

PARAMOUNT GOLD & SILVER CORP.
Form 10-K
September 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: June 30, 2011
Or

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

For the transition period from: _____ to _____

Commission file number 001-33630

PARAMOUNT GOLD AND SILVER CORP.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20-3690109
(I.R.S. Employer
Identification No.)

665 Anderson Street Winnemucca, Nevada 89445
(Address of principal executive offices) (Zip Code)

(775)625-3600
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
common stock, \$0.001 par value

Name of each exchange on which registered
NYSE Amex

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Table of Contents

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, or the average bid and asked price for such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter as reported by the NYSE Amex Equities on December 31, 2010 was approximately \$442 million.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

Table of Contents

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 136,268,262 shares of common stock, \$.001 par value as of August 30, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. None.

This Form 10-K contains "forward-looking statements" within the meaning of applicable securities laws relating to Paramount Gold and Silver Corp. ("Paramount" "we", "our", or the "Company") which represent our current expectations or beliefs including, but not limited to, statements concerning our operations, performance, and financial condition. These statements by their nature involve substantial risks and uncertainties, credit losses, dependence on management and key personnel, variability of quarterly results, and our ability to continue growth. Statements in this annual report regarding planned drilling activities and any other statements about Paramount's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements. You should also see our risk factors beginning on page 12. For this purpose, any statements contained in this Form 10-K that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "anticipate", "intend", "could", "estimate", or "continue" or the negative or other comparable terminology are intended to identify forward-looking statements. Other matters such as our growth strategy and competition are beyond our control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict all of such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We are under no duty to update such forward-looking statements.

Table of Contents

EXCHANGE RATES:

THE COMPANY'S FUNCTIONAL CURRENCY IS THE U.S DOLLAR. EXCHANGE RATES BETWEEN CANADA AND THE UNITED STATES HAVE FLUCTUATED THROUGHOUT THE FISCAL YEAR RANGING FROM A HIGH OF \$1.07 CAD FOR EVERY \$1.00 USD TO A LOW OF \$0.95 CAD FOR EVERY \$1.00 USD. REPORTED TRANSACTIONS ARE CONVERTED TO U.S. DOLLARS AS OF THE DATE OF THE TRANSACTION.

METRIC CONVERSION TABLE AND ABBREVIATIONS

For ease of reference, the following conversion factors are provided:

1 acre	= 0.4047 hectare	1 mile	= 1.6093 kilometers
1 foot	= 0.3048 meter	1 troy ounce	= 31.1035 grams
1 gram per metric ton	= 0.0292 troy ounce/ short ton	1 square mile	= 2.59 square kilometers
1 short ton (2000 pounds)	= 0.9072 tonne	1 square kilometer	= 100 hectares
1 tonne	= 1,000 kg or 2,204.6 lbs	1 kilogram	= 2.204 pounds or 32.151 troy oz
1 hectare	= 10,000 square meters	1 hectare	= 2.471 acres

The following abbreviations may be used herein:

Au	= gold	m ²	= square meter
Ag	= silver	m ³	= cubic meter
g	= gram	mg	= milligram
g/t	= grams per tonne	mg/m ³	= milligrams per cubic meter
Ha	= hectare	T or t	= tonne
Km	= kilometer	oz	= troy ounce
Km ²	= square kilometers	ppm	= parts per million
Kg	= kilogram	Ma	= million years
m	= meter		

Note: All units in this report are stated in metric measurements unless otherwise noted.

Table of Contents

GLOSSARY OF MINING TERMS

An “exploration stage” prospect is one which is not in either the development or production stage.

A “development stage” project is one which is undergoing preparation of an established commercially mineable deposit for its extraction but which is not yet in production. This stage occurs after completion of a feasibility study.

The term “mineralized material” refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.

The term “probable reserve” refers to reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

A “production stage” project is actively engaged in the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product.

The term “proven reserve” refers to reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

The term “reserve” refers to that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study done to bankable standards that demonstrates the economic extraction. (“Bankable standards” implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing.) A reserve includes adjustments to the in-situ tons and grade to include diluting materials and allowances for losses that might occur when the material is mined.

Additional Definitions

alteration – any change in the mineral composition of a rock brought about by physical or chemical means

assay – a measure of the valuable mineral content

diamond drilling – rotary drilling using diamond-set or diamond-impregnated bits, to produce a solid continuous core of rock sample

dip – the angle that a structural surface, a bedding or fault plane, makes with the horizontal, measured perpendicular to the strike of the structure

disseminated – where minerals occur as scattered particles in the rock

fault – a surface or zone of rock fracture along which there has been displacement

feasibility study – a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably

serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production

Table of Contents

formation – a distinct layer of sedimentary rock of similar composition

geochemistry – the study of the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere

geophysics – the study of the mechanical, electrical and magnetic properties of the earth's crust

geophysical surveys – a survey method used primarily in the mining industry as an exploration tool, applying the methods of physics and engineering to the earth's surface

geotechnical – the study of ground stability

grade – quantity of metal per unit weight of host rock

heap leach – a mineral processing method involving the crushing and stacking of an ore on an impermeable liner upon which solutions are sprayed to dissolve metals i.e. gold, copper etc.; the solutions containing the metals are then collected and treated to recover the metals

host rock – the rock in which a mineral or an ore body may be contained

in-situ – in its natural position

lithology – the character of the rock described in terms of its structure, color, mineral composition, grain size and arrangement of its component parts, all those visible features that in the aggregate impart individuality to the rock

mapped or geological mapping – the recording of geologic information including rock units and the occurrence of structural features, attitude of bedrock, and mineral deposits on maps

mineral – a naturally occurring inorganic crystalline material having a definite chemical composition

mineralization – a natural accumulation or concentration in rocks or soil of one or more potentially economic minerals, also the process by which minerals are introduced or concentrated in a rock

outcrop – that part of a geologic formation or structure that appears at the surface of the earth

open pit or open cut – surface mining in which the ore is extracted from a pit or quarry, the geometry of the pit may vary with the characteristics of the ore body

ore – mineral bearing rock that can be mined and treated profitably under current or immediately foreseeable economic conditions

ore body – a mostly solid and fairly continuous mass of mineralization estimated to be economically mineable

ore grade – the average weight of the valuable metal or mineral contained in a specific weight of ore i.e. grams per ton of ore

oxide – gold bearing ore which results from the oxidation of near surface sulfide ore

preliminary assessment – a study that includes an economic analysis of the potential viability of Mineral Resources taken at an early stage of the project prior to the completion of a preliminary feasibility study

QA/QC – Quality Assurance/Quality Control is the process of controlling and assuring data quality for assays and other exploration and mining data

quartz – a mineral composed of silicon dioxide, SiO₂ (silica)

RC (reverse circulation) drilling – a drilling method using a tri-cone bit, during which rock cuttings are pushed from the bottom of the drill hole to the surface through an inner tube, by liquid and/or air pressure moving through an outer tube

rock – indurated naturally occurring mineral matter of various compositions

Table of Contents

sampling and analytical variance/precision – an estimate of the total error induced by sampling, sample preparation and analysis

sediment – particles transported by water, wind, gravity or ice

sedimentary rock – rock formed at the earth's surface from solid particles, whether mineral or organic, which have been moved from their position of origin and re-deposited

strike – the direction or trend that a structural surface, e.g. a bedding or fault plane, takes as it intersects the horizontal

strip – to remove barren rock or overburden in order to expose ore

sulfide – a mineral including sulfur (S) and iron (Fe) as well as other elements; metallic sulfur-bearing mineral often associated with gold mineralization

Table of Contents

<u>PART 1</u>	9
<u>Item 1. Business.</u>	9
<u>Item 1A. Risk Factors.</u>	12
<u>Item 1B. Unresolved Staff Comments.</u>	19
<u>Item 2. Properties</u>	19
<u>Item 3. Legal Proceedings.</u>	43
<u>Item 4. (Removed and Reserved).</u>	43
PART II	43
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	43
<u>Item 6. Selected Financial Data.</u>	48
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	49
<u>Item 8. Financial Statements and Supplementary Data.</u>	53
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	53
<u>Item 9A. Controls and Procedures.</u>	53
<u>Item 9B. Other Information.</u>	54
PART III	55
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	55
<u>Item 11. Executive Compensation.</u>	59
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	59
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	59
<u>Item 14. Principal Accounting Fees and Services.</u>	59
PART IV	60
<u>Item 15. Exhibits, Financial Statements Schedules.</u>	60

Table of Contents

PART 1

Item 1. Business.

Overview and History:

Paramount Gold and Silver Corp. is a U.S. based precious metals exploration stage mining company with projects in northern Nevada and Chihuahua, Mexico. We are a Delaware corporation and we were incorporated on March 29, 2005. Our head office is located at 665 Anderson Street, Winnemucca, Nevada. We also have a field office in Temoris, Chihuahua Mexico.

Through our wholly owned Mexican subsidiary, Paramount Gold de Mexico S.A. de C.V., we own a 100% interest in the San Miguel property which we acquired from Tara Gold Resources Corp. (“Tara Gold”).

In March 2009, we acquired all of the issued and outstanding shares of common stock of Magnetic Resources Ltd. (“Magnetic”). Magnetic is the sole beneficial shareholder of Minera Gama, S.A. de C.V. which holds interests in various mineral concessions in Mexico known as the Temoris project and the Morelos project. The Temoris project forms part of the greater San Miguel project. Magnetic also holds a 2.0% NSR royalty from production arising from the Iris mineral concessions located in the Municipality of Ocampo in Chihuahua, Mexico. The Morelos Project and the Iris Project are ancillary to our primary business plan.

Also in 2009, we closed on an agreement with Garibaldi Resource Corp (“Garibaldi”) in which we acquired the outstanding option on the Temoris project. With the acquisition of both Magnetic and our agreement with Garibaldi, we increased our mining claims in the San Miguel project area by approximately 54,000 hectares.

In May 2008, we signed an agreement with Mexoro Minerals Ltd. (“Mexoro”) and its Mexican subsidiary, Sunburst Mining de Mexico S.A. de C.V., to acquire, for a purchase price of US\$3.7 million, Mexoro’s rights to a number of mining concessions known as the Guazapares concessions, comprising approximately 1,980 hectares and located in Chihuahua, Mexico. The Guazapares project comprises 12 claims surrounding Paramount’s San Miguel Project and also forms part of the greater San Miguel project. An additional payment of US\$1.6 million was due to Mexoro if, within 36 months, the project was put into commercial production or if Paramount or substantially all of its assets are sold. The project has not been placed into commercial production and we are under no contractual obligations to make further payments to Mexoro.

On August 23, 2010, we acquired all of the issued and outstanding shares of common stock of X-Cal Resources Ltd. (“X-Cal”). We issued 22,001,453 shares of our common stock in exchange for all of the issued and outstanding shares of common stock of X-Cal. The principal asset of X-Cal is the Sleeper Gold Mine located in Humboldt County, Nevada. We successfully integrated X-Cal’s operations within the Company. We completed our first exploration at the Sleeper Gold Mine in January 2011 and commenced a new exploration program in May 2011.

Our work at both the San Miguel Project and Sleeper Gold Project is consistent with Paramount’s strategy of expanding and upgrading known, large-scale precious metal occurrences in established mining camps, defining their economic potential and then partnering them with nearby producers.

Table of Contents

Inter-corporate Relationships:

The Company's corporate structure is as follows:

Neither Compania Minera nor Paramount Metals is currently active.

Financings and Related Agreements:

We have been dependent upon equity financings to operate our business. On March 30, 2007 we closed on an equity financing that came from a private placement of our securities in the amount of \$21,836,841. The financing consisted of the sale of 10,398,496 units at a price of \$2.10 per unit. From April 2007 through February 2009, we completed several small private placements ranging from \$100,000 to approximately \$1.8 million. These funds were used to expand our drilling operations in Mexico as well as for general working capital purposes.

On March 20, 2009 we sold a total of 12 million units of our securities at a price of \$0.75 CAD per unit for a total of \$9,000,000 CAD (the "Financing"). (Based on an exchange rate of CAD\$1 = US\$0.80 we raised gross proceeds of US\$7.2 million). Each unit consisted of one share of common stock and one common stock purchase warrant. Each warrant entitles the holder thereof to purchase one share of our common stock at an exercise price of \$1.05 CAD per share for a period of four years from the date of issuance.

In October 2009 we sold a total of 16 million shares of our common stock at \$1.25 by way of public offering lead by a U.S broker-dealer. In addition, our underwriter exercised all of its overallotment of 2.4 million shares generating approximately \$23 million in gross proceeds and \$21.7 net proceeds.

In January 2010, we issued to MineralFields Group, 3,636,362 shares of our common stock at a per share of \$1.25 for gross proceeds of \$4,454,525 CAD pursuant to the exercise of common share purchase warrants.

In June 2010 we issued 3 million shares of our common stock pursuant to the exercise of 3 million common stock warrants resulting in proceeds of \$3,150,000 CAD.

From December 2010 through March 2011, the Company issued 2,140,100 shares of its common stock pursuant to the exercise of outstanding stock purchase warrants for proceeds of \$2,247,000.

Table of Contents

In June 2011, we issued 19,395 shares of our common stock for gross proceeds of \$70,037 pursuant to an “at-the-market” offering .

Depending on the results of our drilling program, we may require additional financing. There can be no assurance that this financing will be available or if available, on terms acceptable to the Company.

MARKET DESCRIPTION

Gold and Silver:

We are a precious metals exploration company with gold and silver exploration properties located in Mexico and the United States. The gold and silver markets have been strong since 2001, where gold has increased from \$268 per ounce to a high of approximately \$1,900 per ounce to its current price of approximately \$1,700 per ounce. Silver has increased from \$4.58 per ounce to a high of \$50 per ounce to its current price of approximately \$40 per ounce. (Current prices are as of September 5, 2011). Management believes that both the gold and silver markets will remain strong for the foreseeable future.

Mineral exploration in Mexico and the United States.

Mexico is one of the world’s largest mineral producers. It provides an ideal business site for mining companies to operate given its stable government and inclusion in the North American Free Trade Agreement. U.S. mineral production has remained strong through the past decade. The state of Nevada is one of the most significant gold districts in the world.

Employees

As of July 30, 2011, we had approximately 40 employees and consultants located in Mexico and the United States.

Facilities

Our head office is located in Winnemucca, Nevada. Our administrative office is located in Ottawa, Ontario Canada. We also have an office in Temoris, Mexico. The premise leases for all facilities are in good standing.

Table of Contents

Item 1A. Risk Factors.

(1) The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business could be materially adversely affected. In such case, the Company may not be able to proceed with its planned operations and your investment may be lost entirely.

Risks Related to our Business Operations

It is possible investors may lose their entire investment in Paramount.

