 if exercised after the first anniversary but prior to expiry. We paid qualified registered dealers a 7% cash commission in the amount of Cdn.\$77,175 and issued compensation options to acquire 85,050 shares of our common stock (at a price of Cdn.\$0.90 per share for a period of 12 months from closing) in respect of the

1.225 million units placed by them. The shares, warrants and underlying shares were not qualified by prospectus and were not registered under U.S. securities laws. We granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were applied to fund the continuation of our exploration and development program on the Borealis Property.

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On August 7, 2007, we closed a private placement of 5.0 million units at a price of Cdn\$0.80 per unit for gross proceeds of Cdn.\$4.0 million. Each unit consisted of one share of common stock and one full purchase warrant. The two year warrants were exercisable at a price of Cdn.\$1.00 if exercised within twelve months of the closing and at a price Cdn.\$1.25 if exercised after the first anniversary but prior to expiry. We paid qualified registered dealers cash commissions in the amount of Cdn.\$152,040 and issued warrants to acquire 265,050 shares of our common stock (at a price of Cdn.\$0.83 for a period of up to 9 months from closing). The shares, warrants and underlying shares were not qualified by prospectus, were not registered under U.S. securities laws and were subject to resale restrictions. We granted registration rights to the investors in this private placement and used commercially reasonable efforts to prepare and file a registration statement with the SEC. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On December 14, 2007, we completed a private placement of 4,486,500 units at Cdn.\$0.80 for gross proceeds of approximately Cdn.\$3,589,200. The private placement closed in three tranches on November 22, November 27 and December 14, 2007. Each unit consisted of one share of common stock and one series I warrant. Each series I warrant entitled the holder to purchase a share of common stock at a price of Cdn\$1.00 per share during the first 12 months after closing and Cdn.\$1.25 per share during the second 12 months after closing and until expiry. We paid qualified registered dealers a 7% cash commission in the amount of Cdn.\$71,624 and issued compensation warrants (series J) to acquire 89,530 shares of our common stock (at a price of Cdn.\$0.80 per share for a period of 9 months from closing) in respect of the 1,204,000 units placed by them (14,000 of the compensation warrants were later rejected and cancelled by one of the registered dealers). We had a right to force warrant holders to exercise warrants, if the price of our common stock remained equal to or greater than, Cdn.\$1.85 per share, for a period of twenty consecutive days. The shares, warrants and underlying shares were not qualified by prospectus, have not been registered under U.S. securities laws, and are subject to resale restrictions. We granted registration rights to the investors in this private placement to use commercially reasonable efforts to prepare and file with the SEC a registration statement under the Securities Act and to cause such statement to be declared effective if requested to do so. The proceeds of this offering were applied to fund the continuation of our exploration and development program on the Borealis Property.

On February 18, 2010, we closed the private placement announced on January 22, 2010 and issued 10,897,353 units at a purchase price of Cdn.\$0.17 per unit for gross proceeds of \$1,762,701 (Cdn.\$1,852,550). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of \$0.25. The units were offered for sale directly by us. In connection with the private placement, we paid qualified registered dealers cash commissions in the aggregate amount of \$162,003 (Cdn.\$170,261) and has issued to such qualified registered dealers compensation options to acquire up to 990,500 shares of our common stock, exercisable at a price of \$0.21 for a period of up to twelve months from the date of closing of the private placement. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On June 16, 2010, we closed the private placement with Sage and issued 1,464,429 units at a purchase price of Cdn.\$0.14 per unit for gross proceeds of \$200,000 (Cdn.\$205,000). Each unit consisted of one share of common stock and one half of one common stock purchase warrant. Each whole common stock purchase warrant is exercisable for a period of two years from the date of closing of the private placement to purchase one additional share of common stock at an exercise price of \$0.20. The units were offered for sale directly by us. The proceeds of this offering were applied to fund the continuation of our exploration and development programs.

On January 21, 2011, we closed a private financing and raised net proceeds of approximately \$1.3 million. We issued 6,500,000 units in a private placement, each unit consisting of one share of our common stock and one-half of a warrant to purchase a share of our common stock. The warrants are exercisable for a period of twenty-four months following the date of issuance at an exercise price of \$0.30 per share. The purchasers of the units are entitled to



registration rights on the shares of common stock and warrants. We intend to use the net proceeds from the private placement to take preliminary steps to implement the development plan of the Borealis Property as well as for working capital and general corporate purposes.

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***Nevada Eagle***

On July 4, 2007, we entered into a membership interest purchase agreement with Gerald W. Baughman and Fabiola Baughman (which we refer to as the Debt holders), as sellers, and Nevada Eagle, under which we agreed to purchase all of the outstanding limited liability company interests of Nevada Eagle. Upon closing of the membership interest purchase agreement on August 21, 2007, we acquired Nevada Eagle from the sellers for the following consideration:

- (a) 2,500,000 in cash;
- (b) four million five hundred thousand (4,500,000) shares of our common stock; and
- (c) a 5% convertible note in the principal amount of \$5,000,000 (which we refer to as the Convertible Note).

On February 5, 2010, we and the Debt holders entered into Amendment No. 1 to the Option Agreement dated August 5, 2008 (which we refer to as Amendment No. 1) pursuant to which, among other items, (i) we obtained the right, in lieu of the \$500,000 cash payment, to issue a \$500,000 promissory note to the Debt holders payable on the earlier of the receipt of proceeds \$500,000 from a contemplated private placement or February 19, 2010; (ii) to delete certain unmet conditions required to be satisfied by us in connection with the exercise of the Option; and (iii) update the schedule of properties listed to secure repayment of the Amended Note.

As consideration for entering into Amendment No. 1, on February 5, 2010, we and the Debt holders entered into an Option Consideration Agreement (which we refer to as the Option Consideration Agreement) pursuant to which we agreed to (i) issue the Debt holders 1,500,000 shares of our common stock and (ii) amend the terms of the Amended Note to reduce the conversion price (which we refer to as the Amendment Consideration), which Amendment Consideration was subject to obtaining the approval of our shareholders and Toronto Stock Exchange approval (which we refer to as the Approvals). The conversion price of Amended Note was amended upon receipt of such Approvals to be convertible at \$0.60 per share from February 5, 2010 through March 30, 2010, at \$0.70 per share from March 31, 2010 through March 30, 2011 and at \$0.80 per share from March 31, 2011 to March 30, 2012.

On February 5, 2010, we exercised the option to restructure the Convertible Note by converting \$2,500,000 of principal of the Convertible Note, through the issuance of 4,000,000 shares of our common stock and a promissory note in the principal amount of \$500,000 to the Debt holders and issuing the an amended Convertible Note for the remaining \$2,500,000 of principal of the Convertible Note to the Debt holders due and payable on March 30, 2012.

On April 23, 2010, we sold our wholly owned subsidiary, Nevada Eagle, to Fronteer for \$4,750,000. Fronteer paid \$2,250,000 in cash and \$2,500,000 by assuming our obligations under the amended Convertible Note, which was retired. In addition, we retained the Copper Basin property located in Idaho.

***Management***

In July 2008, we announced the appointment of John L. Key as President and CEO, replacing Mr. Tony Ker. Mr. Key is a mining engineer with over 30 years experience and has run, in succession, the Magmont, Polaris and Red Dog mines in the Teck Cominco organization. Mr. Key had been acting as our Chief Operating Officer for the prior six months, and Mr. Key's primary focus has been overseeing the completion the Preliminary Assessment on a heap leach mine on the Borealis Property and advancing the project toward production as further described below. Mr. Key's employment contract provides for the granting of 350,000 stock options, which were granted August 1, 2008.

Mr. Ker entered into a Transition Agreement (TA) with us in August 2008, under which, Mr. Ker ceased to be an employee effective August 31, 2008 and ceased to be a director of the Company upon the election of directors at our

Annual General Meeting on September 5, 2008. Mr. Ker was to receive monthly payments of \$12,500 and certain incidental expenses for 12 months beginning September 2008. We recorded a charge to expense during the quarter ended September 30, 2008 to accrue the cost of the agreement. Mr. Ker has entered into a consulting agreement with us that became effective September 2008. Under the agreement, Mr. Ker is eligible for 200,000 common stock options and a success fee of 0.67% of any financing initiated during the term of this agreement. The consulting agreement was terminated effective September 28, 2008. The TA was amended on December 12, 2008

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terminating the monthly \$12,500 payments. A consulting agreement was entered into on December 12, 2008 and Mr. Ker was entitled to receive Cdn\$50,000 on January 1, 2009 and may be terminated any time and requires 90 days notice.

Effective November 2008, the CEO and VP Business Development became part time, and we terminated the employment of our CFO, VP Exploration, administrative assistant and Field Supervisor for the Borealis Property. The CFO and VP Exploration subsequently entered into consulting agreements with us.

On December 31, 2009 we terminated the consulting agreement with our former CFO and on January 6, 2010 we appointed R. William Wilson as our interim CFO.

On March 7, 2010, Gerald W. Baughman resigned from his positions as an employee, officer and director of the Company in order to pursue other business opportunities. The Company and Mr. Baughman entered into a separation agreement for the purpose of facilitating a transition of Mr. Baughman's duties as an employee, officer and director of the Company. Under the terms of the separation agreement, Mr. Baughman's Employment Agreement was terminated and the Company agreed to pay Mr. Baughman \$50,000 to assist the Company during the transition period following his resignation.

On May 12, 2010, R. William Wilson resigned as our interim Chief Financial Officer, effective May 28, 2010. On May 12, 2010, our board of directors accepted Mr. Wilson's resignation and appointed Matthew Fowler of Sharp Executive Associates, Inc. as our interim Chief Financial Officer, effective May 28, 2010

On August 2, 2010, Lisanna M. Lewis was appointed as one of our Vice Presidents. Ms. Lewis also serves as our Controller, Treasurer and Secretary.

## **Corporate Strengths**

We believe that we have the following business strengths that will enable us to achieve our objectives:

Our management team has significant exploration experience in Nevada and our CEO has 30 years of experience in mining operations;

As the Borealis Property was the site of surface mining operations from 1981 to 1990, we believe the process to receive permits and start operations on previously mined operations is less difficult than getting permits for a previously undisturbed area. The USDA Forest Service and the Nevada Bureau of Mining Regulation and Reclamation have both approved the Plan of Operations and Reclamation Plan, allowing us to proceed with the development of a heap leach mine assuming sufficient oxide reserves are found and additional financing is available. We have also received approvals for surface exploration and water wells and have successfully progressed through the required agency and public review process for those permits.

Our land position is extensive, controlled by 751 unpatented mining claims covering approximately 15,020 acres and one 5 acre millsite claim. We believe many surface showings of gold mineralization on the property may provide opportunities for discovery of gold deposits. Our property has multiple types of gold deposits including oxidized material, partial oxidized material, and predominantly sulfide material; which we believe may allow us flexibility in our future plans for mine development and expansion, assuming additional financing is available.

We cannot be certain that any mineral deposits will be discovered in sufficient quantities and grade to justify commercial operations. Whether a mineral deposit will be commercially viable depends on a number of factors,

including the particular attributes of the deposit; metal prices, which are highly cyclical; the cost to extract and process the mineralized material; and government regulations and permitting requirements. We may be unable to further upgrade additional mineralized material to proven and probable reserves in sufficient quantities to justify commercial operations and we may not be able to raise sufficient capital to develop the Borealis Property.

We have specifically focused our activities on Nevada. Mining is an integral part of Nevada's economy. Nevada ranks fourth in the world in gold production, after South Africa, Australia, and China. Located in the State of Nevada are well known geological trends such as the Carlin Trend, Battle Mountain, Getchell Trend and the Walker Lane Trend. The Borealis Property is also located along the Aurora-Bodie trend which crosses the principal

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Walker Lane Trend as shown in the illustration below. Borealis, Bodie, Aurora, and other historical producing districts, are aligned along this northeast-southwest belt of significant gold deposits.

(Source: Gryphon Gold, 2005)

**Gold Industry**

*Gold Uses.* Gold has two main categories of use: fabrication and investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors buy gold bullion, official coins and jewelry.

*Gold Supply.* The supply of gold consists of a combination of production from mining and the draw-down of existing stocks of gold held by governments, financial institutions, industrial organizations and private individuals. In recent years, mine production has accounted for 60% to 70% of the annual supply of gold.

***Gold Prices and Market Statistics***

The following table presents the annual high, low and average afternoon fixing prices for gold over the past six years, expressed in U.S. dollars per ounce on the London Bullion Market.

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average</b>
2005	\$ 536	\$ 411	\$ 444
2006	\$ 726	\$ 521	\$ 604
2007	\$ 841	\$ 608	\$ 681
2008	\$ 1,011	\$ 713	\$ 872
2009	\$ 1,213	\$ 810	\$ 972
2010	\$ 1,421	\$ 1,058	\$ 1,225

(Source: Kitco)

**Competition**

We compete with other mining companies in connection with the acquisition, exploration, financing and development of gold properties. There is competition for the limited number of gold acquisition and exploration opportunities, some of which is with other companies having substantially greater financial resources than we have. As a result, we may have difficulty acquiring attractive gold projects at reasonable prices. We also compete with other mining companies for mining engineers, geologists and other skilled personnel in the mining industry and for exploration and development equipment.