Prospective investors should be aware that if we are not successful in our endeavors, your entire investment in the Company could become worthless. Even if we are successful, in identifying mineral reserves that can be commercially developed, there can be no assurances that we will generate any revenues and our losses will continue.

We have not generated any revenues from operations. We have a history of losses and losses are likely to continue in the future.

We have not generated any revenues from operations. Our Net loss for the fiscal year ended June 30, 2011 totaled \$27,989,076. Cumulative losses since inception totaled \$89,619,848. We have incurred significant losses in the past and we will likely continue to incur losses in the future unless our drilling program proves successful. Even if our drilling program identifies gold, silver or other mineral reserves, there can be no assurance that we will be able to commercially exploit these resources, generate any revenues or generate sufficient revenues to operate profitably.

We may require additional financing to continue drilling operations.

We may require significant working capital to continue our current drilling program. There can be no assurance that we will be able to secure additional funding to meet our objectives or if we are able to identify funding sources, that the funding will be available on terms acceptable to the Company. Should this occur, we will have to significantly reduce our drilling programs which will limit our ability to secure additional equity participation in various joint ventures.

There are no confirmed mineral deposits on any properties from which we may derive any financial benefit.

Neither the Company nor any independent geologist has confirmed commercially mineable ore deposits. In order to carry out additional exploration programs of any potential ore body and to place it into commercial production, we will require substantial additional funding.

We have no history as a mining company.

We have no history of earnings or cash flow from mining operations. If we are able to proceed to production, commercial viability will be affected by factors that are beyond our control such as the particular attributes of the deposit, the fluctuation in metal prices, the cost of construction and operating a mine, prices and refining facilities, the availability of economic sources for energy, government regulations including regulations relating to prices, royalties, restrictions on production, quotas on exploration of minerals, as well as the costs of protection of the environment.

If our exploration costs are higher than anticipated, then our profitability will be adversely affected.

We are currently proceeding with exploration of our mineral properties on the basis of estimated exploration costs. This exploration program includes drilling programs at various locations within Mexico and the United States. If our exploration costs are greater than anticipated, then we will have less funds for other expenses or projects. If higher exploration costs reduce the amount of funds available for the extraction of gold or silver through mining and development activities, then our ability to generate revenues will be adversely affected. Factors that could cause exploration costs to increase are: adverse weather conditions, difficult terrain, increased government regulation and shortages of qualified personnel.

Table of Contents

During the next twelve months, and assuming no adverse developments outside of the ordinary course of business we have budgeted approximately \$12.25 million for exploratory activities of which \$9.25 million will be allocated to our Mexican operations and \$3 million will be allocated to our drilling operations in Nevada. Exploration will be funded by our available cash reserves. Our drilling program may vary significantly from what we have budgeted depending upon drilling results. Even if we identify mineral reserves which have the potential to be commercially developed, we will not generate revenues until such time as we undertake mining operations. Mining operations will involve a significant capital infusion. Mining costs are speculative and dependent on a number of factors including mining depth, terrain and necessary equipment. We do not believe that we will have sufficient funds to implement mining operations without a joint venture partner, of which there can be no assurance.

We have no ongoing mining operations.

We are not a mining company and have no ongoing mining operations of any kind. We have interests in mining concessions which may or may not lead to production.

We face many operating hazards.

The development and operation of a mine or mineral property involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, among other things, ground fall, flooding, environmental hazards and the discharge of toxic chemicals, explosions and other accidents. Such occurrences may result in work stoppages, delays in production, increased production costs, damage to or destruction of mines and other producing facilities, injury or loss of life, damage to property, environmental damage and possible legal liability for such damages as well. Although the Company maintains liability coverage in an amount which it considers adequate for its operations, such occurrences, against which the Company may not be able, or may elect not to insure, may result in a material adverse change in the Company's financial position. The nature of these risks is such that liabilities may exceed policy limits, in which event the Company would incur substantial uninsured losses.

There may be insufficient mineral reserves to develop any of our properties and our estimates may be inaccurate.

There is no certainty that any expenditures made in the exploration of any properties will result in discoveries of commercially recoverable quantities of ore. Most exploration projects do not result in the discovery of commercially mineable deposits of ore and no assurance can be given that any particular level of recovery of gold from discovered mineralization will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable ore body which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results.

Short term factors relating to reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that gold recovered in small scale laboratory tests will be duplicated in large scale tests under on-site production conditions. Material changes in estimated reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

We have no proven reserves.

All of our properties are in the exploration stages only and are without known bodies of commercial ore. Development of these properties will follow only upon obtaining satisfactory exploration results. The long-term profitability of the

Company's operations will be in part directly related to the cost and success of its exploration and development programs. Mineral exploration and development are highly speculative businesses, involving a high degree of risk. Few properties which are explored are ultimately developed into producing mines. There is no assurance that our mineral exploration and development activities will result in any discoveries of commercial quantities of ore. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. Discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, many of which are beyond the Company's control, such as the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection.

Table of Contents

In the course of exploration, development, and mining of mineral properties, certain unanticipated conditions may arise or unexpected or unusual events may occur, including rock bursts, cave-ins, fires, floods, or earthquakes. It is not always possible to fully insure against such risks and we may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they may reduce or eliminate any future profitability and may result in a decline in the value of the securities of the Company.

We face fluctuating gold and mineral prices and currency volatility.

The price of gold and silver as well as other precious base metals has experienced volatile and significant price movements over short periods of time and is affected by numerous factors beyond our control, including international economic and political trends, expectations of inflation, currency exchange fluctuations (including, the U.S. dollar relative to other currencies) interest rates, global or regional consumption patterns, speculative activities and increases in production due to improved mining and production methods. The supply of and demand for gold, other precious and base metals are affected by various factors, including political events, economic conditions and production costs in major mineral producing regions.

Mining operations are hazardous, raise environmental concerns and raise insurance risks.

Mining operations are by their nature subject to a variety of risks, such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences may delay development or production, increase production costs or result in a liability. We may not be able to insure fully or at all against such risks, due to political or other reasons, or we may decide not to take out insurance against such risks as a result of high premiums or other reasons. We intend to conduct our business in a way that safeguards public health and the environment and in compliance with applicable laws and regulations. Environmental hazards may exist on properties in which we hold an interest which are unknown to us and may have been caused by prior owners. Changes to mining laws and regulations could require additional capital expenditures and increase 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 render certain mining operations uneconomic.

Our estimates of resources are subject to uncertainty.

Estimates of resources are subject to considerable uncertainty. Such estimates are arrived at using standard acceptable geological techniques, and are based on the interpretations of geological data obtained from drill holes and other sampling techniques. Engineers use feasibility studies to derive estimates of cash operating costs based on anticipated tonnage and grades of ore to be mined and processed, the predicted configuration of the ore bodies, expected recovery rates of metal from ore, comparable facility and operating costs and other factors. Actual cash operating costs and economic returns on projects may differ significantly from the original estimates, primarily due to fluctuations in the current prices of metal commodities extracted from the deposits, changes in fuel costs, labor rates, changes in permit requirements, and unforeseen variations in the characteristics of the ore body. Due to the presence of these factors, there is no assurance that any geological reports will accurately reflect actual quantities of gold, silver or other metals that can be economically processed and mined by us.

If we are unable to obtain all of our required governmental permits, our operations could be negatively impacted.

Our future operations, including exploration and development activities, required permits from various governmental authorities. Such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There can be no assurance that we will be able to acquire all required licenses or permits or to maintain continued operations at our properties.

We are subject to numerous environmental and other regulatory requirements.

All phases of mining and exploration operations are subject to governmental regulation including environmental regulation. Environmental legislation is becoming stricter, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened responsibility for companies and their officers, directors and employees. There can be no assurance that possible future changes in environmental regulation will not adversely affect our operations. As well, environmental hazards may exist on a property in which we hold an interest that was caused by previous or existing owners or operators of the properties and of which the Company is not aware at present.

Table of Contents

Government approvals and permits are required to be maintained in connection with our mining and exploration activities. Although we currently have all required permits for our operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations or additional permits for any possible future changes to the Company's operations, including any proposed capital improvement programs. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, may have a material adverse impact on the Company resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays in development of properties.

There is no assurance that there will not be title or boundary disputes.

Although we have investigated the right to explore and exploit our properties and obtained records from government offices with respect to all of the mineral claims comprising our properties, this should not be construed as a guarantee of title. Other parties may dispute the title to any of our properties or that any property may be subject to prior unregistered agreements and transfers or land claims by aboriginal, native, or indigenous peoples. The title may be affected by undetected encumbrances or defects or governmental actions.

Local infrastructure may impact our exploration activities and results of operations.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges and power and water supplies are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage or government or other interference in the maintenance or provision of such infrastructure could adversely affect the activities and profitability of the Company.

Our financial position and results are subject to fluctuations in foreign currency values.

Any mining operations we undertake outside of the United States will be subject to currency fluctuations. Fluctuations in the exchange rate between the U.S. dollar and any foreign currency may adversely impact our operations. We do not anticipate that we will enter into any type of hedging transactions to offset this risk. In addition, with respect to commercial operations in Mexico or other countries, it is possible that material transactions incurred in local currency, such as engagement of local contractors for major projects, will be settled at a U.S. dollar value that is different from the U.S. dollar value of the transaction at the time it was incurred. This could have the effect of undermining revenues from operations in that country.

Our property interests in Mexico are subject to risks from instability in that country.

We have property interests in Mexico which may be affected by risks associated with political or economic instability in that country. The risks with respect to Mexico or other developing countries include, but are not limited to: fluctuations in currency exchange rates, criminal activity, lack of personal safety or ability to safeguard property, labor instability or militancy, mineral title irregularities and high rates of inflation. In addition, changes in mining or investment policies or shifts in political attitude in Mexico or the United States may adversely affect our business. We may be affected in varying degrees by government regulation with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The effect of these factors cannot be accurately predicted but

may adversely impact our proposed operations in any foreign jurisdiction.

Table of Contents

Increasing violence between the Mexican government and drug cartels may result in additional costs of doing business in Mexico.

To date, we have not incurred additional costs as a result of increasing violence between the Mexican government and drug cartels. The state of Chihuahua where the San Miguel property is located has experienced over 2,500 deaths attributable to the drug wars. To date, this violence has had no impact on our business operations. Management remains cognizant that the drug cartels may expand their operations or violence in areas in close proximity to our operations. Should this occur, we will be required to hire additional security personnel. We have not budgeted for increased security. However, if drug violence becomes a problem or, any other violence impacts our operations, the costs to protect our personnel and property will adversely impact our operations.

There may be challenges to our title in our mining properties.

While we intend to conduct our own due diligence prior to committing significant funds to any project, mining properties may be subject to prior unregistered agreements, transfers or claims and title may be affected by undetected defects. Should this occur, we face significant delays, costs and the possible loss of any investments or commitment of capital.

Because of the speculative nature of exploration for gold and silver properties, there is substantial risk that our business will fail.

The search for precious metals as a business is extremely risky. We cannot provide any assurances that the gold or silver mining interests that we acquired will contain commercially exploitable reserves of gold or silver. Exploration for minerals is a speculative venture necessarily involving substantial risk. Any expenditure that we make may not result in the discovery of commercially exploitable reserves of gold.

The precious metals markets are volatile markets. This will have a direct impact on the Company's revenues (if any) and profits (if any) and will probably have an adverse affect on our ongoing operations.

The price of both gold and silver has increased over the past few years. This has contributed to the renewed interest in gold and silver mining and companies engaged in that business, including the exploration for both gold and silver. However, in the event that the price of these metals fall, the interest in the gold and silver mining industry may decline and the value of the Company's business could be adversely affected. Further, although it is anticipated that mining costs outside of the United States and Canada will be appreciably lower, no assurances can be given that the situation will remain, or that gold or silver will remain at a price that will enable us to generate revenues from our mining operations. Even if we are able to generate revenues, there can be no assurance that any of our operations will prove to be profitable. Finally, in recent decades, there have been periods of both overproduction and underproduction of both gold and silver resources. Such conditions have resulted in periods of excess supply of and reduced demand on a worldwide basis and on a domestic basis. These periods have been followed by periods of short supply of and increased demand for both gold and silver. The excess or short supply of gold has placed pressure on prices and has resulted in dramatic price fluctuations even during relatively short periods of seasonal market demand. We cannot predict what the market for gold or silver will be in the future.

Government regulation or changes in such regulation may adversely affect the Company's business.

The Company has and will, in the future, engage experts to assist it with respect to its operations. The Company deals with various regulatory and governmental agencies and the rules and regulations of such agencies. No assurances can be given that it will be successful in its efforts or dealings with these agencies. Further, in order for the Company to operate and grow its business, it needs to continually conform to the laws, rules and regulations of such jurisdiction. It

is possible that the legal and regulatory environment pertaining to the exploration and development of gold mining properties will change. Uncertainty and new regulations and rules could increase the Company's cost of doing business or prevent it from conducting its business.

We are in competition with companies that are larger, more established and better capitalized than we are.

Many of our potential competitors have:

- greater financial and technical resources;

Table of Contents

- longer operating histories and greater experience in mining;
- greater awareness of the political, economic and governmental risks in operating in Mexico.

We may not be able to generate revenues.

To date, we have not generated any revenues from operations. We have incurred significant losses since inception and there can be no assurance that we will be able to reverse this trend. Even if we are able to successfully identify commercially exploitable mining reserves, there can be no assurance that we will have sufficient financing to exploit these reserves, generate revenues or find a willing buyer for the properties.

We have no proven reserves, no mining operations, and no operating income.

We currently have no revenues from operations, no mining operations, and no proven reserves. Reserves, by definition, contain mineral deposits in a quantity and in a form from which the target minerals may be economically and legally extracted or produced. We have not established that precious minerals exist in any quantity in the property which is the focus of our exploration efforts, and unless or until we do so we will not have any income from operations.

Exploration for economic deposits of minerals is speculative.

The business of mineral exploration is very speculative, since there is generally no way to recover any of the funds expended on exploration unless the existence of mineable reserves can be established and the Company can exploit those reserves by either commencing mining operations, selling or leasing its interest in the property, or entering into a joint venture with a larger resource company that can further develop the property to the production stage. Unless we can establish and exploit reserves before our funds are exhausted, we will have to discontinue operations, which could make our stock valueless.

Exploratory and mining operations are subject to environmental risks.

Both exploratory and mining activities are subject to strict environmental rules and regulations. While we believe that we have complied with all applicable rules and regulations to date, there can be no assurance that we will be able to comply with these rules in the future. Moreover, if it is determined that any prior activity on or about our mining reserves created environmental risks, we would be liable for this clean-up even though we did not perpetrate the violation. Environmental legislation is evolving in some countries or jurisdictions in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect our projects. We are currently subject to U.S. federal and state government environmental regulations with respect to our properties in the United States and subject to environmental regulations in Mexico.

The mining industry is highly competitive and the success and future growth of our business depend upon our ability to remain competitive in identifying and developing mining properties with sufficient reserves for economic exploitation.

The mining industry is highly competitive and fragmented with limited barriers to entry, especially at the exploratory stages. We compete in national, regional and local markets with large multi-national corporations and against start-up operators hoping to identify a mining reserve. Some of our competitors have significantly greater financial resources than we do. This puts us at a competitive disadvantage if we choose to further exploit mining opportunities. As we

expand into new geographic markets, our success will depend in part on our ability to locate and exploit mineral reserves.

The loss of key members of our senior management team could adversely affect the execution of our business strategy and our financial results.

We believe that the successful execution of our business strategy and our ability to move beyond the exploratory stages depends on the continued employment of key members of our senior management team. If any members of our senior management team become unable or unwilling to continue in their present positions, our financial results and our business could be materially adversely affected.

Table of Contents

We operate in a regulated industry and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce our revenues.

Our organization is subject to extensive and complex foreign, federal and state laws and regulations. If we fail to comply with the laws and regulations that are directly applicable to our business, we could suffer civil and/or criminal penalties or be subject to injunctions or cease and desist orders. While we believe that we are currently compliant with applicable rules and regulations, if there are changes in the future, there can be no assurance that we will be able to comply in the future, or that future compliance will not significantly adversely impact our operations.

We rely on independent analysis to analyze our drilling results and planned exploration activities.

We rely on independent geologists to analyze our drilling results and to prepare resource reports on several of our mining concessions. While these geologists rely on standards established by the Canadian Institute of Mining, Metallurgy and Petroleum, Standards on Mineral Resources and Mineral Reserves and other standards established by various licensing bodies, there can be no assurance that their estimates or results will be accurate. Analyzing drilling results and estimating reserves or targeted drilling sites is not a certainty. Miscalculations and unanticipated drilling results may cause the geologists to alter their estimates. If this should happen, we would have devoted resources to areas where resources could have been better allocated.

Risks Related to Our Common Stock

The following risks are currently applicable to Paramount and will remain applicable to the combined company upon completion of the Transaction.

Our stock price may be volatile.

The market price of our common stock has been volatile. We believe investors should expect continued volatility in our stock price. Such volatility may make it difficult or impossible for you to obtain a favorable selling price for our shares.

We have a large number of authorized but unissued shares of our common stock.

We have a large number of authorized but unissued shares of common stock, which our management may issue without further stockholder approval, thereby causing dilution of your holdings of our common stock. Our management will continue to have broad discretion to issue shares of our common stock in a range of transactions, including capital-raising transactions, mergers, acquisitions and in other transactions, without obtaining stockholder approval, unless stockholder approval is required. If our management determines to issue shares of our common stock from the large pool of authorized but unissued shares for any purpose in the future, your ownership position would be diluted without your further ability to vote on that transaction.

During our last fiscal year, we issued a total of 26,179,931 shares of common stock as a result of acquisitions, financings and for the exercise or options and warrants. While the issuance of the additional shares of our common stock has resulted in dilution to our existing shareholders, management believes that the issuance of these shares of common stock has provided enhanced value to our company and preserved working capital for our drilling program and general working capital.

The exercise of our outstanding options and warrants and vesting of restricted stock awards may depress our stock price.

The exercise of outstanding options and warrants, and the subsequent sale of the underlying common stock in the public market, or the perception that future sales of these shares could occur, could have the effect of lowering the market price of our common stock below current levels and make it more difficult for us and our stockholders to sell our equity securities in the future.

Sales or the availability for sale of shares of common stock by stockholders could cause the market price of our common stock to decline and could impair our ability to raise capital through an offering of additional equity securities.

Table of Contents

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties

SAN MIGUEL PROJECT, MEXICO

Our exploratory activities are concentrated within the San Miguel Groupings which comprise the San Miguel Project.

19

Table of Contents

Property Description and Location

Location

The San Miguel Project is located in southwestern Chihuahua in Northern Mexico, approximately 400 km by road from the state capital of Chihuahua City. The project is about 20 km north of the town of Temoris, adjacent to the village of Guazapares. It is in the Guazapares mining district, which is part of the Sierra Madre Occidental gold-silver belt. The location of the San Miguel Project is shown in Figure 1.

Mineral Claim Area

The San Miguel project originally consisted of 17 smaller concessions clustered near Guazapares, Chihuahua with a total area of 427 hectares, plus the much larger Andrea, Gissel and Isabel concessions which were staked in 2008, the Elyca concession which was acquired in 2008, and a joint venture agreement that had been signed with Garibaldi Resources Corporation as part of a district wide exploration program.

Since November 2008, there have been significant additions to the San Miguel project concessions. In March 2009 we acquired from Garibaldi all of their interest in several mining concession totalling approximately 54,000 hectares Pursuant to the agreement Paramount paid Garibaldi a total of \$400,000 in cash and issued 6 million shares of Paramount's common stock. A map of the new Temoris project is set forth below.

Also in March 2009, Paramount acquired all of the issued and outstanding shares of stock of Magnetic Resources Ltd. Magnetic was the sole beneficial shareholder of Minera Gama which was the underlying concession holder of Garibaldi's Temoris Project, as well as two other groups of concessions which are not in the San Miguel area – the Morelos grassroots exploration and Iris royalty projects. In addition, Paramount purchased from Mexoro Minerals Ltd., and its Mexican subsidiary, Sunburst Mining de Mexico, S.A. de C.V., to acquire its interest to the Guazapares concession group adjacent to Paramount's San Miguel group subject to certain net smelter return royalties for a purchase price of \$3.7 million. The property is comprised of approximately 2000 hectares.

San Miguel Concessions Including the Temoris Project

Table of Contents

The following table outlines our concessions within the San Miguel Project:

San Miguel Project Concession Data

Concession	Owner	Title No.	Date Staked	Hectares
San Miguel Group				
SAN MIGUEL	Paramount	166401	4-Jun-80	13
SAN LUIS	Paramount	166422	4-Jun-80	4
EMPALME	Paramount	166423	4-Jun-80	6
SANGRE DE CRISTO	Paramount	166424	4-Jun-80	41
SANTA CLARA	Paramount	166425	4-Jun-80	15
EL CARMEN	Paramount	166426	4-Jun-80	59
LAS TRES B.B.B.	Paramount	166427	4-Jun-80	23
SWANWICK	Paramount	166428	4-Jun-80	70
LAS TRES S.S.S.	Paramount	166429	4-Jun-80	19
SAN JUAN	Paramount	166402	4-Jun-80	3
EL ROSARIO	Paramount	166430	4-Jun-80	14
GUADALUPE DE LOS				
REYES	Paramount	172225	4-Jun-80	8
CONSTITUYENTES 1917	Paramount	199402	19-Apr-94	66
MONTECRISTO	Paramount	213579	18-May-01	38
MONTECRISTO				
FRACCION	Paramount	213580	18-May-01	0.28
MONTECRISTO II	Paramount	226590	2-Feb-06	27
SANTA CRUZ	Amermin	186960	17-May-90	10
ANDREA	Paramount	231075	16-Jan-08	84,112
GISSEL	Paramount	228244	17-Oct-06	880
ISABEL	Paramount	228724	17-Jan-07	348
ELYCA	Paramount	179842	17-Dec-86	10
T o t a l				85,766
Temoris Project				
Guazapares	Minera Gama	232082	18-May-07	6,265
Roble	Minera Gama	232084	18-May-07	797
Temoris Centro	Minera Gama	232081	18-May-07	40,386
Temoris Fracción 2	Minera Gama	229551	18-May-07	7,328
Temoris Fracción 3	Minera Gama	229552	18-May-07	14
Temoris Fracción 4	Minera Gama	229553	18-May-07	18
T o t a l				54,808
Guazapares Claims				
San Francisco	Paramount	191486	19-Dec-91	38
Ampliación San Antonio	Paramount	196127	23-Sep-92	21
San Antonio	Paramount	204385	13-Feb-97	15
Guazaparez	Paramount	209497	3-Aug-99	30
Guazaparez 3	Paramount	211040	24-Mar-00	250
Guazaparez 1	Paramount	212890	13-Feb-01	452
Guazaparez 5	Paramount	213572	18-May-01	88
Cantilito	Paramount	220788	7-Oct-03	37
San Antonio	Paramount	222869	14-Sep-04	105
Guazaparez 4	Paramount	223664	2-Feb-05	64

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-K

Guazaparez 2	Paramount	226217	2-Dec-05	404
Vinorama	Paramount	226884	17-Mar-06	474
San Antonio	CA T-204385*	181963	17-Mar-88	15
		T o t a l		1,993
		Grand Total		142,567

(*) Under option

Table of Contents

Current Agreements with respect to mining concessions:

Guazapares

Paramount's Mexican subsidiary acquired the Guazapares claims from the Mexican subsidiary of Mexoro Minerals subject to future option payments and a retained NSR.

Temoris

On January 30, 2009, we closed on our agreement with Garibaldi whereby Garibaldi assigned its option in the Temoris Concession to Paramount. In consideration for the assignment of the Temoris option, Paramount paid Garibaldi a total of \$400,000 in cash and issued to Garibaldi 6 million shares of our common stock. Subsequent to the purchase of Magnetic Resources as noted above, Paramount terminated the option agreement.

Ejido Agreements

We have signed agreements with two ejidos, or surface-owner councils, allowing for surface disturbance during exploration activities on Paramount's concessions. Agreements with the Guazapares and Batosegachi ejidos were re-signed in April 2011, and are effective for a period of five years. The Guazapares and Batosegachi ejido agreements are registered with the National Agrarian Registry. The agreements permit Paramount to carry out exploration on the ejidos' areas in exchange for compensation of a fixed sum per hectare of physical disturbance associated with exploration such as the cutting of trees and construction of drill access roads and drill pads, etc. In April 2010, we signed an agreement with an additional Ejido covering the newly purchased concessions.

Table of Contents

Community Involvement

Several rural communities are located within our work area, the most important of which are Temoris, Guazapares, Batosegachi, San José and Tahonitas. In keeping with our policy of community integration, Paramount has carried out a program of economic and other assistance, including: donations of materials and wages for construction projects at schools in Guazapares, San Jose and Temoris; a donation for the acquisition of computers for the regional junior high school; donation to DIF, the organization for integral family development in Temoris; construction materials for DIF, for the construction of houses for disadvantaged families; donation for purchase of fertilizer for the farmers of Batosegachi; financial assistance for the upgrading and maintenance of local roads utilized by Paramount to access the San Miguel Project in Guazapares and Batosegachi ejidos; and the creation of up to 40 jobs.

Environmental Reports and Liabilities:

With the assistance of a Mexican environmental permitting consultant, Vugalit S.C., Paramount has satisfied the requirements regarding permitting for the ongoing exploration program with the office of the Mexican governmental environmental agency, SEMARNAT, in Chihuahua City. Disturbance associated with exploration work completed by Paramount to date is limited to construction of drill access roads, drill pads and trenches. No direct mining related activities have been carried out.

On Paramount's behalf, Vugalit S.C submitted a NOM-120-SEMARNAT-1997 application to SEMARNAT on March 15, 2007 to permit exploration activities at the San Miguel Project. The application was accepted and became effective on July 19, 2007. The permit allows a total disturbance of 7.6224 hectares valid to December 31, 2011. The permit provides for reclamation of the concession areas by the Fondo Forestal Mexicano following the cessation of exploration activities in the permit area. The permit set the cost of reclamation at a total of 198,205 Mexican pesos, which was paid by Paramount to Fondo Forestal Mexicano.

Through our wholly owned Mexican subsidiary, we have been granted mineral claims which grant us exclusive exploration and exploitation rights. Mexican mining claims are valid for an initial 25 year term with one renewable term for 25 years. Exploration claims grant the automatic right to disturb the surface to conduct exploratory work such as drilling. Permits are automatically granted once rights have been issued together with the payment of nominal fees. Exploitation, mine development and construction requires the approval of various levels of local government in Mexico. However, this is not under consideration by Paramount at this time. Access to the properties are by agreement by the owner or local community and are typically granted for a nominal fee.

Vugalit S.C also filed an Environmental Impact Study with SEMARNAT on behalf of Paramount.

With these exceptions, there has been no mining activity on the San Miguel concessions since the early 1900's. Between 1958 and 1968, Alaska-Juneau operated the San Luis mine and mill, producing waste rock and tailings. In the late 1970's, a few thousand tons of vein material were shipped from the San Miguel vein to El Paso as smelter flux. In the 1990's a very small and unsuccessful attempt was made to heap leach oxidized silver ores near the north end of the La Union area. It is uncertain whether Paramount would be held responsible for the cleanup of these areas should it put a mine into production nearby.

Excepting the work that was carried out as part of the Environmental Impact Study, we have as not yet conducted any baseline environmental studies, such as surface or groundwater sampling, of the San Miguel Project area. We believe such studies should be conducted to document any residual effects that the historic mining activities may still be having on the soils and streams of the Guazapares area.

The village of Guazapares is immediately adjacent to the historic San Luis mine area and is also adjacent other Paramount exploration targets. The village of Batosegachi is less than a kilometer from the San Miguel exploration area. While the local people appear to be supportive of our current exploration efforts, it is not known what financial or time-related impacts to the permitting of a mining operation, if any, the close proximity to these villages might create.

Table of Contents

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access:

Direct access to San Miguel is by the paved highway 127 to the town of Creel, then by reasonably good gravel roads to Temoris and then Guazapares. The simplest way for a visitor to reach Temoris is via the Chihuahua-Pacific rail service between Chihuahua City and Temoris, a nine hour trip. Two passenger trains in each direction and several freight trains serve Temoris and Los Mochis on the pacific coast daily. From the Temoris train station to the village of Guazapares the drive is about 15 minutes by a winding gravel road. In August we received approval from SEMARNAT to expand our drilling activities to new project areas.

Climate:

The Temoris area has a temperate climate. Undisturbed slopes are covered by juniper-pine-oak forests. Rainfall is largely in the summer months, with an annual average of about 8 cm. Maximum temperatures rarely exceed 35°C, and minimum temperatures are rarely less than 5o C. The average elevation in the vicinity of Guazapares is 1,600 meters. While there can occasionally be snow or heavy rains, it is anticipated that exploration work or mining can continue throughout the year.

Local Resources, Infrastructure:

The Temoris area has reasonably good local infrastructure and a workforce generally receptive to mining. Temoris and Chinipas have populations of approximately 1,500 people , 200 of which live in the village of Guazapares, and there are several smaller villages in the general area. The total available workforce of the area may approach 5,000 people.