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We believe no single company has sufficient market power to affect the price or supply of gold in the world market.

### **Employees**

As of May 12, 2011, we had 4 full-time employees, 1 employed at our office in Vancouver, British Columbia and 3 employed at our office in Carson City, Nevada. As of May 12, 2011, Borealis Mining, our wholly-owned subsidiary, had no full-time employees or part-time employees. We use consultants with specific skills to assist with various aspects of our project evaluation, due diligence, corporate governance and property management.

### **Environmental Regulation**

Our gold projects are subject to various federal, state and local laws and regulations governing protection of the environment. These laws are continually changing and, in general, are becoming more restrictive. Our policy is to conduct business in a way that safeguards public health and the environment. We believe that our operations are conducted in material compliance with applicable laws and regulations.

Changes to current local, state or federal laws and regulations in the jurisdictions where we operate could require additional capital expenditures and increased operating and/or reclamation costs. Although we are unable to predict what additional legislation, if any, might be proposed or enacted, additional regulatory requirements could impact the economics of our projects.

During the year ended March 31, 2010, there were no material environmental incidents or material non-compliance with any applicable environmental regulations.

## **PROPERTIES**

### **Executive Offices**

Our principal executive office is at 611 N. Nevada Street, Carson City, Nevada 89703. We do not currently own investments in real estate, real estate mortgages or securities of persons primarily engaged in real estate activities, nor do we expect to do so in the foreseeable future.

### **Borealis Property**

**Cautionary Note to U.S. Investors:** The Pre-Feasibility Study and the 2009 Study use the terms *mineral reserve*, *proven mineral reserve* and *probable mineral reserve* as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a *final* or *bankable* feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Technical Report, the Preliminary Assessment the 2009 Study and the Pre-Feasibility Study also 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 National Instrument 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into 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.



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Unless stated otherwise, information of a technical or scientific nature related to the Borealis Property is summarized or extracted from the Technical Report and the Pre-Feasibility Study. The Technical Report and the Pre-Feasibility Study were prepared in accordance with the requirements of National Instrument 43-101. Steve Wolff (in respect of Section 17 of the Technical Report only), Steven D. Craig, CPG, and Jaye T. Pickarts, P.E. co-authored the Technical Report. The Pre-Feasibility Study was authored by John D. Welsh, P.E. and was co-authored by Jonathan M. Brown CPG, MBA, Douglas Willis, CPG, and Dr. Thom Seal Ph.D., P.E. Management's plans, expectations and forecasts related to our Borealis Property are based on assumptions, qualifications and procedures which are set out in the Pre-Feasibility Study.

The Borealis Property in Nevada is our principal asset, which we hold through our subsidiary, Borealis Mining. In the 1980s previous operators of the Borealis Property mined approximately 600,000 ounces of gold from near-surface oxide deposits. In this prospectus, the previously mined area is referred to as the Borealis site, the Borealis mine, the previously disturbed area or the previously mined area, while our references to the Borealis Property refer to the entire property we own or lease through Borealis Mining.

Echo Bay Mines Limited ceased active mining operations in 1991. Full site reclamation was completed in 1994. Reclamation bonds were released and Echo Bay relinquished its lease in 1996.

At the Borealis Property, there is one large hydrothermal system, containing at least 13 known gold deposits, some of which are contiguous. There has been historical production from 8 of these deposits. As there are several other showings of gold mineralization across the property, there is an opportunity to identify additional gold deposits.

***Borealis Property Description and Location***

The Borealis Property is located in Mineral County in southwest Nevada, 12 miles northeast of the California border. The Borealis Property covers approximately 15,020 acres. The approximate center of the property is at longitude 118° 45' 34" West and latitude 38° 22' 55" North. The figure below shows the location and access to the Borealis Property.

(Source: Gryphon Gold, 2005)

The Borealis Property is comprised of 751 unpatented mining claims of approximately 20 acres each, totaling about 15,020 acres, and one unpatented millsite claim of approximately 5 acres. Of the 751 unpatented mining claims, 128 claims are owned by others but leased to Borealis Mining, and 623 of the claims were staked by Golden Phoenix Minerals, Inc., whom we refer to as Golden Phoenix, or Gryphon Gold and transferred to Borealis Mining.

Our rights, through Borealis Mining as the owner or lessee of the claims, allow us to explore, develop and mine the Borealis Property, subject to the prior procurement of required operating permits and approvals, compliance with the terms and conditions of the mining lease, and compliance with applicable federal, state, and local laws, regulations and ordinances. We believe that all of our claims are in good standing.

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The 128 leased claims are owned by John W. Whitney, Hardrock Mining Company and the Cavell Trust, whom we refer to in this section as the Borealis Owners. Borealis Mining leases the claims from the Borealis Owners under a Mining Lease dated January 24, 1997 and amended as of February 24, 1997. The mining lease was assigned to Borealis Mining by the prior lessee, Golden Phoenix. The mining lease contains an area of interest provision, such that any new mining claims located or acquired by Borealis Mining within the area of interest after the date of the mining lease shall automatically become subject to the provisions of the mining lease.

The term of the mining lease extends to January 24, 2009 and continues indefinitely thereafter for so long as any mining, development (including exploration drilling) or processing is being conducted on the leased property on a continuous basis. On December 31, 2009, the Borealis Owners confirmed that the lease is in the Continuing Term, as defined, and is valid and in full force and effect. The remainder of the Borealis Property consists of 623 unpatented mining claims and one unpatented millsite claim staked by Golden Phoenix, Gryphon Gold or Borealis Mining. Claims staked by Golden Phoenix were transferred to Borealis Mining in conjunction with our January 28, 2005 purchase of all of Golden Phoenix's interest in the Borealis Property. A total of 202 claims of the total 751 claims held by Gryphon Gold are contiguous with the claim holdings, are located outside of the area of interest, and are not subject to any of the provisions of the lease.

All of the mining claims (including the owned and leased claims) are unpatented, such that paramount ownership of the land is in the United States of America. Claim maintenance payments and related documents must be filed annually with the Bureau of Land Management (BLM) and with Mineral County, Nevada to keep the claims from terminating by operation of law. Borealis Mining is responsible for those actions. At present, the estimated annual BLM maintenance fees are \$125 per claim, or \$94,000 per year for all of the Borealis Property claims (751 unpatented mining claims plus one millsite claim). In addition, Mineral County filing and document fees totaling \$6,400 are paid to fulfill the annual filing requirements. The State of Nevada imposed a one time fee of \$85 per claim in 2010, therefore an additional \$63,920 was paid in 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 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, we 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 shares of our common stock (subject to obtaining approval from the TSX) 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 our common stock.

On February 12, 2010, we 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 we agreed to pay \$150,000 to the Borealis Owners comprised of cash in the amount of \$25,000 and shares of our 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.

On February 22, 2011, the option agreement was amended by agreement of the parties. The amended option agreement extends the option on a month-to-month basis for up to six months beginning February 22, 2011 in consideration for \$25,000 per month payable by us to the Borealis Owners. Under the terms of the amended option

agreement, we have agreed to exercise the option and fix the net smelter return royalty at 5% on the tenth business day following the closing of any offering by us to raise \$8 million or more and the Borealis Owners have agreed to accept a two year, 5% promissory note in the principal amount of \$1.6 million in lieu of a portion of the original \$1,750,000 cash payment due on exercise of the option. Upon exercise of the option, we will pay the Borealis Owners \$150,000 in cash, the \$1.6 million promissory note, 5,000,000 shares of common stock at a deemed value of \$0.40 per share, subject to approval of the TSX, and a convertible promissory note in the principal amount of \$3 million.

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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%.

At present, there is no royalty payable to the United States or the State of Nevada on production from unpatented mining claims, although legislative attempts to impose a royalty have occurred in recent years.

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

Primary access to the Borealis Property is gained from an all weather county gravel road located about two miles south of Hawthorne from State Highway 359. Hawthorne is about 133 highway miles southeast of Reno. The Borealis Property is about 16 road miles from Hawthorne.

The elevation on the property ranges from 7,200 ft to 8,200 ft above sea level. This relatively high elevation produces moderate summers with high temperatures in the 90°F (32°C) range. Winters can be cold and windy with temperatures dropping to 0°F (-18°C). Average annual precipitation is approximately 10 inches, part of which occurs as up to 60 inches of snowfall. Historically, the Borealis Property was operated throughout the year with only limited weather related interruptions.

Topography ranges from moderate and hilly terrain with rocky knolls and peaks, to steep and mountainous terrain in the higher elevations.

The vegetation throughout the project area is categorized into several main community types: pinyon/juniper woodland, sagebrush, ephemeral drainages and areas disturbed by mining and reclaimed. Predominate species include piñon pine, Utah juniper, greasewood, a variety of sagebrush species, crested wheat grass and fourwing saltbush.

There is a power line crossing the Borealis Property within 2 miles of the center of the potential operations, which we will evaluate for the power source during our potential future engineering feasibility work. Water is available from a water basin located approximately 2 miles south of the planned mine site. Water for historical mining operations was supplied from the basin 2 miles away from the site. We have obtained permits from the Nevada Division of Water Resources to access water from this basin. Two production wells have been installed that we believe will provide a sufficient water supply for our potential operations.

The Borealis Property site has been reclaimed by the prior operator to early 1990's standards. The pits and the project boundary are fenced for public safety. Currently, access to the pits and leach heap areas is gained through a locked gate. No buildings or power lines or other mining related facilities located on the surface remain. All currently existing roads in the project area are two-track roads with most located within the limits of the old haul roads that have been reclaimed.

The nearest available services for both mine development work and mine operations are in the small town of Hawthorne, via a wide well-maintained gravel road. Hawthorne has substantial housing available, adequate fuel supplies and sufficient infrastructure to meet basic supply requirements. Material required for property development and mine operations are generally available from suppliers located in Reno, Nevada.

***History of the District and Borealis Property***

The original Ramona mining district, now known as the Borealis mining district, produced less than 1,000 ounces of gold prior to 1981. In 1978 the Borealis gold deposit was discovered by S. W. Ivosevic, a geologist working for Houston International Minerals Company (a subsidiary of Houston Oil and Minerals Corporation). The

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property was acquired from the Whitney Partnership, which later became the Borealis Owners, following Houston's examination of the submitted property. Initial discovery of ore-grade gold mineralization in the Borealis district and subsequent rapid development resulted in production beginning in October 1981 as an open pit mining and heap leaching operation. Tenneco Minerals acquired the assets of Houston International Minerals in late 1981, and continued production from the Borealis mine. Subsequently, several other gold deposits were discovered and mined by open pit methods along the generally northeast-striking Borealis trend, and also several small deposits were discovered further to the northwest in the Cerro Duro area. Tenneco's exploration in early 1986 discovered the Freedom Flats deposit beneath thin alluvial cover on the pediment southwest of the Borealis mine. In October 1986, Echo Bay Mines acquired the assets of Tenneco Minerals.

With the completion of mining of the readily available oxide ore in the Freedom Flats deposit and other deposits in the district, active mining was terminated in January 1990, and leaching operations ended in late 1990. Echo Bay left behind a number of oxidized and sulfide-bearing gold mineralized material. All eight open pit operations are reported to have produced 10.7 million tons of ore averaging 0.057 ounces of gold per ton (opt Au). Gold recovered from the material placed on heaps was approximately 500,000 ounces, plus an estimated 1.5 million ounces of silver. Reclamation of the closed mine began immediately and continued for several years. Echo Bay decided not to continue with its own exploration and the property was farmed out as a joint venture in 1990-91 to Billiton Minerals, which drilled 28 reverse circulation (RC) exploration holes on outlying targets for a total of 8,120 ft. Billiton Minerals stopped its farm-in on the property with no retained interest.

Subsequently Santa Fe Pacific Mining, Inc. entered into a joint venture with Echo Bay in 1992, compiled data, constructed a digital drill-hole database and drilled 32 deep RC and core holes totaling 31,899.3 feet, including a number of holes into the Graben deposit. Santa Fe terminated its interest in the joint venture in 1993. Echo Bay completed all reclamation requirements in 1994 and then terminated its lease agreement with the Borealis Owners in 1996.

In 1996 J.D. Welsh & Associates, Inc. negotiated an option-to-lease agreement for a portion of the Borealis Property from the Borealis Owners. Prior to 1996, J.D. Welsh had performed contract reclamation work for Echo Bay and was responsible for monitoring the drain-down of the leach heaps. Upon signing the lease, J.D. Welsh immediately joint ventured the project with Cambior Exploration U.S.A., Inc. Cambior performed a major data compilation program and several gradient IP surveys. In 1998 Cambior drilled 10 holes which succeeded in extending the Graben deposit and in identifying a new area of gold mineralization at Sunset Wash.