A new electric power line is now reaching Guazapares for the first time. While it is adequate for home use, it will not be adequate for mineral processing. Management believes that future feasibility studies of potential mineral production and processing must consider either upgrading the power line or generating power on site.

It would appear that local streams and groundwater should suffice. They were adequate for underground mining by the Alaska-Juneau Company in 1960, and water abundance was a problem in the deeper workings.

As noted above the Chihuahua-Pacific railway connects Temoris to Los Mochis on the Pacific side and to Chihuahua on the east. This would provide convenient access for shipping of supplies and personnel. The gravel road from Temoris to Guazapares will require some improvement for mine access. There is an airstrip suitable for light aircraft at Temoris. While much of the region is deeply incised by stream drainages, the immediate area of Guazapares has relatively gentle topography, with several areas sufficiently level for construction of processing sites.

As an exploration company with no active mines under development or operating, we have relied on a series of public and temporary roads to access our properties.

Physiography:

Paramount's San Miguel project is near the center of the Sierra Madre Occidental range. This range is actually a relatively structurally undisturbed plateau composed of nearly flat-lying Tertiary volcanic rocks. This plateau is generally deeply incised, with many steeply walled canyons and small, relatively level, plateau remnants between them. The San Miguel project area explored to date occupies one of these more level areas. To the west the volcanic plateau is bounded by an extensional terrane, which represents the southern continuation of the basin and range

province of the western USA.

The terrain is often hilly to steeply mountainous. It is generally covered with pinyon-juniper-oak forests where not cleared for agriculture. More gently sloping areas are used for small vegetable and corn plots and the grazing of cattle.

Table of Contents

History

Pre-Paramount Mining and Exploration History:

The center of the San Miguel Project is in the Guazapares mining district. The town of Guazapares was founded in 1620 along with a Jesuit mission. The first recorded mining activity was in 1677. Small-scale mining apparently continued throughout the Spanish colonial period. The Guazapares quartz breccia-veins were being developed by 1830, but the major period of older production took place between 1870 and 1900. During this period four pan amalgamation mills were in production to treat oxidized ores. Very little gold was recovered due to the limitations of the process. A note in a recent report by Minera Rio Tinto says that 400,000 tons grading 300 g/t Ag was the total production (source unknown). Workings would have been directed toward production of these oxide ores at depths less than 70 meters.

After 1905, a U.S. company (name unknown) consolidated most of the properties and reopened some of the workings, but went bankrupt during the market panic of 1907. Shortly thereafter Ramon Valenzuela acquired the main properties and ran a 5-stamp mill until 1912. At that point, Pancho Villa's troops took the bullion and operated the mines briefly for the benefit of the revolution. Any mining in the subsequent 45 years was done on a very small scale by local prospectors.

In 1957 a company called Hilos de Plata rebuilt Valenzuela's mill and began operating the San Luis mine, but rather ineffectively. Engineer C.W. Yetter of the Alaska-Juneau Mining Company evaluated the property in 1958. This led to its acquisition by Alaska-Juneau, who operated the mine from 1958 to 1968. During this period the San Luis ore was exploited by a 270 meter inclined shaft and processed in a 150 tons per day floatation mill. Production records are being sought, but are not available at this time. At 1960's metal prices, the mined grades must have been quite high by today's standards. The author had access to one longitudinal section of the principal San Luis vein, drawn by Alaska-Juneau, showing 71 face samples in several stopes. A weighted average of these samples was 155.6 g/t Ag and 144 g/t Au. There were no lead and zinc assays noted, although both are apparent in the workings.

ASARCO LLC is reported to have drilled 15 core holes in the 1950's in the San Luis and San Jose mine areas, but data are fragmentary and hole locations are uncertain. In a 1976 joint venture, Earth Resources and Penoles investigated the property. They sampled most accessible workings, did grid-based geochemical sampling and drilled 3,098 feet in 39 short air-trac holes with poor sample recovery. Preliminary metallurgical testing by Hazen Research at that time stated that the mineralization would be amenable to cyanidation, floatation or probably to heap leaching. Simons Associates did much of the fieldwork for the JV, and later continued to control the property. Copies of some of their reports are available in Paramount's files.

The Consejo de Recursos Minerales sampled parts of the underground workings in 1985 and 1988, the vestiges of which are still visible in the workings. Kennecott acquired a portion of the property in 1994, carried out surface and underground sampling, and drilled 12 RC holes for a total of 2,268 meters. Paramount has in its files sections including geology and assays for only 4 of these holes, but little other data from this work.

Minera Rio Tinto reviewed the available data and acquired large concessions to the east of the main Guazapares mineralization in 2002.

Paramount Exploration History in Mexico

As of August 31, 2008, Paramount had completed 69 trenches for a total of 3,743 meters, in the Santa Clara, La Union, San Jose, and San Antonio, El Carmen and La Veronica areas. Trenches approximately 30 inches wide were cut perpendicular to the strike of the veins with an excavator. They were cut as deep as the hardness of the rock would

allow. All trenches were mapped for lithology, alteration, structural controls of mineralization and oxidation and were sampled in detail. Trench sampling was used to assist in the geological interpretation and modeling.

Also as of August 31, 2008, a total of 47,559 meters of HQ size (2.5 in) core drilling had been completed in 213 holes. All of the core has been photographed and logged in detail. Drilling was focused on the La Union, San Jose, San Luis, San Antonio, El Carmen, San Miguel and Montecristo areas.

In 2009, Paramount drilled eight core holes in the Monte Cristo area, for an additional 2,691 meters of exploration drilling, and three infill holes at the San Miguel Clavo 99 target area for 1,095 meters. In 2010 drilling has concentrated on the San Francisco target area, where 8 core holes (2,572 meters) and 13 reverse circulation holes (4,192 meters) have been drilled.

Table of Contents

In 2010, Paramount drilled 58 core holes at the San Miguel project totaling 16,258 meters and 28 reverse circulation holes totaling 5,960 meters. The new areas of exploration included San Francisco, La Veronica and Don Ese targets with infill drilling activities focused at the San Antonio, San Francisco and San Miguel target area.

Geological Setting

Regional Geology:

The Guazapares district and the San Miguel Project are located in the western part of the Sierra Madre Occidental (“SMO”) physiographic province. The SMO is characterized by a northwest trending plateau with an average elevation exceeding 2,000 m asl, and covers an area approximately 1,200 km long and 200–400 km wide, extending southeast from the border with the United States to the Trans-Mexican Volcanic Belt.

The term “Sierra Madre Occidental” is also used to describe the Tertiary volcanic province characterized by large volumes of silicic ignimbrites. Within this context, the Sierra Madre Occidental extends beyond the boundaries of the physiographic province and includes the Mesa Central and part of eastern Chihuahua. The Sierra Madre Occidental volcanic province is one of the largest silicic igneous provinces on Earth, covering an area of approximately 300,000 km².

The Sierra Madre Occidental rock assemblage forms a typical calc-alkaline rhyolite suite with intermediate to high K and relatively low Fe contents. Assemblages 1 and 2 have been defined as the Lower Volcanic Complex or Lower Volcanic Series, which is composed of over 2,000 meters of predominantly andesitic volcanics, with a few interlayered ash flows and related hypabyssal intrusions. Assemblage 3 has been defined as the Upper Volcanic Supergroup or Upper Volcanic Series and comprises over 1,000 meters of rhyolitic ignimbrites and flows, with subordinate andesite, dacite, and basalt. The Upper Volcanic Supergroup unconformably overlies the Lower Volcanic Complex. Some altered acidic intrusive bodies, often associated with mineralization may be related to early phases of this upper sequence. All the assemblages are partly superimposed and cover a heterogeneous basement of Precambrian, Paleozoic, and Mesozoic rocks locally exposed in deeply incised canyons (Ferrari et al., 2007).

Local Geology:

In the Guazapares district, regionally weakly propylitically altered andesitic rocks and lesser rhyodacitic volcanic tuffs and related hypabyssal intrusions of the Lower Volcanic Complex occur at lower elevations. Massive rhyolitic ashflow tuffs of the Eocene-Oligocene Upper Volcanic Supergroup occur on the higher ridgetops. Felsic rocks of the upper sequence are generally unmineralized. Miocene basaltic andesites and basalts locally overlie the Upper Volcanic Supergroup immediately west of the San Miguel and Empalme concessions. Nearly all the known mineralization, including all of the mineralized rock in the San Miguel Claim group, is developed in the Lower Volcanic Complex rocks.

District faults generally trend north-northwest, paralleling the regional structural setting. Silver-gold-lead-zinc mineralization at the San Miguel Project is spatially associated with these fault structures. Several rhyodacite dikes follow these fault zones and appear to be associated with mineralization.

The San Miguel Project is composed of a series of concessions that overlie a NNW district-scale fault zone. For descriptive and presentation purposes, we have broken them into geographical areas, using the names of the principal historic silver mines in each area. The main Guazapares structure has a strike length of approximately 8 kilometers and hosts the Santa Clara, La Union, San Jose, San Luis, San Antonio, El Carmen, La Veronica and Montecristo exploration areas. En echelon quartz veins, quartz-pyrite veinlet stockworks and silicified hydrothermal breccia bodies, most of which host significant gold, silver, lead and zinc mineralization, are developed within this structural

zone. The zone is broken into segments by small-displacement NE trending faults. The San Miguel exploration area lies on a parallel structure approximately 3 km west of the La Veronica area. This structure referred to as the Batosegachic Fault and it hosts the San Miguel Vein.

Table of Contents

Between the Guazapares structure and the Batosegachic Fault is a rhyolitic to rhyodacitic flow-dome complex, largely contained within the Guazapares concessions recently acquired from Mexoro, but also on several smaller concessions held by Paramount. The Monte Cristo area is at the eastern edge of that flow-dome complex. Most of the known mineralization occurs in a series of east-west, northwest and northeast trending structures within the domes and at their margins. Mineralization is primarily gold with lesser silver values. A strong northeast structural fabric may represent a deep seated structure controlling the localization of the dome complex as a whole. Localization of some of the mineralization there may be controlled by northwest trending structures with left lateral movement, sub-parallel to the Guazapares and Batosegachic faults.

Pre-1956 mining exploited near-surface, oxidized portions of the mineralized structures, producing silver and minor gold. On a district scale, the lithology, structural setting and controls of mineralization appear strongly analogous to other deposits in the general area, particularly to those at the Palmarejo deposit, approximately 15 kilometers to the west, and to Dolores, 200 kilometers on trend to the north-northwest.

Table of Contents

SAN MIGUEL PROJECT – PRINCIPAL CONCESSIONS AND DRILLING AREAS

28

Table of Contents

Santa Clara - La Union – Area Geology

There are three principal geologic units mapped in the 2.5 kilometer long area stretching from the little-explored Santa Clara area in the south to San Luis in the centre of the Guazapares district. A north-south striking, west dipping andesitic basement composed of andesitic flows and volcanoclastic rocks with a few dacitic to rhyolitic tuff horizons underlies the western portions of the area. Total thickness is unknown. To the east, a package of lithic to quartzo-feldspathic tuffs discordantly overlies the andesites and displays a north-northeast trending pseudo-stratification with dips of 15 to 40 degrees to the northwest. The fault zone separating the western andesites and the eastern tuffs is characterized by a sharp eastern margin. West of this fault plane the fault zone is complex with fault splits, and mineralized fractures particularly in the San Jose area. A dacitic dike outcrops intermittently along the contact between these two units, striking approximately N30W and dipping 50 to 70 degrees north-east.

Enveloping the fault zone is a widespread zone of propylitic alteration characterized by chloritic and argillic altered rock with locally intense silicification and associated adularia. Irregular zones of sulphide-bearing silicified breccias, quartz veins and quartz-pyrite veinlet stockworks occur within the alteration envelope. A few orientation measurements of major veins and rock fabric indicate that all the observed veins strike northwest and southeast, and dip at high angles to the east and west. Limited drilling indicates the predominant mineralized structure dips to the east. The principal sulphide minerals were pyrite, galena, sphalerite, and argentite. The vein swarms and altered poly-phase breccia bodies are cut by and surrounded by stockworks of finegrained quartz-sulphide veinlets. In the La Union area, north of the La Union mine, the stockwork zone is as much as 100 meters wide along a segment of the fault zone where it curves gently to the east.

Please note: the Santa Clara-La Union areas do not contain any known reserves and any planned drilling program is exploratory in nature.

San Miguel Area

San Miguel, Elyca and Empalme are the westernmost concessions within the San Miguel Project. The area is characterized by the southeast striking Batosegachic Fault zone that separates andesite and locally interbedded andesite tuff to the southwest from a felsic sequence of bedded tuffs to the northeast. Its strike is subparallel to the Guazapares structure, which hosts the mineralization at the rest of the San Miguel concessions 3 km to the east.

Mineralized structures at San Miguel generally strike northwest and southeast and dip steeply northeast and southwest at angles greater than 60 degrees; most dip at 70 degrees or greater. Throughout the San Miguel concession, the Batosegachic Fault strikes approximately 142 degrees and consistently dips to the southwest at approximately 80 degrees. Within the San Miguel concession it is mineralized with quartz, to at least some degree, all along its strike. The area contains historic underground workings with significant past production and numerous prospect pits. Most of the significant workings appear to be along a single quartz vein that occupies the Batosegachic Fault within the San Miguel concession.

Paramount is currently conducting an in-fill drilling program at the San Miguel area.

Please note: the San Miguel area do not contain any known reserves and any planned drilling program is exploratory in nature.

San Francisco Geology

The San Francisco area lies west of Monte Cristo – Sangre de Cristo and east of the Batosegachi fault. The geology of the San Francisco area is dominated by a complex of felsic flow domes and associated intrusions that includes

rhyodacitic, dacitic, and rhyolitic domes, lavas, breccias, and dikes. Many of these units have complex interfingering or crosscutting relationships. Margins of domes are often auto-brecciated and appear to grade into related tuff aprons. Where these rocks are hydrothermally altered, some of the geologic units become very difficult to differentiate. This difficulty was also noted in similar rocks in the Monte Cristo – Sangre de Cristo area. Prominent fracture sets hosting veins and silicification most commonly have northeasterly, northwesterly, or east-west trends. A strong N30W-trending fault with left-lateral movement has been interpreted to be a principal control on fracturing and mineralization in the center of the flow-dome complex.

The structural intersection between northwest- and northeast-trending faults has created an intensely fractured and brecciated zone at San Francisco that hosts intrusions and precious-metal bearing quartz veins.

Table of Contents

Please note: The San Francisco area does not contain any known reserves and any planned drilling program is exploratory in nature.

Monte Cristo Area Geology

The Monte Cristo area is at the northern end of the Guazapares mineralized structure, at its intersection with a deep-seated northeast trending structure, which may control the emplacement of the flow-dome complex exposed at Monte Cristo and on the Mexoro property immediately to the west. It is dominated by a strong NNW structure with and associated silicified breccia zone, with a strong quartz vein at the south end. This crosscuts slightly earlier northeast trending veins and silicification.

The veins and silicification are hosted by a dacite dome in the south, a feldspar porphyry and a slightly younger felsic clastic sequence in the north. Gold-silver mineralization was mined a century ago from the Sangre de Cristo vein system in the southeast and to a lesser extent from the smaller Monte Cristo veins in the west. The felsic clastic unit has been interpreted as fine to coarse volcanoclastic debris which filled a rhombic basin with structurally controlled active margins. Several pulses of gold bearing silica-rich fluids migrated up the basin margins and deposited sinter layers within the basin and cemented the NNW and ENE trending basin margin faults and more permeable coarse clastic units with silica. It is these silica-rich bounding faults, silicified permeable units and sub-horizontal sinter layers which are the exploration targets.

Please note: The Monte Cristo area does not contain any known reserves and any planned drilling program is exploratory in nature.

San Antonio Area Geology

The geology at the San Antonio area is similar to La Union-San Jose-San Luis areas. Host rocks include andesites and dacitic tuffs. Outcrops are very sparse. The tuffaceous units are softer, exhibit a more granular sandy texture and do not crop out well. Dacite dikes are rare in comparison to the La Union and San Jose areas. The general strike of the principal mineralized structures and breccia bodies is N30W, with some north-trending step-over structures connecting them. A stockwork zone of varying intensity generally occupies the areas between the major veins.

Please note: The San Antonio area does not contain any known reserves and any planned drilling program is exploratory in nature.

La Veronica

The geological boundary between San Antonio North and the La Veronica area to the north corresponds to another reversal in dip direction of the major mineralized structure(s). Within the La Veronica area, drill data indicates the mineralized fault consistently dips to the east. The exact location of the change in dip direction has not yet been identified.

The La Veronica vein system strikes about N30W and dips steeply to the northeast. It occupies the faulted contact between andesitic units to the east and rhyolitic tuff units to the west. Drill logs note rhyodacite dikes locally occupying the La Veronica structure. Like the San Jose-La Union area to the south, the "vein" is normally a stockwork of quartz-pyrite veinlets and localized hydrothermal breccias, rather than massive quartz veins. Wall rock alteration is largely propylitic with some argillization and silicification. In the northern quarter of the vein's strike length, it is a relatively simple single plane, whereas in the rest of its length it is more of a braided fault zone with at least two splits. Surface exposures of this vein are poor. Much of the geologic data was derived from mapping of 20 trenches and logging of drill core from 28 drill holes. In late 2010, Paramount commenced a small drill program at La

Veronica. Drill units are pending.

Please note: The La Veronica area does not contain any known reserves and any planned drilling program is exploratory in nature.

30

Table of Contents

Don Ese Area Geology

The Don Ese target geology is characterized by andesitic volcanic rocks that are overlain by felsic volcanic units. Rhyolitic bodies intrude north and northwest-trending faults. Don Ese is controlled by a north-northwest-trending structure with strong argillic alteration and oxidation of host andesites. The structure is close to and may be genetically associated with a rhyodacite dome. In 2010, Paramount completed a 7 hole core hole drill campaign and is currently conducting a follow-up program.

Please note: The Don Ese area does not contain any known reserves and any planned drilling program is exploratory in nature.

Table of Contents

Mineralization

The San Miguel mineral deposits are multi-phase vein deposits generated by several generations of crosscutting veins, veinlets, breccias and related hydrothermal alteration. Alteration ranges from peripheral propylitization to argillic alteration to intense silicification, often with adularia development. The mineralization is physically expressed as quartz vein stockworks, silicified hydrothermal breccias, and vuggy, quartz-filled expansion breccias. Amethystine quartz is locally present. At similar deposits, such as those at nearby Palmarejo, there are generally several stages of gold-silver and or base metal mineralization. Macroscopic observations of drill core and preliminary observations from ore microscopy indicate that more than one mineralizing event may also be present in the various mineral occurrences at the San Miguel Project.

Three styles of gold and silver mineralization occur in the project area:

1. Silver vein systems (VS) trending NNW

Forms most of the historic mining in the district
Most of initial resource estimate defined in this style
Extends both laterally and at depth
Au increases with depth (to 20: 1 Ag: Au or less)

2. Sheeted Vein Complexes (SVn)

Broad zones of quartz veins (up to 600m wide and 2,000m on strike)
Similar to the VS style with same orientation, but much wider zones allow for bulk mining methods
Silver and base metals shallow, higher gold potential at depth

3. Volcanic Dome Complexes (VDC)

Broad zones and on the margins and within the domes
Igneous bodies controlled by intersection of NNW and E-W structures
Alteration (thought to be hypogene hematite), zoning, and mineralization support a separate and later mineralizing event
Forms most of the "bulk gold" targets

We have not disclosed resource estimates or assay result disclosure pursuant to Canadian National Instrument 43-101 as the resource estimates have not demonstrated either proven or probable reserves and are not provided herein.

La Union Area Mineralization

An area of historic shallow workings is centered approximately 400 meters south of the La Union mine workings. We excavated three trenches totaling 85 meters in this area and twenty-one core holes were drilled for a total of 3,914 meters. Trenching intersected modest intervals of moderate silver and gold grades. The most significant trench intercept in this area (ZLU-7) was 22.6 meters of 0.40 g/t Au and 89 g/t Ag.

San Miguel Area Mineralization

A complex quartz vein structure referred to as the San Miguel vein is exposed over a strike length of at least a kilometer in the San Miguel, Elyca and Empalme concessions immediately north of the small village of Batosegachic. A near-surface section of the vein about 100 meters long, several meters wide and 15 meters deep was mined in the

late 1970's and shipped to the El Paso smelter as precious metal-bearing flux. There is no available record of the grade.

The San Miguel vein structure generally comprises a multi-phase quartz vein and quartz cemented vein breccia with local vugs. Colloform banding is common. Late amethystine quartz is noted locally. Pyrite, galena and sphalerite occur as colloform bands and as crosscutting fracture filling. Several similar, but narrower, sub-parallel, often well-mineralized veins are present in the footwall felsic volcanic rocks.

The bulk of the gold and silver ounces in the San Miguel vein are contained in Clavo 99. In addition, there is a coherent core zone, approximately 650 meters long and 200 meters wide that hugs the upper right clavo margin between holes SM-44 and SM-3. The deepest and southernmost intercepts in the clavo are close to the property boundary.

Table of Contents

San Francisco Area Mineralization

The known mineralization at the San Francisco area is associated with a series of chaledonic veinlets and mineralized fractures that cut a complex sequence of rhyolitic to dacitic flows, domes, breccias, and dikes. The primary orientations of the mineralized structural zones are northeasterly, N30W, and east-northeast, which is an uncommon orientation for the district. A linear topographic feature passes through the San Francisco target area that is interpreted to be a major N30W fault, which may be a significant control on mineralization in the area. Left-lateral movement on such a fault would generate the east-northeast-trending dilatational fractures that influence some of the Cantilito West mineralization. This movement could also generate other N30W-trending structural zones recognized at San Francisco that are sub parallel to this lineament.

The limited exposures within the erosional low that marks the topographic lineament at San Francisco include silicified hydrothermal breccias, and there are gold values in the few holes in the immediate area. A nearby subparallel ridge is underlain by a N30W-trending stockwork of chaledonic veining and weak silicification that is strongly anomalous in gold and silver.

Veining occurs both within the domes that lie within the target are and along their margins. Chalcedony is the predominant vein type, but very fine grained to sugary quartz is also present, and fine grained drusy cavities are present locally. The primary alteration type is silicification near the veins, but is locally pervasively in zones of brecciation. Argillic alteration is widespread adjacent to the veining.

Monte Cristo Area Mineralization

Prior to the 2009 work 11 SC holes had been drilled on the Sangre de Cristo concession immediately south of the Monte Cristo concessions, and 3 holes on the Monte Cristo concession MC holes). During July and August of 2009 an additional 9 MC holes (MC-3 to MC-11) were drilled, for a 2009 total of 2691 meters of core. These were designed to test the silicified faulted margins of the structural basin at Monte Cristo. Gold and silver mineralization is present in silicified fault breccias, in silicified permeable volcanic rock units adjacent the fault conduits and in stratiform siliceous sinter bodies. The silicified hydrothermal breccias often contain very angular fragments in a matrix of rock flour and chaledonic silica with very fine disseminated pyrite. Results to date indicate that an ENE trending structure contains gold concentrations at shallow depths and represents a new style of gold occurrence in the district. NNW trending structures on the target seem to be similar to the San Miguel and La Union veins with silver and base metal concentration at shallow levels and gold potential at greater depth.

Temoris Project Area Mineralization

In the past 18 months, Paramount has increased its exploration of the targets in the Temoris Area of the greater San Miguel Project. The targets include Don Ese and La Veronica.

Mineralization at La Veronica is characterized by stockworks of quartz-pyrite veinlets within hydrothermal breccias. Wall-rock alteration is largely propylitic with some argillization and silicification. The northern portion of the structural zone that hosts the mineralization is relatively simple, whereas in the rest of its length it is more of a braided fault zone with at least two primary splits. There are few surface exposures of the mineralized zone and therefore Paramount excavated 21 trenches for a total length of 1,135 meters.

The Done Ese target vein is not exposed at the surface, but was initially located by fractured rocks indicative of a fault zone, anomalous silver and gold geochemistry, and distinctive clay mineralogy. The Don Ese vein is controlled by a north-northwest-trending structure with strong argillic alteration and oxidation of host andesites. Vein mineralogy is comprised of crustiform bands and hydrothermal breccias that contain quartz, quartz pseudomorphs of calcite,

abundant iron and manganese oxy-hydroxides, and locally wall-rock clasts. The dominant sulfide minerals in unoxidized portions of the vein include silver sulfosalts, pyrite, sphalerite, and galena. Gangue mineralogy includes calcium-, manganese-, iron-, and magnesium- bearing carbonate minerals.

Table of Contents

EXPLORATION

In July 2005 the San Miguel group of concessions became available as a joint venture from Tara Gold. After a compilation of historic data and initial reconnaissance of the properties, the first targets to be tested were at the Constituyentes 1917 and Monte-Cristo concessions. Three holes tested the Monte-Cristo structure(s) in April and May 2006. Three holes were then drilled in an unsuccessful attempt to confirm historic drill results at a suggested mineralized body called La Blanca on the Constituyentes 1917 concession.

Our ongoing exploration program in the immediate Guazapares area began in April, 2006. The initial phase of the program consisted of an integrated program of surface sampling, geologic mapping, mapping/sampling of accessible underground workings, and trenching. A follow-up diamond drilling program began in the San Luis – San Jose - La Union area and then proceeded to the north. In the fall of 2007 drilling began on the San Miguel vein approximately 3 kilometers west of the Guazapares structure.

When we began exploration at the San Miguel Project, numerous historic surface and underground workings presented immediate drill targets and therefore drilling began almost immediately and has continued to this date. Local detailed mapping, geochemical sampling and trench mapping and sampling was initially conducted to support the drill program. General district/property scale geological mapping, geochemical sampling and geophysical surveys were conducted as time and personnel availability permitted.

Geologic Mapping

Exploration personnel availability was limited when the San Miguel project began, therefore mapping and surface geochemical sampling was generally restricted to the immediate area of the target areas to be drilled and was conducted at a scale of 1:1000. Trenching and trench mapping and sampling would then be conducted in areas of poor outcrop exposure. Accessible underground workings were also mapped and channel sampled. Most of the old workings would have required extensive rehabilitation work to permit safe access and therefore have not been entered nor sampled. The most extensive of the accessible workings is the 300 level of the San Luis mine. Upon completion of trench mapping and sampling and receipt of geochemical and assay results the target area was drilled.

While one target area was being drilled, the mapping, trenching and sampling proceeded to the next target area to be drilled. Mapping, trenching and sampling proceeded in the same order as the drilling sequence: Montecristo, La Blanca, San Luis, San Jose, La Union, San Antonio, La Veronica, Sangre de Cristo, Santa Clara and San Miguel. Paramount recognized the need to conduct broader scale geological mapping of the Project area and therefore brought in four geologists in the summer of 2007 to map the entire district at a scale of 1:5000. Approximately two months of field time was spent over a four-month period mapping more than 15 square kilometers (1,500 hectares) of moderate to rugged terrain. In addition, the detailed 1:1000 scale maps of the target were updated and integrated based on the geological knowledge gained from the district scale mapping. A comprehensive in-house report was produced of the district-scale mapping program. The district mapping and update of detailed areas provided Paramount a better understanding of the district-wide geologic and structural setting and the controls on mineralization.

Trenching

Trenching was an integral part of the exploration program at the San Miguel Project. In many parts of the eastern portion of the Project area, targeted mineralized zones carry only volumetrically minor quartz as veinlet networks in sheared zones in propylitically altered rocks. Outcrop exposures are therefore generally poor, due to the altered and easily eroded nature of the wall rocks around the veins. Veins can often be followed by quartz float trains and by the location of historic prospect pits but many potentially interesting areas are covered by colluvium and organic debris. A thick mat of pine needles covers many of the hilltops containing the mineralized zones. In parts of the La Veronica

area, the trace of the vein passed under cornfields. In order to trace and sample the mineralized structures and the wallrocks in sufficient detail, it was necessary to excavate trenches. Trenching, which preceded diamond drilling along the Guazapares structure, was generally completed about 2 months ahead of the drilling in a given area.

The trenching contractor was Excavadores Perez of Guadalupe Victoria, state of Durango. A tire-mounted hydraulic backhoe with a 24 inch wide bucket was utilized and trenches were excavated approximately perpendicular to the structures (roughly east-west). Excavation length was dependant on suspected width of mineralization, topography and local ground conditions. Trenches were dug as deep as the bedrock hardness would allow, generally to a depth of 1.5 to 2.5 meters and rarely to 3.5 meters. The end points and inflection points of all trenches were surveyed. All trenches were mapped for lithology, alteration, structural controls of mineralization and oxidation and were sampled in detail. Our geologists usually mapped the north wall as a standard procedure and because of the better light conditions. Areas to be sampled were marked by the geologist. Samples were collected from near the base of the trench wall. For safety, trenches were back-filled shortly after mapping and sampling was completed. Trench mapping and sampling has been a useful exploration tool at the San Miguel project. It is anticipated that trenching will be utilized again at the Project to follow-up geophysical results in areas that have limited outcrop exposure.

Table of Contents

Through 2010, Paramount completed 73 trenches for a total of 3,980 meters. Of these, 71 are in the Santa Clara, La Union, San Jose, San Antonio, El Carmen, and la Veronica areas along the Guazapares fault.