During the Cambior joint venture period, in late 1997, Golden Phoenix entered an agreement to purchase a portion of J.D. Welsh's interest in the mining lease. J.D. Welsh subsequently sold its remaining interest in the mining lease to a third party, which in turn sold it to Golden Phoenix, resulting in Golden Phoenix controlling a 100% interest in the mining lease beginning in 2000. Golden Phoenix personnel reviewed project data, compiled and updated a digital drill-hole database (previous computer-based mineralization modeling databases), compiled exploration information and developed concepts, maintained the property during the years of low gold prices, and developed new mineralized material estimates for the entire property.

In July 2003 Borealis Mining acquired an option to earn an interest in a joint venture in a portion of the Borealis Property and in January 2005 Borealis Mining acquired full interest in the mining lease and mining claims comprising the Borealis Property. See, Business- History and Background of the Company, above.

We have expended considerable effort consolidating the available historical data since acquiring our interest in the Borealis Property. This data has been scanned, and converted into a searchable electronic form. The electronic database has formed the basis of re-interpretation of the district geologic setting, and helped to form the foundation for a new understanding of the district's potential. We acquired this data from Golden Phoenix in May 2003, and

additional information from other sources.

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***Historical Gold Production***

The Borealis Property is not currently a producing mine. Historical data is presented for general information and is not indicative of existing grades or expected production. We have no reserves on the Borealis Property.

**Photograph of Borealis district.  
View to the east, with Freedom Flat pit in foreground.  
The photograph shows the site as it was circa 1991.**

(Source: Gryphon Gold 2005)

Several gold deposits have been previously defined through drilling on the Borealis Property by prior owners. Some gold deposits have been partially mined. Reports on past production vary. The past gold production from pits on the Borealis Property, as reported by prior owners is tabulated below. The total of past gold production was approximately 10.6 million tons of ore averaging 0.057 ounces per ton (opt) gold. Mine production resulting from limited operations in 1990 is not included. Although no complete historical silver production records still exist at this time, the average silver content of ore mined from all eight pits appears in the range of five ounces of silver for each ounce of gold. We are determining the potential viability of silver recovery as our feasibility study and more detailed mine planning progress.



**Table of Contents****Reported past Borealis production, 1981-1990(1)**

<b>Crushed and Agglomerated Ore(2)</b>	<b>Tons</b>	<b>Grade (opt Au)</b>	<b>Contained Gold</b>
Borealis	1,488,900	0.103	153,360
Freedom Flats	1,280,000	0.153	195,800
Jaime s/Cerro Duro/Purdy	517,900	0.108	55,900
East Ridge	795,000	0.059	46,900
Gold View	264,000	0.047	12,400
Total	4,345,800	0.107	464,360
<b>Run of Mine Ore(3)</b>			
Polaris (Deep Ore Flats)	250,000	0.038	9,500
Gold View	396,000	0.009	3,500
Northeast Ridge	3,000,000	0.025	75,000
East Ridge	2,605,000	.021	54,700
Total	6,251,000	0.023	142,700
<b>Grand Total</b>	<b>10,596,800</b>	<b>0.057</b>	<b>607,060</b>

- (1) The numbers presented in this table are based on limited production records. A later report in 1991 published by the Geologic Society of Nevada reports that production totaled 10.7 million tons with an average grade of 0.059 opt Au.
- (2) Crushed and agglomerated ore is that material which has been reduced in size by crushing, and as a result may contain a significant portion of very fine particles which is then, with the aid of a binding agent such as cement, reconstituted into larger particles and subsequently leached in a heap. The agglomerated ore typically has greater strength allowing for higher stacked heaps and may allow better percolation of leach solutions if the ore has high clay content.
- (3) Run of mine ore is that material which was fragmented by blasting only, and then stacked on the heaps without being further reduced in size by crushing or other beneficiation processes.

***Borealis Property Background***

The Technical Report was completed April 28, 2008. The Technical Report was compiled by Roger C. Steinger, Ph.D., CPG of Reno, Nevada. Steve Wolff (in respect of Section 17 of the Technical Report only), Steven D. Craig, CPG, and Jaye T. Pickarts, P.E. co-authored the Technical Report. The Technical Report states that the recommended course of action for the Company is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralized material on the Borealis Property. Cautionary Note to U.S. Investors: The Technical Report uses 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

Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

We are undertaking a systematic district-scale exploration program designed to discover and delineate large gold deposits within the greater Borealis Property, outside of the known mineral deposits, which should focus along known mineralized trends that project into untested gravel-covered areas with coincident geophysical anomalies.

The principal steps to the current drilling plans related to the Borealis Property include:

- maintaining all previously obtained permits;

- completing the permitting process;

- continuing our drilling program, database enhancement and geophysical surveys on the previously disturbed area of the Borealis Property, also referred to as the Borealis site ;

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implementing a systematic metallurgical testing program for gold bearing samples collected;

continuing drilling in the area known as the Graben to test the extent and further define the quality of known sulfide gold mineralization; and

continuing the exploration program for the areas of the Borealis Property outside the Borealis site.

We are actively working on completion of all the above steps. We expect to test other high-potential targets contained in the Central and Western Pediment Prospect areas and the Rainbow Ridge and Tough Hills area.

The Preliminary Assessment was completed September 2, 2008 and authored by John R. Danio, P.E. of Denver, Colorado. The Preliminary Assessment was co-authored by Roger C. Steininger, Ph.D., CPG, Steve Wolff (in respect of Section 17 of the Preliminary Assessment only), Steven D. Craig, CPG, Jaye T. Pickarts, P.E. and Kim Drossulis. The Preliminary Assessment outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property. Cautionary Note to U.S. Investors: The Preliminary Assessment uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The 2009 Study was completed on September 17, 2009 and authored by John R. Danio, P.E. of Denver, Colorado. The 2009 Study was co-authored by Roger C. Steininger, Ph.D., CPG, Steve Wolff (in respect of Section 17 of the Preliminary Assessment only), Steven D. Craig, CPG, Jaye T. Pickarts, P.E. and Kim Drossulis. The 2009 Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The 2009 Study is not a bankable feasibility study. Cautionary Note to U.S. Investors: The 2009 Study uses the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The 2009 Study uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The Pre-Feasibility Study was completed on April 25, 2011 and authored by John D. Welsh, P.E. of Reno, Nevada. The Pre-Feasibility Study was also co-authored by Jonathan M. Brown, CPG, MBA, Douglas Willis, CPG, and Dr. Thom Seal, Ph.D., P.E. The mineralization data and economic analysis data contained in the Pre-Feasibility Study supercedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The Pre-Feasibility Study is not a bankable feasibility study. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management's Discussion and Analysis of Financial Condition and Operating Results Liquidity and Capital Resources and Risk Factors. Cautionary Note to U.S. Investors: The Pre-Feasibility Study uses the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined

in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Pre-Feasibility Study uses 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

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under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

### ***Geological Setting***

#### ***Regional Geology***

The Borealis mining district lies within the northwest-trending Walker Lane mineral belt of the western Basin and Range province, which hosts numerous gold and silver deposits. Mesozoic metamorphic rocks in the region are intruded by Cretaceous granitic plutons. In the Wassuk range the Mesozoic basement is principally granodiorite with metamorphic rock inclusions. Overlying these rocks are minor occurrences of Tertiary rhyolitic tuffs and more extensive andesite flows. Near some fault zones, the granitic basement rocks exposed in the eastern part of the district are locally weakly altered and limonite stained.

The oldest exposed Tertiary rocks are rhyolitic tuffs in small isolated outcrops which may be erosional remnants of a more extensive unit. The rhyolitic tuffs may be correlative with regionally extensive Oligocene rhyolitic ignimbrites found in the Yerington area to the north and within the northern Wassuk Range. On the west side of the Wassuk Range, a thick sequence of older Miocene andesitic volcanic rocks unconformably overlies and is in fault contact with the granitic and metamorphic rocks, which generally occur east of the Borealis district. The age of the andesites is poorly constrained due to limited regional dating, but an age of 19 to 15 Ma is suggested (Ma refers to million years before present). In the Aurora district, 10 miles southwest of the Borealis district, andesitic agglomerates and flows dated at 15.4 to 13.5 Ma overlie Mesozoic basement rocks and host gold-silver mineralization. Based on these data, the andesites in the Borealis region can be considered as 19 to 13.5 Ma.

The Borealis district lies within the northeast-trending Bodie-Aurora-Borealis mineral belt; the Aurora district lies 10 miles southwest of Borealis and the Bodie district lies 19 miles southwest in California. All three mining districts are hosted by Miocene volcanics. The intersection of northwesterly and west-northwesterly trending Walker Lane structures with the northeasterly trending structures of the Aurora-Borealis zone probably provided the structural preparation conducive to extensive hydrothermal alteration and mineralization at Borealis.

#### ***Local Geology***

The Borealis District comprises widespread high-sulfidation (acid-sulfate alteration) gold-silver mineralization that was the focus of recent and historical mining operations. The district trends N70-75W, for seven miles, from Bullion-Delta targets, west-northwest to Purdy Peak. The eastern boundary of the district is west of Mesozoic intrusive rocks, and Pre-Mesozoic sequences. The western limit of the district is unknown and unexplored.

Gold-silver mineralization, silicified fault breccias, zones of silicification, and associated alteration is structurally controlled. The most important structural trends defined in the district are:

*Principal displacement zone:* Cerro Duro Fracture Zone (CDFZ), striking approximately N70-75W, brittle fracture system,

*Transtensional zone:* Freedom Flats-Borealis-East Pit-Northeast Pit (FFBENE), striking approximately N50E,

Antithetic, right lateral, strike slip zones, trending approximately North-South,

Reverse fault systems trending northwest.

Faults, fault breccias, linear zones of silicification and silicified sheeted joints dip steeply, vertical to 60 degrees. These zones dip predominately westerly, i.e. northwesterly, southwesterly, with subordinate northeast dips. Structural zones are laterally discontinuous exhibiting en-echelon patterns and complex sets of conjugate internal joint arrays.

Five distinct styles of silicification occur in the district:

Pervasive micro-granular quartz,  $\pm$  chalcedony-opal, devoid of pyrite, associated with weak (to moderate) leaching, and bleaching of host rocks, i.e. low temperature clays.

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Fine-medium grained granular quartz structurally controlled along faults and breccia zones, (a) with pyrite, (b) devoid of pyrite with associated moderate leaching and bleaching, i.e. low to medium temperature clays.

Medium-grained granular quartz, structurally controlled along faults and breccia zones with pyrite, and zones of late stage vuggy-vapor phase acid leaching. Host lithologies, particularly volcanoclastic breccias exhibit a range in clast replacement, i.e. silica absorption, from weak to moderate. Groundmass is replaced by medium-grained granular quartz. Medium temperature clay alteration occurs as peripheral halos.

Medium to coarse-grained quartz with pyrite, structurally controlled, with associated fault breccias and zones of intense silicification, moderate to total replacement of original host lithologies and occasionally replacing preexisting silicified fault breccia zones with associated alunite, barite, with peripheral zones of moderate to intense medium to intense moderate to high temperatures clay alteration.

Quartz sericite pyrite alteration occurs in the granodiorite basement, up to 500 feet from the contact with the volcanic stratigraphy, in fault zones, in zones of stockwork fracturing spatially associated with fault-contact between the basement and volcanic stratigraphy. In addition, as dilatational zones, there are pods in the granodiorite, of granular white quartz.

### *Mineral Deposits*

The gold deposits contained within the larger, district scale, Borealis hydrothermal system are recognized as high-sulfidation type systems with high-grade gold mineralization occurring along steeply dipping structures and lower grade gold mineralization surrounding the high-grade and commonly controlled by more permeable volcanic rocks in relatively flat-lying zones. The gold deposits, some with minor amounts of silver mineralization are hosted by Miocene andesitic flows, laharic breccias, and volcanoclastic tuffs, which all strike northeasterly and dip shallowly to the northwest. Pediment gravels cover the altered-mineralized volcanic rocks at lower elevations along the mountain front where there is potential for discovery of more blind (covered by gravel) gold deposits, similar to the Graben deposit.

The surface footprints of the high-grade pods or pipe-like bodies, found to date are rather small and they can be easily missed with patterns of too widely spaced geophysical surveys and drill holes. Most of the drilling on the property by prior owners was vertical, and therefore did not adequately sample the steep higher-grade zones. Drill-hole orientation may have underestimated the grades within the district. Several drill holes to the west of Freedom Flats and Borealis encountered gold within the alluvium stratigraphically above known deposits. These holes trace a gold-bearing zone that in plan appears to outline a paleochannel of a stream or gently sloping hillside that may have had its origin in the eroding Borealis deposit. The zone is at least 2,500 feet long, up to 500 feet wide, and several tens up to 100 feet thick. At this point it is unknown if this is a true placer deposit, an alluvial deposit of broken ore, or some combination of both. Additional drilling and beneficiation tests are needed to determine if an economic gold deposit exists.

### *Exploration*

Since the late 1970s, exploration completed at the Borealis Property focused on finding near surface deposits with oxide-type gold mineralization. Exploration work consisted of field mapping, surface sampling, geochemical surveys, geophysical surveys, and shallow exploration drilling. Only limited drilling and geological field work was conducted in areas covered by pediment gravels, even though Freedom Flats was an unknown, blind deposit, without surface expression when discovered.

Many geophysical surveys were conducted by others in the Borealis district since 1978. In addition, regional magnetics and gravity maps and information are available through governmental sources. The most useful geophysical data from the historic exploration programs has been induced polarization (chargeability), aeromagnetism, and resistivity.

Areas with known occurrences of gold mineralization, which have been defined by historical exploration drilling, and had historical mine production include: Northeast Ridge, Gold View, East Ridge, Deep Ore Flats, Borealis, Freedom Flats, Jaimes Ridge, and Cerro Duro. All of these deposits still have gold mineralization remaining in place, contiguous with the portions of each individual deposit that were mined. Graben, Crocodile



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Ridge, Purdy Peak, Boundary Ridge, and Bullion Ridge are known gold deposits in the district that have not been mined.

Discovery potential on the Borealis Property includes oxidized gold mineralization adjacent to existing pits, new oxide gold deposits at shallow depth within the large land position, gold associated with sulfide minerals below and adjacent to the existing pits, in possible feeder zones below surface mined ore and buried gold-bearing sulfide mineralization elsewhere on the property. Both oxidized and sulfide-bearing gold deposits exhibit lithologic and structural controls for the locations and morphologies of the gold deposits.

The following areas have not been subject to historic mine production, but have been subject to historical exploration that has identified gold mineralization.

### *Borealis Extension*

The Borealis Extension deposit occurs 110 to 375 feet below the surface at the northern and western margins of the former Borealis pit. Generally the top of this target occurs at or slightly below the 7,000-ft elevation. The primary target is defined by 16 contiguous drill holes completed by previous operators that have economically attractive gold intercepts. Thicknesses of mineralized intercepts ranges from 15 to 560 ft with nine holes having from 155 to 560 ft of +0.01 opt of gold; the average thickness of the zone is 236 ft. We have drilled an additional 16 holes into the deposit. The drilling results were generally marginal and further evaluation is needed.

### *Graben Deposit*

The Graben deposit has been defined with approximately 36 historical RC holes and 19 historical core holes. This drilling defined a zone of gold mineralization, using an 0.01 opt Au boundary, that extends at least 2,000 feet in a north-south direction and between 200 and 750 feet east-west, and up to 300 feet thick. The top of the deposit is from 500 to 650 feet below the surface. Near its southern margin the axis of the deposit is within 800 feet of the Freedom Flats deposit and along one portion of the southeastern margin low-grade mineralization may connect with the Freedom Flats mineralization through an east-west trending splay.

Through November 2007, Gryphon Gold has drilled an additional 55 RC drill holes into the Graben zone. All holes had mineralized intervals. Gryphon Gold's Graben drilling program was designed to test for extensions of the interior high-grade zones and to expand the exterior boundaries of the deposit. Drilling along the margins of the deposit, particularly along the northwestern portion, identified significant extensions of mineralization. Drilling for extensions of the northern and southern high-grade pods also revealed that these zones are larger than previously thought. Additional drilling in, and around, the Graben deposit is needed before it can be considered fully explored. At this point the mineralization estimate for the deposit probably represents a minimum size.

In mid-2007 a controlled source audio-frequency magnetotellurics CSAMT survey was conducted over the Graben deposit as a test case. Several anomalies were identified that correlated favorably with known mineralization. The survey lines ended to the northwest in a similar looking anomaly in an undrilled area. The initial interpretation is that this could be an extension of the Graben deposit, or a separate mineralized area.

Additional drilling is needed to fill in gaps between widely spaced holes in the Graben, and step out from the Graben zone in a north, east and west direction in order to delineate the full extent of the gold mineralization, and to fully define the boundaries of the zone.

### *North Graben Prospect*

The North Graben prospect is defined by the projection of known mineralization, verified by drill hole sampling, and coincident with a large intense aeromagnetic low and an elongate chargeability (IP) high. This blind target lies on trend of the north-northeast-elongate Graben mineralized zone. In 1989, Echo Bay completed a district-wide helicopter magnetic/electromagnetic survey, which identified a large, intense type aeromagnetic low in the North Graben area. This coincident magnetic low/chargeability high is now interpreted as being caused by an intensive and extensive hydrothermal alteration-mineralization system. Five drill holes completed in the North Graben by Gryphon Gold encountered a permissive geologic setting and trace levels of gold mineralization.

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In early 2006 the Company completed four holes into the North Graben geophysical anomaly and one additional hole was drilled in 2007. All the holes intercepted a hydrothermal system as indicated by several zones of silicification, and pyrite up to 20 percent. None of the holes contained significant amounts of gold, but were geochemically anomalous in gold and silver, and other important trace elements. North Graben is a target area that needs additional study and drilling to determine if a gold deposit is present.

### *Rainbow Ridge and Tough Hills Prospects*

Previous exploration drilling the Rainbow Ridge and Tough Hills Prospect areas targeted shallow oxide mineralization, generally less than 500 feet deep. In 2006 we completed four gradient IP/ resistivity survey blocks covering a total area of one square mile. Results from these surveys indicate a broad deep seated north, north-east trending chargeability anomaly and a prominent, shallow north west trending chargeability anomaly. These targets are essentially untested by drilling.

### *Central Pediment (Lucky Boy) Prospect*

Another important prospect area is the Lucky Boy area, which may be in a shallower pediment environment in the central portion of the district near the range front. Historic drill holes at the periphery of the zone intersected thick zones of silicification and traces of gold mineralization. Echo Bay's aeromagnetic map shows another magnetic low and Cambior's IP map shows a coincident chargeability high in the area of the silicification.

We drilled eight RC holes in this area during late 2006 and 2007. All of these holes encountered intense hydrothermal alteration with anomalous gold and favorable trace element geochemistry. A subsequent CSAMT survey indicates that these holes may have encountered the margins of a high-sulphidation gold system. Additional drilling is planned to test the CSAMT anomaly.

### *Sunset Wash Prospect*

The Sunset Wash prospect consists of a gravel-covered pediment underlain by extensive hydrothermal alteration in the western portion of the Borealis district. Sixteen holes drilled by Echo Bay Mines indicate that intense alteration occurs within a loosely defined west-southwest belt that extends westerly from the Jaimes Ridge/Cerro Duro deposits. At the western limit of the west-southwest belt, Cambior's IP survey and drilling results can be interpreted to indicate that the alteration system projects toward the southeast into the pediment.. Cambior conducted a gradient array IP survey over the Sunset Wash area effectively outlining a 1,000 by 5,000 foot chargeability anomaly. The anomaly corresponds exceptionally well to alteration and sulfide mineralization identified by Echo Bay's drill hole results. Two structures appear to be mapped by the chargeability anomaly; one is a 5,000-foot long west-southwest-trending structure and the other is a smaller, northwest-trending structure.. Alteration types and intensity identified by the drilling, combined with the strong IP chargeability high and the aeromagnetic low, strongly suggest that the robust hydrothermal system at Sunset Wash is analogous to high-sulphidation gold systems. Cambior drilled three holes to test portions of the Sunset Wash geophysical anomaly and to offset other preexisting drill holes with significant alteration. The westernmost of Cambior's three holes encountered the most encouraging alteration and gold mineralization suggesting that this drill hole is near the most prospective area. This drill hole intercepted hydrothermally altered rock from the bedrock surface to the bottom of the hole, including an extremely thick zone of chalcidonic replacement in the lower two-thirds of the hole.

We drilled three holes in the same area, all of which encountered strongly developed hydrothermal alteration with anomalous gold and favorable pathfinder trace elements. To assist in defining the target a CSAMT survey was conducted late in 2007 and further defined the anomalous zone. Additional drilling is planned to test the center of the anomaly.

*Bullion Ridge/Boundary Ridge*

The northeast-trending alteration zone extending along Boundary Ridge into Bullion Ridge contains intense silicification that is surrounded by argillization, with abundant anomalous gold. Widely-spaced shallow drill holes completed by previous operators have tested several of the alteration/anomalous gold zones and defined discrete zones of mineralized material.

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### ***Mineralization***

#### *Overview*

Finely disseminated gold mineralization found in the Borealis epithermal system was associated with pyrite and other gold bearing sulfide minerals such as marcasite when initially deposited by the gold rich hydrothermal fluids. In the upper portions of the near surface deposits, over time through natural oxidation, the pyrite was transformed to limonite releasing the gold particles. Through this geologic process, the mineral character of the deposit was altered, and sulfides were destroyed releasing the gold so that conventional hydrometallurgical processes (e.g. gold heap leaching) could be effectively applied to recover the gold. Gold bound in pyrite or pyrite-silica which was not oxidized (commonly in the deeper deposits) in the geologic process, is not as easily recovered by a simple heap leaching and may require some type of more advanced milling operation. Limited evidence suggests that in certain deposits, such as the Borealis and Freedom Flats deposits, some coarse gold exists, probably in the higher-grade zones.

#### *Oxide Gold Mineralization*

Oxide gold mineralization is generally more amenable to direct cyanidation processes such as heap leaching as compared to sulfide gold mineralization.

Oxide deposits in the district have goethite, hematite, and jarosite after iron sulfides as the supergene oxidation products, and the limonite type depends primarily on original sulfide mineralogy and abundance. Iron oxide minerals occur as thin fracture coatings, fillings, earthy masses, as well as disseminations throughout the rock. The degree of supergene oxidation, mineral constituents, and form and occurrence of the oxide minerals in the host rock are significant factors in determining metallurgical performance and ultimate gold recovery. As demonstrated in previous operations, this type of gold bearing material is amenable to conventional heap leaching methodology.

Depth of oxidation is variable throughout the district and is dependent on alteration type, structure, and rock type. Oxidation ranges from approximately 250 ft in argillic and propylitic altered rocks to over 600 ft in fractured silicified rocks. A transition zone from oxides to sulfides with depth is common and is characterized by a mixture of oxide and sulfide minerals.

Except for the Graben deposit, all of the known gold deposits are at least partially oxidized. Typically the upper portion of a deposit is totally oxidized and the lower portions unoxidized. In places, such as the Ridge deposits, there is an extensive transition zone of partially oxidized sulfide bearing gold mineralization. Oxidation has been observed to at least 1,000 ft below the surface.

#### *Sulfide Gold Mineralization*

Sulfide gold mineralization is generally less amenable to conventional direct cyanidation metallurgical processes, and may require more advanced processes such as milling, flotation, and roasting or some pre-cyanidation treatment.

Sulfide deposits in the district are mostly contained within quartz-pyrite alteration with the sulfides consisting mostly of pyrite with minor marcasite, and lesser arsenopyrite. Many trace minerals of copper, antimony, arsenic, mercury and silver have also been identified. Pyrite content ranges from 5 to 20 volume percent with local areas of nearly massive sulfides in the quartz-pyrite zone and it occurs with grain sizes up to 1mm. Gold is commonly restricted to the iron sulfide grains.

The Graben deposit is the best example found to date of the size and quality of sulfide deposits within the district. In addition sulfide mineralization occurs in the bottoms of most of the mined areas, but the most significant of which is

beneath the Freedom Flats pit.

***Drilling***

We have conducted a drilling program on the Borealis Property site. Set out below is a summary of the drilling work conducted on the Borealis Property by prior owners and by us.

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### *Historical Drill Hole Database*

The historical drill hole database used for the Borealis Property project mineralization models contains 2,417 drill holes with a total drilled length of 671,595 feet. A total of 1,947 holes were drilled inside the mineralization model areas. An additional 470 holes were either drilled outside the mineralization models at scattered locations throughout the district or did not have collar coordinates.

The historic holes were drilled by several different operators on the property. Drill hole types include diamond core holes, reverse circulation holes and rotary holes. The only holes that have down-hole survey information are a few core holes. Since most of the drilling is shallow, the absence of down-hole survey information is not significant. In the deeper Graben zone, however, unsurveyed drill holes may locally distort the shape of the grade zones. Drill hole sampling lengths are generally 5 feet for the RC holes, but vary for the core holes based on geological intervals. Sampling length is up to 25 feet for some of the early rotary holes. Gold assays in parts per billion (ppb) and troy ounces per short ton (opt) are provided for most of the sample intervals. Silver assays in parts per million (ppm) and opt are also provided for some of the sample intervals.

### *Drilling of Existing Heaps and Dumps*

In May 2004 we completed a drilling program on the five Borealis Property site heaps and parts of the Freedom Flats and Borealis waste dumps. This program consisted of 32 holes totaling 2,478.5 ft. Dump holes were drilled deep enough to penetrate the soil horizon below the dump, while holes on the heaps were drilled to an estimated 10-15 ft above the heap's liner.