Exploration Program and Budget

The Company's exploration program and budget will be managed by its in-house technical staff. It will be funded by the Company's cash on hand and will total approximately \$9.235 million dollars for the 2011 calendar year. The exploration activities and budgeted amounts per activity are as follows:

Activity	Approximate Budget
Exploration Drilling	\$ 5,300,000
Salaries	\$ 1,100,000
Trenching/Road Construction	\$ 425,000
Geology Recognizance, GIG and Labor	\$ 250,000
Analytical – Assays, Quality Control/Quality Assurance	\$ 1,000,000
Reporting	\$ 160,000
Other Exploration Cost	\$ 1,000,000
Total Budget	\$ 9,235,000

DRILLING

Paramount began drilling at the San Miguel project in late April 2006. Through 2010, drilling was focused on the La Union, San Jose, San Luis, San Antonio, El Carmen, La Blanca, LaVeronica, Monte Cristo – Sangre de Cristo, San Francisco, San Miguel, and Don Ese areas.

The majority of drill holes have been drilled at angles in order to cut the variously dipping mineralized zones relatively high angles. While logistics preclude all holes from cutting the mineralized zones perpendicularly, the drill-hole orientations sufficient for the purposes of the resource modeling of the mineralized material.

The table below represents the distribution of 252 drill holes completed through 2010 at the San Miguel Project.

Resource Area	Period	Hole Numbers	Core		RC		Total	
			No.	Meters	No.	Meters	No.	Meters
San Miguel	2007-2010	SM-01 TO SM-61, SM- 09-62, 63,64, SM-10,065,066 RC-SM-01 TO RC-SM- 03	66	21,794	3	742	69	22,536
Monte Cristo – Sangre de Cristo	2006-2007 2009-2010	MC-01 TO MC-03 MC-09-04 TO MC-09-11 RC-MC-01 TO RC-MC-05 RCMB-10-001 TO RCMC-10-004	22	5,024	8	2,307	30	7,331

		SC-01 TO SC-11						
San Francisco – Guadalupe	2009-2010	SF-10-005 TO SF-10-010 SF-10-013, SF-10-017 TO SF-10-018 SF-10-026 TO SF-10-027 RCSF-10-015 TO RCSF-10- 021	11	3,738	7	2,591	18	6,329
San Francisco – Cantilito	2009-2010	RCSF-10-001 TO RCSF- 10-014 RCSF-10-022 TO RCSF- 10-035 SF-01-01 TO SF-01-04 SF-10-011 TO SF-10-012 SF-10-014 TO SF-10-016 SF-10-019 TO SF-10-025 SF-10-028 TO SF-10-035	24	7,089	28	7,817	52	14,906
		GU-01 TO GU-31	31	4,682	0	0	31	4,682
La Veronica	2007-2008 2010	LV-01 TO LV-30 RCLV-10-001 TO RCLV- 10-015	30	5,405	15	3,450	45	8,855
Don Ese	2010	DS-10-001 TO DS-10- 007	7	3,677	0	0	7	3,677
	Totals		191	51,409	61	16,907	252	68,316

Layne de Mexico S.A. de C.V has been the drill contractor for all drilling by Paramount at the San Miguel project.

Table of Contents

SAMPLING METHOD AND APPROACH

We operate a secure rented core logging and sampling facility in the village of Guazapares. After the core is re-aligned, cleaned and logged, the geologist selects the sample intervals and marks the sample cut line on the core. Sample intervals are generally based on geologic contacts, alteration and mineralization. The sample interval is commonly one meter in length in uniform rocks. In what appear to be mineralized zones, sample breaks are made at significant changes, such as vein or breccia margins, commonly resulting in sample lengths of less than one meter. Maximum sample length is 1.5 meters. Sample intervals are recorded on the geologic log and later input into an Excell database. Before December 2006 the core was split using a mechanical splitter. Since that time the core has been sawn using two Norton Clipper BBL VII water-cooled masonry saws with 20-inch diamond blades. A third saw is maintained as a spare.

Core is cut in half with one half placed in a cloth sample bag and labeled, the other half is returned to the box and archived for future reference. The entire washing, aligning, and splitting process is done under the supervision of Paramount's geologists. All bagged samples are in the possession of Paramount's staff until delivered by Paramount personnel the sample preparation facility of Chemex Laboratory in Chihuahua City. After sampling, all core boxes are delivered to a secure rented storage facility in Temoris.

SAMPLE PREPARATION, ANALYSES AND SECURITY

All samples (rock and core) are bagged and sealed once collected. Paramount maintains possession of the samples until delivery to the laboratory. Samples are delivered on a daily basis to Paramount's locked facility in Guazapares for temporary storage. Samples are then placed in rice sacks and sealed. When a sufficient quantity has been collected, generally on a weekly basis, samples are delivered by Paramount vehicle to the ALS-Chemex sample preparation facility in Chihuahua City, Chihuahua. Laboratory pulps and rejects are backhauled to Temoris and stored in a second locked warehouse in Temoris. ALS-Chemex is Paramount's primary analytical laboratory. Activation Laboratories and ACME Laboratories have been retained to conduct check sampling. ALS-Chemex is accredited to international quality standards through the International Organization for Standardization/International Electrotechnical Commission to ISO/IEC 17025/2005 including ISO 9001/2000. It is a Standards Council of Canada Accredited Laboratory (No. 579) and conforms to requirements of CAN-P-1579 (Mineral Analysis) and CAN-P-4E. Paramount has implemented a QA-QC protocol.

Table of Contents

Sample Preparation

Our samples are prepared at the ALS-Chemex sample preparation facility in Chihuahua City, Chihuahua. The Chihuahua facility specializes in the preparation of geological materials utilizing methods ranging from standard preparation to sieving and metallic screen preparation. The facility has a modern array of equipment and is capable of processing as many as 20,000 samples per month. Sample preparation consists of conventional drying if required, in ovens with a temperature in the range of 110-120 C (230-250 F); crushing; splitting and; pulverizing. After drying, the sample is passed through a primary oscillating jaw crusher producing material of 70% passing a 2mm screen (CodeCRU-31). A 250-gram sub-sample is split from the crushed material using a stainless steel riffle splitter (Code SPL-21). This split is then ground to 85% passing 75 microns or better using a ring pulverizer (PUL-31). Prepared sample pulps are shipped from Chihuahua to the ALS-Chemex laboratory in North Vancouver, Canada for analysis.

Analytical Procedures

The ALS-Chemex North Vancouver laboratory is a full-service, analytical laboratory, specializing in mineral testing for mining and exploration companies. The Vancouver facility is accredited for all laboratory procedures utilized by Paramount. ALS-Chemex quality control procedures are method specific and include duplicate samples, blanks, replicates, reagent / instrument blanks for the individual methods. Paramount has utilized several analytical protocols throughout the drill program at the San Miguel Project. Changes have been made to address concerns brought about during regular reviews of sample QA-QC and project objectives.

DATA VERIFICATION

Quality Assurance / Quality Control (QA/QC)

A quality control system has been established at the San Miguel Property. This program includes the routine insertion of certified reference materials (standards), field blanks and duplicates. As the program was established after a considerable number of samples had already been analyzed (~15,000), part of this program was designed to increase the confidence of earlier analyses through a series of external check analyses.

To monitor accuracy, a series of certified reference materials were inserted into the sample stream in the field at a rate of 1 in every 20 samples submitted. Where possible, the grade of the standard was matched to the expected grade of the samples in the batch, with a low grade "geochem" standard, GBM966-2 inserted in greater frequency in lower grade background areas.

The accepted values are established through round robin analyses. The CDN standards were characterized using 10 sample splits submitted to each of 12 laboratories for a total of 120 analyses. The Geostats standard was characterized by analyses by at least 46 laboratories worldwide.

Precision

Precision was monitored by the insertion of duplicate samples at a rate of 1 in 20 samples submitted. The duplicates alternated between quarter core duplicates and preparation duplicates, split after the initial jaw crushing phase to make two pulps. In addition ALS-Chemex routinely analyses pulp duplicates as part of its internal quality control program.

Contamination

Contamination is monitored through the routine insertion of field blank material into the sample stream at the rate of 1 in each group of 20 samples submitted. The blank material is unmineralized local rock. A rough guide for blanks is

that samples should have analyses of less than 5x the detection limit. This, of course depends on how low a detection limit you have and the natural background concentration of the blank material. In this case, with a limit based on 5x the gravimetric fire assay detection limit of 5 ppm would be 25 ppm..

Table of Contents

External Check Assays

External check analyses provide an independent check of relative bias and accuracy. In a routine quality control program approximately 5% of pulps would be submitted along with standard reference material to a separate lab. Pulps are the preferred sample type as it eliminates much of the sampling error and provides a better comparison of the analyses.

Table of Contents

NEVADA EXPLORATIONS

Summary:

We acquired all of the issued and outstanding shares of common stock of X-Cal Resources in August 2010. The principal asset of X-Cal is the Sleeper Gold Mine located in Humboldt County, Nevada. We intend to focus on drilling mine scale exploration targets defined by current and ongoing studies. The objective of the drilling is to test the targets for gold deposits that warrant follow up drilling for discoveries that can be mined by open pits or underground workings.

X-Cal Resources (“X-Cal”) was incorporated in 1984. X-Cal has a wholly owned subsidiary, X-Cal U.S.A. Inc., which was incorporated in the State of Nevada, and a 100% interest in New Sleeper Gold, LLC, a Nevada Limited Liability Company. X-Cal also has a 100% interest in the Sleeper Mining Co. LLC, a Delaware Limited Liability Company.

X-Cal presently holds interests in four gold prospects; the Sleeper Gold Property, located in Humboldt County, Nevada, the Mill Creek Property and the Reese River Property both located in Lander County, Nevada, and WR Claims in the Spring Valley Area located in Pershing County, Nevada, United States. Our focus will be the exploration of the Sleeper Gold Property located in Humboldt County, Nevada.

Sleeper Gold Property

Location

The Sleeper Gold Property is located 26 miles northwest of Winnemucca, Nevada. Automobile and truck access to the property is by Interstate Highway 80 to Winnemucca, north on Highway 95 for 32 miles, west on Highway 140 for 14 miles, and then south for 6 miles on the maintained gravel Sod House Road to the project site. An office building, heavy equipment enclosure plus assorted equipment are present on the Sleeper Gold Property. Necessary supplies, equipment and services to carry out full sequence exploration and mining development projects are available in Winnemucca, Reno, and Elko, Nevada.

Table of Contents

Titles

X-Cal acquired 100% interest and operatorship of the Sleeper Gold Project in 2006. In December 2006, X-Cal acquired 100% title to the York Leased Lands with no royalties pursuant to a buy out agreement with York Mines. X-Cal has the rights to explore, develop and mine the Sleeper Gold Property.

The Sleeper Gold Property includes a historic open pit mine operated by AMAX Gold from 1986 until 1996, which produced 1.66 million ounces of gold, and 2.3 million ounces of silver. The property has been the subject of several exploration programs. These programs have produced an extensive database for current exploration targeting and continuing studies.

Mineralization

The Sleeper Gold Property is situated within the western, apparently older, part of the Northern Nevada Rift geologic province of Miocene age, along the western flank of the Slumbering Hills. Drilling completed in 2007 has led to a new geologic interpretation of mineralization at Sleeper. Meticulous logging of the drill holes identified cobbles and occasional boulders of altered vesicular basalt supported by a matrix of cryptocrystalline volcanic ash. Further inspection identified other volcanic clasts of various lithologies supported by the ash matrix. A “block in ash” texture had been identified and the wide spread occurrence of the volcanic breccia throughout the Facilities area was referred to as a volcanic unit given the name “debris flow”. The debris flow is the primary host lithology for precious metals mineralization identified at the Facilities area. Thickness of the debris flow ranges from 100 feet (30 m) to 500 feet (150 m). Ash layers that are interbedded within the debris flow are not mineralized but do exhibit advanced argillic alteration. The ash units range in thickness from 5 feet (1.5 m) to 20 feet (6m). The debris flow dips westerly towards the existing open pit and has been identified in core at Westwood. The banded veins with visible gold (electrum) and the higher grade sulphide breccias of Westwood are developed within the debris flow. The lower grade mineralization of Westwood favors the debris flow and is similar to mineralization found at the Facilities area.

Four main types of gold mineralization are found within the Sleeper deposit and may represent a continuum as the system evolved from a high level, high sulphidation system dominated by intrusion related fluids and volatiles to a low sulphidation meteoric water dominant system (Corbett, 2005, Utterback, 2005, Histed, 2005). In this setting the paragenetic relationships of the differing mineralization styles are as follows:

- Early - quartz-pyrite-marcasite stockwork
- Intermediate - medium-grade, silica-pyrite-marcasite cemented breccias localized on zones of structural weakness
- Late - high-grade, banded, quartz-adularia-electrum-(sericite) veins
- Post - alluvial gold-silver deposits in Pliocene gravels

Power and Water

As a result of AMAX Inc. mine operation from 1986 to 1996, electrical power is provided to the property by power lines. Water is available by two deep water wells located on the property.

Drilling and Exploration

We believe that significant exploration opportunities along the west side of the Sleeper pit and to the north should also be investigated with exploration. The Sleeper Gold Project is well prepared for a substantial exploration and development program. Historically, multi-million ounce gold deposits occur in multiples. The objectives of our drill program will be to: (A) explore for new bonanza grade deposits near the historic Sleeper Mine, (B) develop and delineate known areas of mineralization and (C) to combine the results with current potential metal inventory in the

mill tailings and heap leach pads.

40

Table of Contents

Exploration priorities for the Sleeper Gold Property are expected to focus on five priority mine scale targets located near the Sleeper Mine. All five of the priority targets occur along three structural corridors parallel to the Sleeper Mine historic mineralization. None of the five targets have been sufficiently tested in prior drill programs. Current and ongoing three-dimensional modeling of geochemical data, additional geophysical interpretations and refinements and detailed compilation on Gemcom and Gocad will help set drilling priorities. However, the targets are well defined at present. Drill testing is to involve angled drill hole fences with overlap at bedrock depths. Drill orientation of these current targets is to be east-west to optimize crossing of key structural trends. Each target should have 2 to 4 drill fences to test the target concepts.

The Company has budgeted a \$3 million exploration program designed to expand and upgrade resources at the Sleeper gold mine with the goal of completing a geological and grade model by the end of our first quarter and a Preliminary Economic Assessment by early 2012.