### *Gryphon Gold Drilling Program*

Since acquiring the Borealis Property we have drilled 265 holes totaling 158,601 feet. The majority of these holes were drilled in, and around, known gold deposits. Fewer than 30 holes can be considered purely exploration.

## ***Sampling and Analysis***

### *General*

The Borealis mine operated from 1981 through 1990 producing approximately 10.7 million tons of ore averaging 0.059 ounces of gold per ton from seven open pits. The mined ore contained approximately 607,000 ounces of gold of which approximately 500,000 ounces of gold were recovered through a heap leach operation (please refer to table Reported Past Borealis Production 1981-1990 ). This historic production can be considered a bulk sample of the deposits validating the database that was used for feasibility studies and construction decisions through the 1980s. With over 2,400 drill holes in the database that was compiled over a 20-year period by major companies, the amount of information on the project is extensive. It is primarily these data that have been used as the foundation of the current mineralization estimate. The bulk of the data was collected beginning in 1978, the year of discovery of the initial ore-grade mineralization, and was continuously collected through the final year of full production. Subsequent owners who conducted exploration programs through the 1990s added to the database.

### *Previous Mining Operations Sampling, Analysis, Quality Control and Security*

Specific detailed information on sampling methods and approaches by the various mine operators is not available to us. However, a report written in 1981 (referred to in the Technical Report) noted that the drilling, sampling and analytical procedures as well as assay checks were reported as acceptable by industry practice.

Echo Bay Mines performed quality checks on their drill cuttings, sampling and assaying methods as part of their evaluation of the property prior to and following its purchase from Tenneco Minerals, indicating that the original assays were reliable and representative. During their exploration and development programs they also drilled a number of core hole twins of reverse circulation rotary drill holes to compare assay results in the same areas.

Houston Oil and Minerals, Tenneco, and Echo Bay Mines are reported to have used standard sample preparation and analytical techniques in their exploration and evaluation efforts, but detailed descriptions of



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the procedures have not been found. Most of the drill-hole assaying was accomplished by major laboratories that were in existence at the time of the drilling programs. Various labs including Monitor Geochemical, Union Assaying, Barringer, Chemex, Bondar-Clegg, Metallurgical Laboratories, Cone Geochemical, the Borealis mine lab and others were involved in the assaying at different phases of the exploration and mining activity.

We believe that early work on the property relied on assay standards that were supplied by the laboratories doing the assaying. However, Echo Bay Mines (1986) reported using seven internal quality control standards for their Borealis mine drill-hole assaying program, with gold concentrations from 170 ppb to 0.37 opt. Analytical labs involved in the standards analyses were Cone Geochemical, Chemex, and the Borealis mine lab, and the precision of the three labs was reported as excellent (+/- 1 to 8%) for the higher gold grades (0.154-0.373 opt); acceptable (+/- 3 to 14%) for the lower grades (0.029-0.037 opt); and fair (+/- 4 to 20%) for the geochemical anomaly grades (0.009 opt to 170 ppb). These data provide an initial estimation of the precision and accuracy of gold analyses of Borealis mineralization.

During 1986, Echo Bay instructed Chemex to analyze duplicate samples for five selected drill holes. A comparison was made of (a) 1/2 assay-ton fire assay with a gravimetric finish, versus (b) 1/2 assay-ton fire assay with an atomic absorption finish, versus (c) hot cyanide leach of a 10-gram sample. The 1/2 assay-ton fire assay gravimetric and the 1/2 assay-ton fire assay atomic absorption gave essentially the same results. However the hot cyanide leach gave results that were 5-11 percent higher in one comparison and significantly lower in another, prompting Chemex to conclude that cyanide leach assaying was not appropriate for Borealis samples. The great majority of the assays in the database are based on fire assays.

We have no information relating to the sample security arrangements made by the previous operators.

### *Gryphon Gold Operations Sampling, Analysis, Quality Control and Security*

The work we performed to evaluate the 32 holes drilled in 2004 on the five previously leached heaps and two waste dumps was done by a sonic rig to retrieve core-like samples. All drill holes were drilled vertical, with the sample immediately slid into a plastic sleeve that was sealed and marked with the drill hole number and footage interval. These plastic sample sleeves were not reopened until they reached the analytical lab. A Qualified Person and geologist, Roger C. Steininger, Ph.D., CPG, monitored all of the drill procedures and the handover to the analytical lab. A non-blind standard was added as the last sample of each hole, which was obvious to the lab since the standard was in a pulp bag, although the lab did not know the gold value of the standard.

All samples were submitted to American Assays Labs of Sparks, Nevada. Each analytical sample was split in a rotary splitter with a one-fifth of the sample removed for assay and the remaining four-fifths retained for metallurgical testing. Each assay sample was pulverized and assayed for gold and silver by one assay ton fire assay, and a two hour 200 gram cyanide shake assay for dissolvable gold. As part of the quality control program, standards were submitted to American Assay Labs (AAL) with each drill hole, several assayed pulps and two standards were submitted to ALS Chemex, and three of the duplicates and two standards were submitted to ActLabs-Skyline.

For the hard rock drilling program, started in 2005 and continuing through 2007, reverse circulation drilling services were provided by two international drilling contractors, Diversified Drilling LLC of Missoula, Montana and Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 4 1/2 inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by drill contractor employees, placed in bins, and delivered to a secure storage. American Assay Laboratories in Sparks, Nevada picked up the sample bins from secure storage. AAL is ISO/IEC 17025 certified and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

In the period between April 2006 and November 2007, reverse circulation drilling services were provided Eklund Drilling Company of Elko, Nevada. Drill bit size equaled 4 1/2 inches in diameter and samples were collected at 5-foot intervals (1.5 meters). All drill samples were bagged and sealed at the drill site by the drill contractor

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employees, placed in bins, and delivered to a secure storage. Inspectorate America Corporation (IAC) in Sparks, Nevada picked up the sample bins from secure storage. IAC is ISO 9001:2000 certified (Certificate number: 37295) and has successfully completed Canadian proficiency testing (CCRMP). Drill cuttings were dried, crushed to 10 mesh, rotary split to 1,000 grams, pulverized to 150 mesh, split to 350 gram pulps, fire assayed for gold and silver using 1-assay ton fire assay with an AA finish. Assays greater than 0.10 opt Au were re-assayed by 1-assay ton fire assay with a gravimetric finish. Strict QA/QC protocol was followed, including the insertion of standards and blanks on a regular basis in the assaying process.

### **Borealis Mineralization Estimate**

The Technical Report was completed April 28, 2008. The Technical Report states that the recommended course of action for Gryphon Gold is to increase gold mineralization by completing additional drilling primarily in the previously mined areas, to complete a technical report to determine the feasibility of near term production, and through continued drilling and exploration, delineate possible new mineralized material on the Borealis Property. Cautionary Note to U.S. Investors: The Technical Report uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The Preliminary Assessment was completed September 2, 2008. The report outlines the possibility of developing a mineable oxidized gold deposit on the Borealis Property. Gryphon Gold is undertaking a detailed economic evaluation of the potential for developing an open-pit heap leach gold mining operation on the property. The Preliminary Assessment is not a bankable feasibility study and cannot form the basis for proven or probable reserves on the Borealis Property. Cautionary Note to U.S. Investors: The Preliminary Assessment uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The 2009 Study was completed on September 17, 2009. The 2009 Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior operations. The 2009 Study is not a bankable feasibility study. Cautionary Note to U.S. Investors: The 2009 Study use the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The 2009 Study uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

The Pre-Feasibility Study was completed on April 25, 2011 and authored by John D. Welsh, P.E. of Reno, Nevada. The Pre-Feasibility Study was also co-authored by Jonathan M. Brown, CPG, MBA, Douglas Willis, CPG, and Dr. Thom Seal, Ph.D., P.E. The mineralization data and the economic analysis data contained in the Pre-Feasibility Study supercedes and replaces the data contained in the Technical Report, the Preliminary Assessment and the 2009 Study. The Pre-Feasibility Study is based on open pit mining and heap leaching of oxide and mixed oxide ores that occur in and around previously mined open pits and re-leaching of ores that were mined and leached during prior

operations. The Pre-Feasibility Study is not a bankable feasibility study. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management's Discussion and Analysis of Financial Condition and Operating Results, Liquidity and Capital Resources and Risk Factors. Cautionary Note to U.S. Investors: The Pre-Feasibility Study uses the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101

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of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The Pre-Feasibility Study uses 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

### *Historical Mining and Metallurgical Operations*

The historical mining operations processed both a run-of-mine ore and an ore that was crushed to a nominal 1 1/2-inch product as the primary feed material that was placed on the heap for leaching. The fines fraction was agglomerated with cement, mixed with the coarse fraction, and leached with sodium cyanide solution. Gold mineralization is finely disseminated and/or partially bonded with pyrite, and although there are very little ore mineralogy data available, historical operating reports suggest that some coarse gold may exist. Gold that is bound in pyrite or pyrite-silica is not easily recovered by simple heap leach cyanidation, however gold recovery in oxide ores is reported to average about 80% for the ore treated. There are no reports of carbonaceous refractory components within the old heap or dump materials. The previous mine operators employed a Merrill Crowe circuit to enhance ease of silver recovery, followed by a retort to remove mercury.

Laboratory testing subsequent to mine shut down in 1990 indicates that gold recoveries of 55 to 80 percent can be expected from remaining oxide material on the Borealis Property by heap leaching.

Based on limited test work, gold bearing sulfide material appears to respond to conventional flotation concentration and cyanidation of oxidized concentrates. In the laboratory testing, chemical oxidation and biooxidation treatment of the sulfide material yield a high level of oxidation and correspondingly high gold recoveries after cyanidation of the oxidized material. Aeration of concentrate slurries may be a suitable oxidation method for the sulfide material.

### *Exploration and Development*

Our development and exploration plans are based on the recommendations contained on the Technical Report and are subject to our ability to obtain additional capital to fund such plans. These plans are outlined below:

#### *Permitting Process*

We intend to maintain the permits we have received that are necessary for mine start up. Maintaining the permits necessary for mine start up does not require us to complete a feasibility study. The principal permits were issued during calendar 2006, while ordinary course permits will be sought prior to the possible mine start up.

The following is a summary and status of the permits required for the Borealis Property heap leach mine project:

An Approved Plan of Operations from the USFS, Humboldt-Toiyabe National Forest has been received. The Environmental Assessment (EA) was approved for the Plan of Operations with a Finding of No Significant Impact (FONSI) on June 19, 2006. The Decision Notice was published on June 22 and 23, 2006 and is not appealable. Final revisions to the Plan of Operations were submitted to the USFS on June 23, 2006 and the USFS signed the Plan on June 29, 2006. The Plan of Operations can be implemented as soon as a reclamation bond of \$4,205,377 is posted with the USFS.

A Water Pollution Control Permit (WPCP) from the NDEP-Bureau of Mining Regulation & Reclamation (BMRR) was approved and granted to Borealis Mining on January 28, 2006. The permit allows Borealis Mining to construct and operate a 10-million ton capacity heap leach pad and processing plant as a zero-discharge facility.

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A Reclamation Permit from the NDEP-BMRR and reclamation bond amount were approved on June 23, 2006. This permit is the State of Nevada's approval of the Plan of Operations and is effective with the posting of the reclamation bond with the USFS.

A Tentative Permanent Closure Plan to be administered by the NDEP-BMRR was submitted with the WPCP application and accepted by NDEP-BMRR. A Final Permanent Closure Plan will not need to be developed until 2 years prior to project closure.

NDEP-Bureau of Air Pollution Control (BAPC) issued the Air Quality Operating Permit on April 28, 2006 for the Borealis processing facilities. The State of Nevada adopted regulations regarding mercury emissions, and an application was filed under this new State program on September 14, 2006, as a compliance order pursuant to the approved air quality permit. Because Gryphon was not able to move the project into construction within the air permit time frame, NDEP kept this old permit in force while a new air quality and mercury permit application was being developed and approved. The new air quality permit was approved in 2010. Meanwhile, a draft mercury emissions permit has been prepared by BAPC and is expected to be approved by July of 2011.

A Surface Area Disturbance Permit from the NDEP-BAPC was approved and granted to Borealis Mining on April 3, 2006 for disturbances associated with construction and mining activities.

The Storm Water Pollution Prevention Plan (SWPPP) has been prepared for the project. A Notice of Intent, filing fee, and the SWPPP will be submitted to the Bureau of Water Pollution Control (BWPC) 2 days prior to the start of mining operations to obtain coverage under the general National Pollutant Discharge Elimination System (NPDES) permit for Nevada mines.

A Spill Prevention, Control, and Countermeasure (SPCC) Plan, under the jurisdiction of the U.S. Environmental Protection Agency (EPA), will be prepared and implemented before starting operations. The SPCC Plan will provide methods for storing, transporting, and using petroleum products as well as emergency response measures in the event of a release.

A preliminary Emergency Release, Response and Contingency Plan (ERRCP) was submitted with the Plan of Operations. The ERRCP provides methods for storing, using, and transporting process chemicals on site as well as emergency response measures in the event of a release. A final ERRCP will be prepared prior to the start of leaching and processing activities. Both the USFS and the NDEP-BMRR require the ERRCP.

*Threatened & Endangered Species Act:* No known threatened or endangered species have been identified within or near the project area. A Biological Assessment and Biological Evaluation (BA/BE) and a Wildlife Specialist Report were approved by the USFS on June 6, 2006. These reports identified three USFS sensitive plants and two other plant species of concern within the project area. Mitigation measures were developed for these plants and incorporated into the EA and Plan of Operations. The USFS concluded that the project may impact individual plants and plant habitat but will not likely contribute to a trend towards listing or cause a loss of viability to the population or species.

*Historical Preservation Act (Section 107):* Consultation with the USFS and the State Historical Preservation Officer (SHPO) has occurred in conjunction with the preparation of the EA. The Heritage Research Final Report, Gryphon Gold, USA, Mining and Exploration Project, Borealis Mine Area was submitted to the USFS in March 2006. The report identifies prehistoric cultural resources located within and near the project area. This report was approved by the USFS and forwarded to SHPO for their review and comment on April 17, 2006. The SHPO approved the report in early May 2006. Mitigation measures consisting of avoidance and

protection were incorporated into the EA and the Plan of Operations.

*Water Rights:* Water Rights have been granted by the Nevada Division of Water Resources (NDWR) for two production wells located approximately 3 miles south of the project, in the same vicinity as the supply wells from the previous mining operation. Based on historic well productivity records, this water right and point of diversion has the capacity and productivity to meet project needs. A second set of water rights were obtained for a site about 10 miles to the south of the planned operation as a contingency; however, this water right has been forfeited as it has been deemed extraneous.



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*Industrial Artificial Pond Permit:* The Department of Wildlife, State of Nevada, has issued an Industrial Artificial Pond permit to use and store industrial waters in lined containers on the Borealis Property project site. This permit was granted on December 1, 2009 and expires on November 30, 2014.

In addition, the BLM has granted approval for drilling exploration holes in the areas of the West Pediment and the Central Pediment, which are on the Borealis Property but outside of the central project area.

### *Drilling and Feasibility*

We plan to continue our drilling and exploration program with the intent of locating additional sulfide and oxide gold mineralization on the Borealis Property. The primary focus of the program will be within the previously disturbed area, the Graben zone and in the Central and Western Pediment areas. Once sufficient additional potential mineralization is discovered, we will assess possible methods of beginning production including the possible completion of a feasibility study.

### *Future Mine Development*

The business plan for the Borealis Property is to advance the development of the oxide heap leachable gold and silver to the production stage and to further expand and develop the significant sulphide resource through exploration, metallurgical design and sulphide project permitting and development. Our plan is based on the Plan of Operations filed with the U.S. Forest Service and could change based on additional information as it is acquired and analyzed in our ongoing engineering studies and feasibility study.

The Plan of Operations was the basis for the 2009 Study as at September 17, 2009 and the Pre-Feasibility Study as at April 25, 2011. The Pre-Feasibility Study presents an economic analysis, and provides capital expenditures, operating costs, ore grade, anticipated revenues, and projected cash flows. The 2009 Study and the Pre-Feasibility Study are not bankable feasibility studies. If we determine to proceed with mine construction, we will be required to obtain additional capital. See Management's Discussion and Analysis of Financial Condition and Operating Results—Liquidity and Capital Resources and Risk Factors. Cautionary Note to U.S. Investors: The 2009 Study and the Pre-Feasibility Study use the terms mineral reserve, proven mineral reserve and probable mineral reserve as defined in accordance with National Instrument 43-101 of the Canadian Securities Administrators. These definitions differ from the definitions in SEC Industry Guide 7. Under Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. The 2009 Study and the Pre-Feasibility Study 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 Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See Cautionary Note to U.S. Investors above.

### *Mineralized Material Expansion and Drilling Program*

We have undertaken a systematic district scale drilling program designed to discover and delineate large gold deposits within the greater Borealis Property, outside of the known mineral deposits, which will focus along known mineralized trends that project into untested gravel-covered areas with coincident geophysical anomalies. The greatest potential in the district lies beneath a large gravel-covered area at the mountain front with several potential blind deposits (with no surface expression). The Graben zone is an example of this type of deposit, and other high-potential targets include Rainbow Ridge/Tough Hills, Sunset Wash, Lucky Boy, and others yet to be named generally within the areas referred to as the Central and Western Pediments. To date we have drilled and assayed 206 holes as part of

the district wide exploration program.

In addition to the district program, the Borealis Property embraces numerous areas with potential for discovery of mineable gold deposits. The defined target areas can be grouped into categories based on our expectation for deposit expansion or potential for discovery. Past emphasis was focused on targets which are the extensions of previously mined deposits, specifically within the previously disturbed areas the East Ridge-Gold View-Northeast Ridge mineralized trend, and around the margins of the Borealis, Freedom Flats, and Deep Ore Flats/Polaris

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deposits. Each has the potential to add to the material that can be developed as part of the initial mine plan. Drilling programs from 2005 through 2007 were completed primarily in areas where mineralization is known to exist. In addition to advancing existing mineralization to a higher level of confidence, this drilling program has further information gathering objectives for metallurgical assessment, waste characterization, and hydrological analyses that are required in support of our operating permit applications, environmental assessment, and engineering design. Results from drilling of heap leachable material will be incorporated into the feasibility study, should a feasibility study be completed.

Planned activities and expenditures include both field and compilation geology, geophysics, geochemistry, permitting and claim maintenance, road construction and drill-site preparation, reverse circulation (RC) and core drilling, drill-hole assaying, sampling protocol studies and assay quality control, preliminary metallurgical testing, and database management. We estimate that nearly 50% of the budget would be spent directly on drilling (mostly on RC drilling) with approximately 20% on geologists, 10% on assaying, and the remainder divided among the other items. The budget is expected to be sufficient to discover and delineate one or more deposits, but additional funding will be required for detailed development drilling and other development activities.

The names of deposits and targets on the Borealis Property are shown on the map below. The map also shows the boundary of the claim holdings that comprise the Borealis Property.

(Source: Gryphon Gold, 2005)

## **United States Mining Laws**

Mining in the State of Nevada is subject to federal, state and local law. Three types of laws are of particular importance to the Borealis Property: those affecting land ownership and mining rights; those regulating mining operations; and those dealing with the environment.

The Borealis Property is situated on lands owned by the United States (Federal Lands). Borealis Mining, as the owner or lessee of the unpatented mining claims, has the right to conduct mining operations on the lands subject to the prior procurement of required operating permits and approvals, compliance with the terms and conditions of the mining lease, and compliance with applicable federal, state, and local laws, regulations and ordinances. On Federal Lands, mining rights are governed by the General Mining Law of 1872 as amended, 30 U.S.C. §§ 21-161 (various sections), which allows the location of mining claims on certain Federal Lands upon the discovery of a valuable

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mineral deposit and proper compliance with claim location requirements. A valid mining claim provides the holder with the right to conduct mining operations for the removal of locatable minerals, subject to compliance with the General Mining Law and Nevada state law governing the staking and registration of mining claims, as well as compliance with various federal, state and local operating and environmental laws, regulations and ordinances. Historically, the owner of an unpatented mining claim could, upon strict compliance with legal requirements, file a patent application to obtain full fee title to the surface and mineral rights within the claim; however, continuing Congressional moratoriums have precluded new mining claim patent applications since 1993.

The operation of mines is governed by both federal and state laws. Part of the Borealis Property is situated within the Toiyabe National Forest, and that part is administered by the U.S. Forest Service. The rest of the Borealis Property is administered by the Bureau of Land Management (BLM). In general, the federal laws that govern mining claim location and maintenance and mining operations on Federal Lands, including the Borealis Property, are administered by the BLM. The Forest Service is concerned with surface land use, disturbances and rights-of-way on Federal Lands that it manages. Additional federal laws, such as those governing the purchase, transport or storage of explosives, and those governing mine safety and health, also apply. Various permits or approvals from the BLM and other federal agencies will be needed before any mining operations on the Borealis Property can begin.

The State of Nevada likewise requires various permits and approvals before mining operations can begin, although the state and federal regulatory agencies usually cooperate to minimize duplication of permitting efforts. Among other things, a detailed reclamation plan must be prepared and approved, with bonding in the amount of projected reclamation costs. The bond is used to ensure that proper reclamation takes place, and the bond will not be released until that time. The bond amount for a large mining operation is significant. Local jurisdictions (such as Mineral County) may also impose permitting requirements (such as conditional use permits or zoning approvals).

Mining activities on the Borealis Property are subject also to various environmental laws, both federal and state, including but not limited to the federal National Environmental Policy Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Recovery and Conservation Act, the Clean Water Act, the Clean Air Act and the Endangered Species Act, and certain Nevada state laws governing the discharge of pollutants and the use and discharge of water. Various permits from federal and state agencies are required under many of these laws. See, *Permitting Requirements*, below. Local laws and ordinances may also apply to such activities as waste disposal, road use and noise levels.

## **Permitting**

### *Permit Acquisition and Fundamental Environmental Permitting Considerations*

In 2004 we initiated a plan to obtain the required principal environmental operating permits in anticipation of a possible mine start-up.

A staged permit acquisition program is in progress. The first permitting stage, started in the fall of 2003, has been completed. Permits obtained at that time authorized exploration activities needed to prove the mineral mineralization, condemn the heap sites and support infrastructure, and obtain environmental baseline data to support the permitting packages. A second stage of application for exploration drilling permits was submitted in December 2004 and approval was obtained in May 2005. A Plan of Operations for a new mine was submitted in August 2004 to the U.S. Forest Service and Nevada State agencies and approval was received in the second quarter of 2006. A Water Pollution Control Permit application for the reopening and expansion of the mine was submitted to the Nevada Bureau of Mining Regulation and Reclamation in January 2005. The permit was granted in January 2006. Future exploration activities and mine expansion initiatives will be included in applications for subsequent approvals on a case-by-case and as-needed basis.

The approved Plan of Operations focuses on the approximately 460 acre area previously disturbed by mining operations. Deposits within this boundary, subject to permit applications generally, include the oxidized and partially oxidized portions of Borealis, Deep Ore Flats (also known as Polaris), East Ridge, Freedom Flats, and Northeast Ridge which are amenable to a conventional hydrometallurgical gold recovery process such as heap leaching. Also included in the Plan of Operations is the option for development of underground access to the Graben

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deposit to be used for exploration and future development activities, although no production plan has been submitted for consideration in this mineralized zone at this date. Crocodile Ridge, Middle Ridge, and other deposits within the study area boundaries of the Borealis Property will be added to the permit applications if warranted based on ongoing engineering and in-fill drilling results.

### *Permitting Process Overview*

The development, operation, closure and reclamation of mining projects in the United States require numerous notifications, permits, authorizations and public agency decisions. This section does not attempt to exhaustively identify all of the permits and authorizations that need to be gained, but instead focuses on those that are considered to be the main efforts that are on the critical path for possible project start-up.

### *Environmental Inventories*

There are certain environmental evaluations that routinely must be completed in order to provide the information against which project impacts are measured. Both the U.S. Forest Service and the Nevada Bureau of Mining Regulation and Reclamation (BMRR) have requirements to profile existing conditions and to evaluate what effects will result from implementing the project plans on those mineral resources.

Background information on geology, air quality, soils, biology, water resources, social and economic conditions, and cultural resources were assembled for us and submitted to the appropriate regulatory agency.

## **Permitting Requirements**

### *U.S. Forest Service Requirements*

The Bridgeport Ranger District of the U.S. Forest Service is the lead agency regulating mining and reclamation activities at the Borealis Property. The permitting process with the U.S. Forest Service approved our Plan of Operations in the second quarter of 2006, pursuant to the requirements of 36 CFR Part 228, Subpart A. Our Plan of Operations was filed in August 2004 describing the project plans in a step-by-step process. The Plan of Operations describes the development of the deposits identified in the Technical Report and recognizes and anticipates the effects of market impacts such as reductions or increases in gold price, and describes the measures that will be taken to adjust for these changing conditions. The emphasis of the Plan of Operations is on defining the spatial and temporal aspects, as they will affect the land that is managed by the agency. The Plan of Operations also describes the plans to reclaim the site, and includes an estimate of the cost to accomplish that reclamation. This cost estimate is the first step toward establishing the reclamation surety for the site.

In order to satisfy the reclamation surety requirements of the U.S. Forest Service, we will consider obtaining an insurance policy for its benefit. This policy, if obtained on terms acceptable to us, would require us to pay into a commutation account of the insurer the agreed cost of the initial future reclamation work. The initial amount covered under the policy will be funded by a deposit into the commutation account, in an amount to be negotiated. The amount covered by the policy is expected to increase as reclamation costs increase due to expanded mining related disturbances. This additional policy coverage is expected to be funded from mining revenue once the mine is in operation. Once funded, the account will be available to pay for concurrent and final reclamation expenses as they are incurred. The policy is expected to provide us a mechanism to manage the overall cost of reclamation for a known cost for the entire life of mine and provide financial assurance required by the U.S. Forest Service. We would propose to acquire the policy once the project is permitted and before commencement of construction.