We have budgeted the following amounts in connection with our drilling program at the Sleeper project for the 2011 calendar year:*

Activity	Approximate Budget
Exploration Drilling	\$ 1,500,000
Salaries	\$ 300,000
Trenching/Road Construction	\$ 30,000
Geology Recognizance, GIG and Labor	\$ 60,000
Analytical – Assays, Quality Control/Quality Assurance	\$ 300,000
Reporting and Third Party Consulting	\$ 590,000
Other Exploration Cost	\$ 250,000
Total Budget	\$ 3,030,000

*Our budgeted expenses may be reallocated based on drilling results and our available cash reserves

The Sleeper Gold Property is without a known reserve and the proposed program is exploratory in nature.

Mill Creek Property

The Mill Creek property comprises a contiguous block of 36 unpatented lode mining claims. The claims total approximately 720 acres and are located in the NW part of the Shoshone Range, 33 kilometers south of Battle Mountain. Access from Battle Mountain is south by paved Highway 305 for 33 km., then eastward on the graded dirt Mill Creek Road for 10 km., and then northeast for 3 Km. on a secondary dirt road to the Property.

The Mill Creek property is in hilly, grass, sagebrush, juniper and pinyon-covered mountain brush high desert terrain, on the lower western slopes of the Shoshone Range. The climate is favorable for year-round mining, with all supplies and services needed for an exploration program available in the Battle Mountain – Elko area.

The Mill Creek property is an early-stage gold exploration prospect. Prior exploration was limited to surface prospecting for barite and gold-silver deposits, geological mapping, geophysical surveys, soil sampling, geochemical rock chip sampling of altered, fractured and veined bedrock. The main exploration target on the Mill Creek Property will be the Carlin-Style gold-silver ores found in altered, metamorphosed, and locally skarnified Lower Plate carbonate and limy to dolomitic clastic sedimentary rocks of the Devonian Wenban Limestone, Silurian Roberts Mountain Formation, and the Ordovician Hanson Creek Formations. A secondary target host rock type is mafic volcanic rocks of the Upper Plate rock sequence, similar to at Newmont's Twin Creeks Mine. The economic Battle Mountain – Cortez – Eureka Trend gold deposits were deposited as mineralized hydrothermal sedimentary-host

replacement horizons and breccia zones along major fault structural zones where alteration and anomalous gold-silver-arsenic-antimony-thallium mineralization are present. Marbles in metamorphic aureoles and iron-rich skarns appear to be favored sites for gold mineralization in these deposits, perhaps due to the rheological character, permeability after fracturing, and chemical reactivity of those rocks to alteration by hydrothermal fluids.

Table of Contents

This property is without a known mineral reserve and there is no current exploratory work being performed.

Reese River Property

The Reese River/Horse Mountain Window Project is located in Lander County, north-central Nevada, approximately 25 miles south of Battle Mountain. The Property lies on the west flank of the Shoshone Range in the Basin and Range Province. The property consists of 148 unpatented lode mining claims that cover an area of approximately 2960 acres. The area is characterized by rolling north and northwest-trending ridges dissected by incised drainages and mostly covered by alluvial deposits on the flank and pediment of the Shoshone range.

The property was explored by several companies in the past, first for barite to supply the adjacent mine, then for gold by Placer Dome in the 1980's to 90s and 2000's. This historical exploration consisted of geologic mapping, rock-chip and soil sampling, and drilling. A small number of drill holes have been drilled in and around the property by previous operators primarily in search of barite with little if any consideration for gold.

This property is without a known mineral reserve and there is no current exploratory work being performed.

Spring Valley Property

The Spring Valley property consists of thirty-eight lode mineral claims in the Spring Valley Area, Pershing County, Nevada. The project is located approximately 2.5 km northwest of the Rochester mine in the Humboldt Range, 30 km northeast of Lovelock, Nevada. The property covers rocks folded into a broad anticline broken into large blocks by major north-trending faults. Midway Gold Corporation has been currently actively drilling approximately 2 km to the northeast.

This property is without a known mineral reserve and there is no current exploratory work being performed.

Table of Contents

Item 3. Legal Proceedings.

None

Item 4. (Removed and Reserved).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

A. Market Information

Our common stock is listed for trading NYSE Amex and the Toronto Stock Exchange under the ticker symbol "PZG". Our European listing is with the Frankfurt Stock Exchange under the symbol "P6G". There is a limited market for our common stock.

The following table sets forth the high and low prices for our common stock for the periods indicated:

	HIGH	LOW
Fiscal year ended June 30, 2011		
Quarter ended September 30, 2010	\$ 1.59	\$ 1.19
Quarter ended December 31, 2010	\$ 3.99	\$ 1.55
Quarter ended March 31, 2011	\$ 4.42	\$ 3.09
Quarter ended June 30, 2011	\$ 4.01	\$ 2.67
	HIGH	LOW
Fiscal year ended June 30, 2010		
Quarter ended September 30, 2009	\$ 1.55	\$ 1.17
Quarter ended December 31, 2009	\$ 1.50	\$ 1.12
Quarter ended March 31, 2010	\$ 1.81	\$ 1.40
Quarter ended June 30, 2010	\$ 1.93	\$ 1.26
	HIGH	LOW
Fiscal year ended June 30, 2009		
Quarter ended September 30, 2008	\$ 1.75	\$ 0.64
Quarter ended December 31, 2008	\$ 0.64	\$ 0.26
Quarter ended March 31, 2009	\$ 0.88	\$ 0.36
Quarter ended June 30, 2009	\$ 1.88	\$ 0.70

Table of Contents

B. Holders

As of August 30, 2011, there are currently in excess of 24,000 beneficial owners of our common stock (124 stockholders of record).

Our transfer agent is BNY Mellon Investor Services LLC whose address is 480 Washington Boulevard Jersey City, New Jersey 073101. Our co-transfer agent is CIBC Mellon located in Toronto, Ontario, Canada.

C. Dividends

Holders of our common stock are entitled to receive such dividends as our Board may declare from time to time from any surplus that we may have. We have not paid dividends on our common stock since the date of our incorporation and we do not anticipate paying any common stock dividends in the foreseeable future. We anticipate that any earnings will be retained for development and expansion of our businesses and we do not anticipate paying any cash dividends in the foreseeable future. Future dividend policy will depend upon our earnings, financial condition, contractual restrictions and other factors considered relevant by our Board and will be subject to limitations imposed under Delaware law.

D. Equity Compensation Plan

On February 24, 2009, our stockholders approved the 2008/09 Stock Incentive and Compensation Plan (the "Plan"). The purpose of the Plan is to enhance the profitability and value of the Company for the benefit of our stockholders by enabling the Company to attract, retain and reward directors, employees and consultants (collectively, "Participants") and strengthen the mutuality of interests between such persons and the Company's stockholders. The material terms and conditions as set forth in the Plan are similar to our 2006/07 Stock Incentive and Equity Compensation Plan.

We believe that the Plan will be effective in attracting directors, executives and employees to the Company by providing incentives and rewards to those directors, executives, employees and consultants responsible for our continued growth. The type of awards permitted under the Plan will provide a form of incentive that aligns the economic interests of management, employees, consultants and those of our stockholders.

The Plan provides for flexibility to determine what types of awards are beneficial to the Company, its employees, directors and stockholders as changes occur with respect to compensation trends, accounting treatment of awards, tax treatment of awards to the Company or its employees or directors, or its cash flow needs.

The Plan will be administered by the Compensation Committee of the Board. The Compensation Committee will have the authority to determine, within the limits of the express provisions of the Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning.

Awards:

Pursuant to the Plan, the Company may issue non-qualified stock options ("Non-Qualified Stock Options"), incentive stock options ("ISOs", together with Non-Qualified Stock Options referred to herein as "Stock Options"), stock appreciation rights ("SARs"), restricted stock ("Restricted Stock") and registered stock ("Registered Stock"), (collectively, the "Awards") to eligible Participants.

All employees of and consultants to the Company and its affiliates are eligible to be granted Non-Qualified Stock Options, SARs, Restricted Stock and Registered Stock. All employees and directors of the Company and its affiliates are eligible to be granted ISOs.

The aggregate number of shares of common stock which may be issued under the Plan with respect to which Awards may be granted shall not exceed 3,000,000 shares of common stock. On August 31, 2011, the 3 million shares authorized under the Plan represented approximately 2% of the Company's issued and outstanding shares of common stock. If any Stock Option or Stock Appreciation Right granted under the Plan expires, terminates or is cancelled for any reason without having been exercised in full or, with respect to Stock Options, the Company repurchases any Stock Option, the number of shares of common stock underlying the repurchased Stock Option, and/or the number of shares of common stock underlying any unexercised Stock Appreciation Right or Stock Option shall again be available for the purposes of Awards under the Plan.

Table of Contents

Administration:

The Plan is administered by the Compensation Committee of the Board. The Compensation Committee has the authority to determine, within the limits of the express provisions of the Plan, the individuals to whom awards are granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards or grants.

Types of Awards:

Awards under the Plan may include restricted shares of common stock, registered shares of common stock (since the Plan's Form S-8 has been filed), nonqualified stock options, ISOs and SARs. Restricted shares are shares of common stock issued to a recipient subject to such terms and conditions, including, without limitation, forfeiture and to such restrictions against sale, transfer or other disposition, as the Compensation Committee may determine at the time of issuance. A SAR is the right to receive cash, common stock or both based on the increase in the market value of the shares of common stock covered by such SAR from the initial date of the performance period for such SAR to the date of exercise. If the Compensation Committee elects to pay an amount to a participant in common stock, such common stock shall be valued at fair market value (as defined in the Plan) as of the day of exercise of the SAR.

The Compensation Committee may determine that all or a portion of an award may be deferred, that it may be vested at such times and upon such terms as the Compensation Committee may select, or that a recipient must be an employee or director at the time the award is paid or exercised. The Plan provides that ISOs may be granted to a recipient during a calendar year only if the aggregate fair market value (determined as of the time an ISO is granted) of common stock with respect to which ISOs are exercisable for the first time by such recipient during any calendar year under the Plan and any other "incentive stock option plans" maintained by Paramount does not exceed \$100,000.

Eligible Recipients of Awards:

The Compensation Committee may grant awards to any of Paramount's employees, to a member of the Board and to our consultants.

Restrictions on Awards to Insiders:

No award under the Plan shall be granted if the aggregate number of shares of common stock (i) issued to insiders (as that term is defined in the Plan) of Paramount within any one year period, or (ii) issuable to insiders at any time, under the Plan and any other security based compensation arrangement of Paramount could exceed 10% of Paramount's shares of common stock issued and outstanding, on a non-diluted basis, at the time of the grant of the award.

Term of Options:

The term of each stock option shall be fixed by the Compensation Committee but no stock option shall be exercisable more than ten (10) years after the date the stock option is granted. If any stock options are set to expire during any black-out period which would prohibit the option holder from exercising the stock option during the black-out period, then in that event the option term shall be extended for an additional ten (10) days beyond the end of any black-out period to permit the holder to exercise the stock option.

Option Price:

The option price per share of common stock purchasable under either an ISO or non-qualified stock option shall be determined by the Compensation Committee at the time of grant but shall not be less than 100% of the fair market

value (as defined in the Plan) of the share of common stock at the time of grant. Notwithstanding the foregoing, if an option is modified, extended or renewed and, thereby, deemed to be the issuance of a new option under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), the exercise price of an option may continue to be the original exercise price even if less than the fair market value of the common stock at the time of such modification, extension or renewal.

Table of Contents

Market Appreciation of Stock Appreciation Rights:

The Plan provides for Tandem and Non-Tandem Stock Appreciation Rights. A Tandem Stock Appreciation Right shall mean the right to surrender to Paramount all (or a portion) of a stock option in exchange for an amount in cash or stock equal to the excess of (i) the fair market value (as that term is defined in the Plan), on the date such stock option (or such portion thereof) is surrendered, of the common stock covered by such stock option (or such portion thereof), over (ii) the aggregate exercise price of such stock option (or such portion thereof). A Non-Tandem Stock Appreciation Right shall mean the right to receive an amount in cash or stock equal to the excess of (x) the fair market value of a share of common stock on the date such right is exercised, over (y) the aggregate exercise price of such right, other than on surrender of a stock option.

Stock Award Pricing:

The Compensation Committee shall determine the price, if any, to be paid by the recipient of an award of restricted stock and registered stock under the Plan.

Assignability:

No award granted pursuant to the Plan is transferable or assignable by its recipient other than by will or the laws of descent and distribution.

Shares Subject to the Plan:

An aggregate of 3,000,000 shares of common stock is currently reserved for issuance under the Plan representing approximately 2% of Paramount's issued and outstanding shares of common stock as of August 31, 2011. Shares of common stock to be delivered or purchased under the Plan may be either authorized but unissued common stock or treasury shares.

Anti-Dilution Protection:

In the event of any changes in the capital structure of Paramount, including a change resulting from a stock dividend or stock split, or combination or reclassification of shares, the Board is empowered to make such equitable adjustments with respect to awards or any provisions of the Plan as it deems necessary and appropriate, including, if necessary, any adjustments in the maximum number of shares of common stock subject to the Plan or in the number of shares of common stock subject to an outstanding award.

Merger, Consolidation, Reorganization, Liquidation, Etc.:

If after the date of the adoption of the Plan, Paramount becomes a party to any corporate merger, consolidation, major acquisition of property for stock, reorganization, or liquidation, the Board is authorized under the Plan to make such arrangements it deems advisable with respect to outstanding awards, which shall be binding upon the recipients of such awards, including, but not limited to, the substitution of new awards for any awards then outstanding, the assumption of any such awards, and the termination of or payment for such awards.

Market Value Restrictions:

The amounts of certain awards are based on the fair market value of a share of common stock at a specified point in time. The exercise price per share of common stock under each nonqualified stock option or ISO granted under the Plan, which is paid to Paramount at the time of the exercise, shall be determined by the Compensation Committee, but

may not be less than the fair market value of such common stock on the date of grant of such option. "Fair market value" of a share of common stock as of a given date is defined by the Plan to be as of any given date: (i) if the common stock is listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq Global Market (formerly, the Nasdaq National Market) or Nasdaq Capital Market (formerly, the Nasdaq SmallCap Market), the closing price of the common stock on the trading market for the common stock, as selected by the Compensation Committee, on the trading date preceding the given date, as reported by the exchange or Nasdaq, as the case may be, (ii) if the common stock is not listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq Global Market or Nasdaq Capital Market, but is traded in the over-the-counter market, the closing bid price for the common stock on such date, as reported by the Over-the-Counter Bulletin Board or the National Quotation Bureau, Incorporated or similar publisher of such quotations.

Table of Contents

No Repricing:

Except for adjustments made pursuant to the anti-dilution provisions of the Plan, or by reason of a merger, consolidation, major acquisition of property for stock, reorganization or liquidation the exercise price or purchase price under any outstanding option award granted under the Plan may not be decreased after the date of grant, nor may any outstanding award granted under the Plan be surrendered to Paramount as consideration for the grant of a new award with a lower exercise price in the absence of the approval of the holders of a majority of the shares of our common stock present in person or by proxy at a duly constituted meeting of our shareholders.