The National Environmental Policy Act (NEPA) requires that any decision made by a Federal agency must consider the environmental effects of that decision. The USFS will decide whether or not there is a decision to be made, and whether that decision is significant or not. If there is no decision to be made, as in the instance of Categorical Exclusions (CE), the project can proceed with notification only. CEs are allowed when surface disturbances are limited to less than one mile of new road building. If a decision must be made, an environmental impact evaluation is completed and from that analysis, a determination of whether the environmental impact is significant or not. If the determination is a finding of no significant impact (FONSI), then the agency is authorized to approve the plan based on the Environmental Assessment (EA) findings. If the decision is that the impacts are in fact significant, then an Environmental Impact Statement (EIS) is required to arrive at the final decision. There is a

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significantly increased time period for review and public comment for an EIS versus an EA. Approvals of Gryphon Gold's site exploration activities to date were authorized under a CE.

The USFS Bridgeport Ranger District (District) determined that preparation of an Environmental Assessment (EA) was necessary to comply with the requirements of the National Environmental Policy Act (NEPA). The USFS and we mutually agreed to have Knight Piesold and Co. (KPCO), a third-party NEPA contractor, prepare the EA. Comments from a variety of stakeholders have been solicited. These comments were incorporated into a Modified Plan of Operations, which includes some changes from the initial Plan of Operations submitted to account for updated operating plans and required mitigation measures to better protect the environment.

At the completion of the NEPA process and decision, the reclamation surety must be posted with the USFS prior to any surface disturbance on site. The reclamation cost estimate provided in the Plan of Operations will be reviewed and refined by the agency and an acceptable amount agreed upon among the U.S. Forest Service, BMRR and us.

*Nevada Division of Water Resources Requirements*

Development of the Borealis Property will involve significant water demand in an arid region where the water basin has been over-appropriated and for which project water rights have been withdrawn. Successful mining and processing will require careful control of project water and efficient reclamation of project solutions back into the leaching process.

The Nevada Division of Water Resources (NDWR) is the responsible agency for granting water rights permits. The basin from which water rights could be appropriated is the same basin that was the water supply for the mining activities at Borealis during the 1980's and early 1990's. Although this basin appears to be over allocated to various users, many of these rights go unused, so it may be possible to transfer existing appropriations to the project if necessary.

We believe that water rights granted to us by the NDWR are sufficient to conduct planned operations. A wellfield to perfect this water supply has not yet been tested or developed.

*NDEP Bureau of Mining Regulation and Reclamation Requirements*

The Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation (BMRR) regulates mining activities within the state including water pollution control and reclamation.

The heap leach and process solution ponds are presented in the water pollution control permit application that was filed in January 2004. The permit application package includes the engineering design report for the heap and ponds, certified by a Nevada registered professional engineer. In addition to the engineering report, operating plans describing the mineral processing circuit, fluid management plan, monitoring plans, emergency response plan, temporary closure plan and tentative permanent closure plan were presented. The Water Pollution Control Permit was issued on January 28, 2006.

BMRR also administers and enforces the requirements relating to the reclamation of land subject to mining or exploration projects.

A Reclamation Plan that contains the identical information as was contained in the Plan of Operations was submitted to the BMRR in August 2004. The Reclamation Plan was approved during the second quarter of 2006.



We will be required to post a reclamation bond from a financial institution or otherwise set aside a corresponding amount for the benefit of BMRR. We anticipate that BMRR will accept the reclamation bond we post for the benefit of the U.S. Forest Service.

*Nevada Division of Environmental Protection Bureau of Air Quality Requirements*

Prior to the commencement of construction activities, an air quality permit will be necessary. The Nevada Bureau of Air Quality (BAQ) regulations state that a process flow diagram must be generated to communicate the technical aspects of the process/activity and determine which class of permit will be required. We have prepared the

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required process flow diagram and submitted our permit application. On April 28, 2006 the Class II air quality permit was issued by BAQ. Because Gryphon was not able to move the project into construction within the air permit time frame, NDEP kept this old permit in force while a new air quality and mercury permit application was being developed and approved. This permit writing and review is nearing completion and the company does not expect any problems moving forward.

## **United States Regulatory Matters**

### *General*

All of our exploration activities in the United States are subject to regulation by governmental agencies under various mining and environmental laws. The nature and scope of regulation depends on a variety of factors, including the type of activities being conducted, the ownership status of land on which the operations are located, the nature of the resources affected, the states in which the operations are located, the delegation of federal air and water-pollution control and other programs to state agencies, and the structure and organization of state and local permitting agencies. We believe that we are in substantial compliance with all such applicable laws and regulations. While these laws and regulations govern how we conduct many aspects of our business, we do not believe that they will have a material adverse effect on our operations or financial condition. We evaluate our projects in light of the cost and impact of regulations on the proposed activity, and evaluate new laws and regulations as they develop to determine the impact on, and changes necessary to, our operations.

Generally, compliance with environmental and related laws and regulations requires us to obtain permits issued by regulatory agencies and to file various reports and keep records of our operations. Some permits require periodic renewal or review of their conditions and may be subject to a public review process during which opposition to our proposed operations may be encountered.

### *U.S. Federal and State Environmental Law*

Our past and future activities in the United States may cause us to be subject to liability under various federal and state laws. Proposed mining activities on federal land trigger regulations promulgated by the U.S. Forest Service (USFS), the Bureau of Land Management (BLM), and potentially other federal agencies, depending on the nature and scope of the impacts. For operations on federal public lands administered by the BLM that disturb more than five acres, an operator must submit a Plan of Operations to BLM. On USFS-administered lands, the USFS requires the submission of a notice for all mining operations, regardless of size, and a Plan of Operations if the USFS determines that there will be any significant disturbance of the surface.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), imposes strict, joint, and several liability on parties associated with releases or threats of releases of hazardous substances. Liable parties include, among others, the current owners and operators of facilities at which hazardous substances were disposed or released into the environment and past owners and operators of properties who owned such properties at the time of such disposal or release. This liability could include response costs for removing or remediating the release and damages to natural resources. We are unaware of any reason why our undeveloped properties would currently give rise to any potential CERCLA liability. We cannot predict the likelihood of future CERCLA liability with respect to our properties or surrounding areas that have been affected by historic mining operations.

Under the Resource Conservation and Recovery Act (RCRA) and related state laws, mining companies may incur costs for generating, transporting, treating, storing, or disposing of hazardous or solid wastes associated with certain mining-related activities. RCRA costs may also include corrective action or clean up costs.

Mining operations may produce air emissions, including fugitive dust and other air pollutants, from stationary equipment, such as crushers and storage facilities, and from mobile sources such as trucks and heavy construction equipment. All of these sources are subject to review, monitoring, permitting, and/or control requirements under the federal Clean Air Act and related state air quality laws. Air quality permitting rules may impose limitations on our production levels or create additional capital expenditures in order to comply with the permitting conditions.

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Under the federal Clean Water Act and delegated state water-quality programs, point-source discharges into Waters of the State are regulated by the National Pollution Discharge Elimination System (NPDES) program. Section 404 of the Clean Water Act regulates the discharge of dredge and fill material into Waters of the United States, including wetlands. Stormwater discharges also are regulated and permitted under that statute. All of those programs may impose permitting and other requirements on our operations.

The National Environmental Policy Act (NEPA) requires an assessment of the environmental impacts of major federal actions. The federal action requirement can be satisfied if the project involves federal land or if the federal government provides financing or permitting approvals. NEPA does not establish any substantive standards. It merely requires the analysis of any potential impact. The scope of the assessment process depends on the size of the project. An Environmental Assessment (EA) may be adequate for smaller projects. An Environmental Impact Statement (EIS), which is much more detailed and broader in scope than an EA, is required for larger projects. NEPA compliance requirements for any of our proposed projects could result in additional costs or delays.

The Endangered Species Act (ESA) is administered by the U.S. Department of Interior's U.S. Fish and Wildlife Service. The purpose of the ESA is to conserve and recover listed endangered and threatened species and their habitat. Under the ESA, endangered means that a species is in danger of extinction throughout all or a significant portion of its range. Threatened means that a species is likely to become endangered within the foreseeable future. Under the ESA, it is unlawful to take a listed species, which can include harassing or harming members of such species or significantly modifying their habitat. We conduct wildlife and plant inventories as required as part of the environmental assessment process prior to initiating exploration projects. We currently are unaware of any endangered species issues at any of our projects that would have a material adverse effect on our operations. Future identification of endangered species or habitat in our project areas may delay or adversely affect our operations.

We are committed to fulfilling our requirements under applicable environmental laws and regulations. These laws and regulations are continually changing and, as a general matter, are becoming more restrictive. Our policy is to conduct our business in a manner that safeguards public health and mitigates the environmental effects of our business activities. To comply with these laws and regulations, we have made, and in the future may be required to make, capital and operating expenditures.

### *U.S. Federal and State Reclamation Requirements*

We are subject to land reclamation requirements under state and federal law, which generally are implemented through reclamation permits that apply to exploration activities. These requirements often mandate concurrent reclamation and require the posting of reclamation bonds or other financial assurance sufficient to guarantee the cost of reclamation. If reclamation obligations are not met, the designated agency could draw on these bonds and letters of credit to fund expenditures for reclamation requirements.

Reclamation requirements generally include stabilizing, contouring and re-vegetating disturbed lands, controlling drainage from portals and waste rock dumps, removing roads and structures, neutralizing or removing process solutions, monitoring groundwater at the mining site, and maintaining visual aesthetics. We believe that we currently are in substantial compliance with and are committed to maintaining all of our financial assurance and reclamation obligations pursuant to our permits and applicable laws.

## **LEGAL PROCEEDINGS**

Except as provided below, neither we nor any of our properties, including the Borealis Property, are currently subject to any material legal proceedings or other regulatory proceedings and to our knowledge no such proceedings are contemplated.

On September 16, 2005, our subsidiary, Borealis Mining, was named as a co-defendant in an ongoing civil action pending in the United States District Court for the District of Nevada, entitled *United States v. Walker River Irrigation District* (Court Doc. No. In Equity C-125, Subfile C-125-B). The action seeks to determine the existence and extent of water rights held by the federal government in the Walker River drainage area for use on federally

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reserved lands such as Indian reservations, National Forests, military reservations, and the like. The suit does not dispute nor seek to invalidate any existing water rights (including ours); rather, it seeks to determine the extent and priority of the federal government's water rights. On May 27, 2003, the Court stayed all proceedings to allow the United States, the State of Nevada, the State of California, the Walker River Paiute Tribe, the Walker River Irrigation District, Mono County, California, Lyon County, Nevada, Mineral County, Nevada and the Walker Lake Working Group to attempt to mediate a settlement. No settlement has yet been reached. Borealis Mining was named as one of several hundred co-defendants in this action because it owns water rights within a portion of the Walker River drainage area in Nevada, which were granted under a permit on September 16, 2005.

We, like most private water right owners, intend to have only minimal involvement in the merits of the lawsuit. We do not believe that this civil action, which will determine the extent and priority of federally reserved water rights in the area, will have any effect on our potential business operations.

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Our directors hold office until the next annual meeting of the stockholders and the election and qualification of their successors. Officers are elected annually by the board of directors and serve at the direction of the board of directors.

The following table and information that follows sets forth, as of May 12, 2011, the names, and positions of our directors and executive officers:

<b>Name and Municipality of Residence</b>	<b>Current Office with Gryphon Gold</b>	<b>Principal Occupation Last Five Years</b>	<b>Director Since</b>
<b>John L. Key</b> Gardnerville, Nevada	Chief Executive Officer, Director	Chief Executive Officer appointed July 21, 2008, General Manager Projects for the Teck Cominco organization from 1973 to 2004.	July 21, 2008
<b>Donald W. Gentry</b> Bella Vista, Arkansas	Director	President, Chief Executive Officer, Chairman and Director of PolyMet Mining Corporation, 1998 to 2003	July 18, 2005
<b>Marvin K. Kaiser</b> Mayfield, Kentucky	Director	Consultant to natural resource industry, Whippoorwill Consulting 2006 Present, CFO, Executive VP, Chief Administrative Officer Doe Run Company 1993- 2006, CFO AMAX Gold, Inc 1989 to 1993, CFO, Senior VP Ranchers Exploration and Development Corporation 1969 to 1984.	Nov. 18, 2008
<b>Terence J. Cryan</b> Bronxville, NY	Director	Managing director at Paine Webber (Kidder,Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Currently, Mr. Cryan serves as the Managing Director to Concert Energy Partners, LLC.	Sep. 3, 2009
<b>Lisanna M. Lewis</b> Vancouver, BC	Vice President, Treasurer	Vice President appointed August 1, 2010, formerly Controller and Treasurer of the	

Company.

**Matthew A. Fowler(1)**

Spokane, WA

Interim Chief Financial  
Officer

Interim Chief Financial Officer  
appointed May 28, 2010.  
Leadership roles with Strata  
Partners, LLC, Octavius Capital  
Management, LLC, and Sharp  
Executive Associates, Inc.

**Steve Craig**

Carson City, Nevada

Vice President of  
Exploration

VP of Exploration appointed  
April 1, 2010. Vice President of  
Corporate Development of  
Golden Phoenix Minerals  
Company

- (1) Effective May 28, 2010, R. William Wilson resigned as consulting Chief Financial Officer and was replaced by Matthew A. Fowler (who serves on an interim basis).

The following is a description of the business background of the directors, executive officers and key employees of the Company.

*John L. Key*, 60, was appointed February 5, 2008 as Chief Operating Officer and has since been appointed President, CEO, and Director (July 21, 2008). Mr. Key is a graduate of the University of Missouri Rolla with an M.S. in Mining Engineer. He possesses 32 years of extensive mining experience. He worked for the Teck Cominco organization from 1973 to 2004 during which time he was directly responsible for running, in succession, the Magmont, Polaris, and Red Dog mines and also served as General Manager Projects. Mr. Key oversaw over \$300 million in capital expansions at Red Dog. His primary duties at Gryphon Gold are to review the potential for an oxide mine on the Borealis Property, to work on the longer term opportunities for the sulphide ore resources and to review opportunities available to Gryphon Gold.



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*Donald W. Gentry*, 68, Director, joined our board of directors in July 2005 after retiring from PolyMet Mining Corporation as its President, Chief Executive Officer, Chairman and Director from 1998 to 2003. He is a retired Professor Emeritus of the Colorado School of Mines, having served that institution from 1972 to 1998 as Professor, Department Head and Dean of Engineering. He has an international reputation as a consulting mining engineer, professional educator and mining executive. His primary interests center on the financial aspects of project evaluation, investment decision analysis, project financing, and corporate investment strategies. He previously served as a Director of Santa Fe Pacific Gold Corporation, Newmont Mining Corporation, and Newmont Gold Company and currently is a Director of Golden Gryphon Explorations (a company which is unrelated to Gryphon Gold Corporation). He was elected President of the Society for Mining, Metallurgy and Exploration, Inc. in 1993 and the American Institute of Mining, Metallurgical and Petroleum Engineers in 1996 and to the National Academy of Engineering in 1996. He holds B.S., M.S. and PhD. degrees in mining engineering from the University of Illinois, Mackay School of Mines, and University of Arizona, respectively.

*Marvin K. Kaiser*, 69, was appointed to our board of directors on November 18, 2008. Mr. Kaiser graduated from Southern Illinois University-Carbondale and began his career in the field of public accounting becoming a Certified Public Accountant in 1965. His career in the natural resources industry began in 1969 with Ranchers Exploration and Development Corporation where he held various positions including Chief Financial Officer and Senior Vice President until the company was combined with Hecla Mining Company in 1984. Mr. Kaiser also served as Chief Financial Officer of AMAX Gold, Inc from 1989 until 1993 when AMAX Inc was combined with Cyprus Mining. Subsequent to leaving AMAX, Mr. Kaiser joined The Doe Run Company as Chief Financial Officer. At the time of his retirement from Doe Run in 2006, he held the positions of Executive Vice President and Chief Administrative Officer. Following his retirement, Mr. Kaiser formed Whippoorwill Consulting, LLC, which provides financial advisory services to the natural resources industry. He presently serves as a director of several publicly traded mining/exploration companies as well as The Southern Illinois University Foundation.

*Terence J. Cryan*, 48, was appointed to our board of directors on September 3, 2009. Mr. Cryan graduated with honors from Tufts University in Medford, Massachusetts with a Bachelor of Arts degree in Economics/Political Science. He then attended the London School of Economics to earn his Masters of Science degree in Economics in December 1984. Mr. Cryan began his career in 1985 as a Portfolio Manager/Investment Officer for Chase Investment Management Corp in New York, NY. In 1987 he located to London, England with Lazard where he gained extensive knowledge of cross border corporate finance as well as mergers and acquisitions. Mr. Cryan's career continued as a managing director at Paine Webber (following its acquisition of Kidder, Peabody) and then served as Senior Managing Director at Bear Stearns & Co. Mr. Cryan was also President & CEO to Medical Acoustics LLC from April 2007 to April 2010. Currently, Mr. Cryan serves as the Managing Director of Concert Energy Partners, LLC, an investment banking and private equity firm based in New York. Mr. Cryan has extensive experience as a director of a number of publicly traded companies.

*Lisanna M. Lewis*, 37, was appointed as a Vice President on August 1, 2010. Ms. Lewis continues to serve as Controller, Treasurer and Secretary. Ms. Lewis has been with Gryphon Gold Corporation since October 2005, and was originally hired as the Office Manager of the Company. In August 2007 Ms. Lewis was promoted to Controller of the Company and later in November 2008 as Secretary and Treasurer. As Vice President of the Company, Ms. Lewis will continue to be responsible for the all administrative functions, financial reporting and investor relations activity. Ms. Lewis has a Commercial Accounting Certificate, an Accounting Technician Diploma, and is currently enrolled in the Certified General Accountants of British Columbia program.

*Matthew A. Fowler*, 32, was appointed as our Interim Chief Financial Officer effective May 28, 2010. Mr. Fowler has six years of investment, corporate finance and Securities and Exchange Commission (SEC) accounting experience. Over his career he has held leadership roles with Strata Partners, LLC a boutique Investment bank in Seattle, Washington, Octavius Capital Management, LLC a registered Investment adviser serving high net worth individuals

and Sharp Executive Associates, Inc., an International Financial Consultancy assisting private, SEC and Toronto Stock Exchange (TSX) listed public companies with their accounting and regulatory compliance needs. During his career, Mr. Fowler has raised approximately \$25 million of institutional capital for private equity investments, invested in numerous private equity transactions and drafted and finalized SEC and TSX documents for publicly listed companies. Mr. Fowler received an AB degree in economics and a Certificate in Accounting from the University of Washington.

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*Steven Craig*, 63, has served as Vice President of Exploration from January 2006 to November 2008 and has been reappointed Vice President of Exploration on April 1, 2010. Previous to his current position with Gryphon Gold, he was Vice President of Corporate Development of Golden Phoenix Minerals Company in Reno Nevada. He also served as the Company's Chairman, Director and Corporate Secretary. In this capacity he had numerous corporate responsibilities, but his main focus was to develop business opportunities for the company. This was done through property evaluation and acquisition and developing new ore deposits on the properties held. Mr. Craig received his M. S. degree in Economic Geology from Colorado State University in 1980 and a B. S. degree in Geology from Western State College in 1974.

## **Arrangements between Directors and Officers**

To our knowledge, there is no arrangement or understanding between any of our officers and any other person pursuant to which the officer was selected to serve as an officer.

## **Family Relationships**

There are no family relationships between, or among any of our directors or executive officers

## **Legal Proceedings, Cease Trade Orders and Bankruptcy**

As of the date of this prospectus, no director or executive officer of the Company and no shareholder holding more than 5% of any class of voting securities in the Company, or any associate of any such director, officer or shareholder is a party adverse to the Company or any of our subsidiaries or has an interest adverse to the Company or any of our subsidiaries.

No director or executive officer of the Company is, as at the date of this prospectus, or was within 10 years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including the Company), that:

(a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as described above, no director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

(b) has, within 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;

(c) has, within 10 years before the date of this prospectus, been the subject of, or a party to, any U.S. federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any U.S. federal or state securities or commodities law or regulation; or (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

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(d) has, within 10 years before the date of this prospectus, been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C.78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C.1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Marvin K. Kaiser, one of our directors, was a director of Constellation Copper Corporation, which filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) in December, 2008.

**EXECUTIVE COMPENSATION**

The following table sets forth compensation paid to each of the individuals who served as our Principal Executive Officer our Principal Financial Officer and our two other most highly compensated employees (the named executive officers ) for the fiscal year ended March 31, 2011.

During the fiscal year ended March 31, 2011, the Board authorized salary adjustments for directors, officers, and employees. These adjustments are indicated in the compensation table below. Further, the Board made stock and option grants to certain directors and executives to provide additional compensation, and the calculated value of such grants are indicated in the compensation table below.

Name and Principal Position	Year	Salary \$	Bonus \$	Stock Awards \$	Non-Qualified Non-Equity Incentive Compensation			Total
					Options Awards \$	Deferred Compensation \$	All Other Compensation \$	
John Key, CEO	2011	222,000	97,500	23,317	35,121			377,938(1)
	2010	152,000			67,482			219,482(2)
Matthew A Fowler, Interim CFO	2011	NIL			9,590		25,663	35,283(3)
Lisanna Lewis, VP, Treasurer & Secretary	2011	104,510*		11,658	10,941			127,109(4)
	2010	86,634*	10,314*		14,670			111,618(5)
Steven D Craig, VP Exploration	2011	163,000		7,772	13,561			184,333(6)
R. William Wilson, former CFO	2011	33,100			NIL			33,100
	2010	84,051			2,407			86,458(7)

- (1) \$319,500 of grand total was received as cash, \$35,121 was recorded as non-cash stock compensation expense, and \$23,317 in stock granted.
- (2) \$152,000 of grand total was received as cash, remaining \$67,482 was recorded as non-cash stock compensation expense.
- (3) Matthew Fowler is employed by Sharp Executive Associates, Inc., which is a contract CFO firm. \$10,000 was paid to Sharp Executive Associates, Inc. as a retainer and \$25,693 was billed by Sharp Executive Associates, Inc. for CFO duties. \$9,590 was recorded as non-cash compensation for Sharp Executive Associates, Inc.
- (4) \$104,510 of grand total was received in cash, \$10,941 was recorded as non-cash stock compensation expense, and \$11,658 in stock granted.
- (5) \$96,948 of grand total was received in cash, \$14,670 recorded in non-cash stock compensation expense.
- (6) \$163,000 of grand total was received in cash, \$13,561 recorded in non-cash stock compensation expense, and \$7,772 in stock granted.
- (7) \$84,051 of grand total was received as cash, remaining \$2,407 was recorded as non-cash stock compensation expense.

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\* Based on the March 31, 2011 exchange rate of Cdn\$0.9696 equals US\$1.

**Executive Compensation Agreements and Summary of Executive Compensation**

***Report on Executive Compensation***

During the year ended March 31, 2011, the Company's Compensation Committee was responsible for establishing compensation policy and administering the compensation programs of our executive officers.

The amount of compensation paid by the Company to each of our officers and the terms of those persons' employment is determined solely by the Compensation Committee. The Compensation Committee evaluates past performance and considers future incentive and retention in considering the appropriate compensation for the Company's officers. The Company believes that the compensation paid to the Company's directors and officers is fair to the Company.

Our Compensation Committee believes that the use of direct stock awards is at times appropriate for employees, and in the future intends to use direct stock awards to reward outstanding service or to attract and retain individuals with exceptional talent and credentials. The use of stock options and other awards is intended to strengthen the alignment of interests of executive officers and other key employees with those of our stockholders.

***Executive Compensation Agreements***

Gryphon Gold is a party to an employment contract with each of John Key, Lisanna Lewis and Steven Craig. Pursuant to each of their respective agreements, all three officers are entitled to compensation for termination of their employment in certain circumstances, including termination without cause and termination due to a change of control. These employment agreements provide for the payment of compensation that will be triggered by a termination of the executive officer's employment by either Gryphon Gold or the executive officer following a change of control of Gryphon Gold, or by Gryphon Gold at any time, other than for cause.

Except as described above, and the payment of directors' fees, there are no service contracts of any officer of Gryphon Gold and there is no arrangement or agreement made or proposed to be made between Gryphon Gold and any of its named executive officers pursuant to which a payment or other benefit is to be made or given by way of compensation in the event of that officer's resignation, retirement or other termination of employment, or in the event of a change of control of Gryphon Gold or a change in the named executive officer's responsibilities following such change in control.

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**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth the stock options and stock appreciation rights granted to our named executive officers as of the fiscal year ended March 31, 2011.

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (1) (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have not Vested (%)	Value of Shares or Units of Stock that Have not Vested (\$)	Number of Shares or Units of Other Rights that Have not Vested (#)	Value of Shares or Units of Other Rights that Have not Vested (\$)
<b>John L Key(1)</b> Chief Executive Officer	150,000			Cdn\$ 0.62	11-Feb-13				
	350,000			Cdn\$ 0.41	1-Aug-13				
	200,000			US\$ 0.22	16-Sept-14				
	300,000	100,000		US\$ 0.10	24-Aug-15				
<b>Lisanna Lewis(2)</b> VP, Treasurer,	40,000			Cdn\$ 0.81	10-Jan-12				
	50,000								