Termination of Employment;

Generally, unless otherwise determined by the Compensation Committee at grant, if a Participant is terminated for cause, any stock option held by such Participant shall thereupon terminate and expire as of the date of termination. Unless otherwise determined by the Compensation Committee at grant, any stock option held by a Participant:

(i) on death or termination of employment or consultancy by reason of disability or retirement may be exercised, to the extent exercisable at the participant's death or termination, by the legal representative of the estate or participant as the case may be, at any time within a period of one (1) year from the date of such death or termination;

(ii) on termination of employment or consultancy by involuntary termination without cause or for good reason may be exercised, by the participant at any time within a period of ninety (90) days from the date of such termination; or

(iii) on termination of employment or consultancy by voluntary termination but without good reason and occurs prior to, or more than ninety (90) days after, the occurrence of an event which would be grounds for termination by Paramount for cause, any stock option held by such participant may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of thirty (30) days from the date of such termination, but in no event beyond the expiration of the stated term of such stock option.

Amendments to the Plan:

The Board may at any time amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate the Plan entirely. Provided, however, that, unless otherwise required by law or specifically provided in the Plan, the rights of a Participant with respect to awards granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant and, provided further, without the approval of the stockholders of Paramount, if and to the extent required by the rules of a stock exchange on which Paramount's common stock is listed for trading, if and to the extent required by the applicable provisions of Rule 16b-3 of the Exchange Act of 1934, as amended (the "Exchange Act"), or, if and to the extent required, under the applicable provisions of the Internal Revenue Code, no amendment may be made which would, among other things: increase the aggregate number of shares of common stock that may be issued under the Plan; change the classification of Participants eligible to receive awards under the Plan; decrease the minimum option price of any stock option; extend the maximum option period; change any rights under the Plan with regard to non-employee directors; or require stockholder approval in order for the Plan to continue to comply with the applicable provisions.

E. Sale of Unregistered Securities

During the year, there were no sales of unregistered common stock, except that:

On August 23, 2010 we issued 22,001,247 shares of our common stock to the shareholders of X-Cal Resources in connection with the acquisition of all of the issued and outstanding shares of common stock of X-Cal Resources

pursuant to a Plan of Arrangement approved by a Court in British Columbia, Canada

Table of Contents

With respect to the sale of the securities identified above, we relied on the exemptive provisions of Section 4(2), Regulation S or Section 3(a) 10 of the Securities Act of 1933, as amended.

At all times relevant the securities were offered subject to the following terms and conditions:

The sale was made to a sophisticated or accredited investor, as defined in Rule 502 or were issued pursuant to a specific exemption;

we gave the purchaser the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which we possessed or could acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished;

at a reasonable time prior to the sale of securities, we advised the purchaser of the limitations on resale in the manner contained in Rule 502(d)2; and

neither we nor any person acting on our behalf sold the securities by any form of general solicitation or general advertising.

Item 6. Selected Financial Data.

The following consolidated financial data has been derived from and should be read in conjunction with our audited financial statements for the years ended June 30, 2007 through 2011. Our audited financial statements for the years ended June 30, 2007 through 2010 are included in the Company's annual reports for the years ended June 30, 2007 through 2010. These reports can be found on the Securities and Exchange Commission's website located at www.sec.gov

	Year Ended June 30, 2011 (Audited)	Year Ended June 30, 2010 (Audited)	Year Ended June 30, 2009 (Audited)	Year Ended June 30, 2008 (Audited)	Year Ended June 30, 2007 (Audited)
Statement of Operations data					
Revenue	\$299,703	\$35,853	\$249,082	\$457,562	\$268,605
Expenses	\$12,159,746	\$10,248,026	\$7,490,261	\$18,867,523	\$15,938,494
Net loss	\$28,450,536	\$5,351,958	\$7,241,179	\$18,409,961	\$15,661,477
Diluted loss per share	\$0.21	\$0.06	\$0.11	\$0.38	\$0.43
Diluted weighted average number of shares	130,677,585	98,617,938	65,433,659	47,703,566	36,543,532
Balance sheet data					
Cash	\$14,689,241	\$21,380,505	\$7,040,999	\$3,199,848	\$16,231,388
Mineral properties	\$49,515,859	\$22,111,203	\$18,436,951	\$4,738,747	\$3,001,247
Total assets	\$70,296,027	\$46,328,181	\$27,457,795	\$11,932,328	\$22,189,838
Current liabilities	\$17,683,832	\$6,410,090	\$383,445	\$1,714,620	\$779,345
Total liabilities	\$18,827,724	\$6,410,090	\$383,445	\$1,714,620	\$779,345
Working capital	\$16,144,479	\$22,750,664	\$8,116,541	\$4,119,068	\$18,137,737
Accumulated deficit	\$89,637,633	\$61,187,098	\$43,197,264	\$35,956,085	\$17,546,124

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are an exploratory stage mining company that currently has mining concessions in Mexico and mineral claims in Nevada, USA. We have no proven reserves at our San Miguel project in Mexico or at our Sleeper Gold project in Nevada but are currently exploring both projects. The following discussion updates our plan of operations for the foreseeable future. It also analyzes our financial condition and summarizes the results of our operations for the years ended June 30, 2011, 2010, and 2009 and compares each year's results to the results of the prior year.

Plan of Operation – Exploration:

Our plan for the next twelve months, at our San Miguel Project is to continue with our drill program and other geologic work to further expand known areas of mineralization. We have budgeted \$9.25 million for our exploration program in Mexico. In particular, we will conduct infill drilling at our San Francisco and Don Ese targets. Mine Development Associates of Reno, will complete a NI 43-101 material estimate not included in a report released by the Company in May 2011. Paramount expects to complete a Preliminary Economic Assessment in the first half of 2012.

Our plan for the next twelve months in Nevada is to primarily focus on our Sleeper project. Our budget for the program is approximately \$3 million. We will continue drilling known mineral zones to recover samples for metallurgical testing. Results from our drilling campaigns will be used and incorporated into an updated NI 43-101 compliant material model being prepared by SRK, a recognized international consulting firm. The Company has also engaged Tetra Tech, a leading international mining consulting firm to prepare a NI 43-101 compliant Preliminary Economic Assessment of the Sleeper Gold Project. We anticipate completion in early 2012.

Our work at both the San Miguel Project and Sleeper Gold Project is consistent with Paramount's strategy of expanding and upgrading known, large-scale precious metal occurrences in established mining camps, defining their economic potential and then partnering them with nearby producers.

Comparison of Operating Results for the year ended June 30, 2011 as compared to June 30, 2010

Liquidity and Capital Resources

At June 30, 2011, we had a cash balance of \$14,689,241 compared to \$21,380,505 for the same period in the prior year. The net reduction in cash is attributable to the funding of our exploration programs at our San Miguel project in Mexico and at our Sleeper Mine in Nevada, USA.

At June 30, 2011, we had a net working capital, excluding the non-cash warrant liability of \$16,144,479. We anticipate our cash expenditures to be approximately \$1.2 million per month to fund our exploration programs and our general corporate expenses. We believe our cash is adequate to meet our budgeted expenses in the short-term.

During the year ended June 30, 2011, the Company received \$3,707,340 pursuant to the exercise of stock options, stock purchase warrants and issuance of stock related to our "at-the-market" offering.

At June 30, 2011 the Company had 7,700,000 "in-the-money" purchase warrants outstanding. All the warrants are held by the Company's largest shareholder FCMI Financial Corporation. If all the issued outstanding warrants were exercised, the Company's cash balances would increase by \$8,408,400.

At June 30, 2011, the accounts receivable amount of \$1,625,724 primarily consisted of value added tax due from the Mexican government. During the year ended June 30, 2011, the Company collected \$474,983 in value added tax.

Revenues

As an exploratory mining company, we have not earned revenue from our operations since our inception. The majority of our income is derived from interest earned on our cash holdings. During the year ended June 30, 2011 the Company recorded a gain of \$154,590 from the disposition of marketable securities held for sale. We invest our excess cash in short-term Guaranteed Investment Certificates that range from 30 to 90 day terms. For the year ended June 30, 2011, the Company earned \$118,870 in interest income.

Table of Contents

Costs and Expenses

Exploration expenses were \$7,984,774 for year ended June 30, 2011 as compared to \$6,043,791 for the year ended June 30, 2010. Our level of expenditures has increased from the comparable prior year periods as a result of incurring exploration expenses at our recently acquired Sleeper Gold property in Nevada, USA. Expenses incurred include geology, drilling, lab analysis, metallurgy, site access, license and permitting. Since inception, we have incurred exploration costs totaling \$31,782,037.

Our general and administration expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$2,339,757 for the year ended June 30, 2011 as compared to \$2,111,129 in the prior year. Management believes the expense growth of 11% to be reasonable given its recent acquisition of X-Cal Resources Ltd.

The increase in fair value in our warrant liability recorded in the year ended June 30, 2011 was \$16,421,412. This adjustment was primarily due to the increase in our share price from \$1.30 at June 30, 2010 to a share price of \$4.01 at June 30, 2011. This is reported on our statement of operations as other item and is a non-cash loss.

Net Loss

Our net loss before other items for the year ended June 30, 2011 was \$11,860,043 compared to a loss of \$10,212,173 in the prior year. We will continue to incur losses for the foreseeable future as we continue with our planned explorations programs at our Mexico and Nevada project locations.

Comparison of Operating Results for the year ended June 30, 2010 as compared to June 30, 2009

Liquidity and Capital Resources

At June 30, 2010 we had cash and cash equivalents totaling \$21,380,505 as compared to \$7,040,999 at June 30, 2009, an increase of approximately \$14.3 million. The significant increase in our cash reserves is a direct result of an underwritten public offering of our securities by Dahlman Rose & Company for net proceeds of approximately \$21.7 million in October 2009 and from the exercise of warrants in January and June 2010. Accounts receivable increased from \$221,267 at June 30, 2009 to \$1,511,619 at June 30, 2010. The increase in accounts receivable is primarily due to value added tax owed by the Mexican Government related to our increased exploration activities at our San Miguel project. Also, our term deposit of \$1,063,772 at June 30, 2009 came to term prior to June 30, 2010 and was re-invested in a cash equivalent GIC. We had total current assets of \$23,697,532 at June 30, 2010 as compared to \$8,499,986 at June 30, 2009, an increase of approximately 279%.

Our mineral properties were valued as of June 30, 2010 at \$22,111,203 as compared to \$18,436,951 at June 30, 2009, an increase of approximately \$3.7 million. Also during the past year, we have written off \$275,000 attributable to Vidette Lake as a result of terminating our option on this property.

Total assets at June 30, 2010 were \$46,328,181 as compared to \$27,457,795 at June 30, 2009, an increase of approximately 169% due to significant financings and mineral property purchases.

Our current liabilities as of June 30, 2010 totaled \$6,410,090 as compared to \$383,445 at June 30, 2009. The increase in current liabilities is almost all attributable to the addition this year of a warrant liability of \$5,979,767 due to warrants with exercise prices valued in Canadian funds. We did not record a similar liability last year as we did not adopt the amended provisions of ASC 815 on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first

criteria of the scope exception in ASC 815 until July 1, 2009, which is the date at which this amendment becomes effective. The warrant liability is a non-cash item and only obligates the Company to issue common shares if exercised by the holder of the warrant prior to expiry. We have a working capital surplus of \$22,750,664 as compared to a working capital surplus of \$8,116,541 at June 30, 2009. We believe that our working capital surplus will enable us to meet our anticipated drilling for several fiscal years and operational needs, subject to any costs that we incur with respect to the acquisition of additional mineral properties.

Table of Contents

Revenues:

Interest income for the year ended June 30, 2010 were \$35,853 as compared to \$249,082 for the year ended June 30, 2009. Interest income decreased by approximately 86% from the prior year. The significant decrease in our interest income is primarily due to lower interest rates offered for short-term investments. Our funds are deposited in an interest bearing account subject to transfer to our operating account to meet ongoing expenses. We intend to utilize our cash reserves for ongoing exploration activities, land acquisitions and general working capital expenditures.

Cost and Expenses:

We incurred expenses totaling \$10,248,026 as compared to \$7,490,261 for the year ended 2009, an increase of approximately \$2.76 million. For the year-ended June 30, 2010, we incurred exploration costs of \$6,043,791 compared to \$2,372,621 in the previous year. The increase was due to a significant increase in exploration activity which included planning, target development, drilling and testing at our San Miguel project in Mexico. Expenses for professional fees, corporate communications and consulting fees were \$931,404, \$332,139 and \$418,437 compared to the previous year of \$1,244,792, \$803,186 and \$1,561,084 respectively. The decline from the previous year is a result of headcount reduction and streamlining of all corporate functions. The acquisition expenses of \$1,242,569 were a result of legal, advisory and due diligence cost related to our proposed merger with Klondex Mines Ltd. and our acquisition of X-Cal Resources Ltd.

Net Loss

Our Net Loss for the year ended June 30, 2010 was \$5,351,958 as compared to a Net Loss of \$7,241,179 in our prior year.

Critical Accounting Policies

Management considers the following policies to be most critical in understanding the judgments that are involved in preparing the Company's consolidated financial statements and the uncertainties that could impact the results of operations, financial condition and cash flows. Our financial statements are affected by the accounting policies used and the estimates and assumptions made by management during their preparation. Management believes the Company's critical accounting policies are those related to mineral property acquisition costs, exploration and development cost, stock based compensation, derivative accounting and foreign currency translation.

Estimates

The Company prepares its consolidated financial statements and notes in conformity to U.S. GAAP and requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates these estimates, including those related to allowances for doubtful accounts receivable and long-lived assets. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Mineral property acquisition costs

The Company capitalizes the cost of acquiring mineral properties and will amortize these costs over the useful life of a property following the commencement of production or expensed if it is determined that the mineral property has no

future economic value or the properties are sold or abandoned. Costs includes cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts of the specific mineral property at the time the payments are made.

The amounts recorded as mineral properties reflect actual costs incurred to acquire the properties and do not indicate any present or future value of economically recoverable reserves.

Table of Contents

Exploration expenses

The company records exploration expenses as incurred. When it is determined that precious metal resource deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration expenses related to such reserves incurred after such a determination will be capitalized. To date the Company has not established any proven or probable reserves and will continue to expense exploration expenses as incurred.

Derivatives

The Company has adopted the amended provisions of ASC 815 on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock. The Company has issued stock purchase warrants with exercise prices denominated in a currency other than its functional currency of U.S. dollars. As a result, these warrants are no longer considered indexed to our stock and must be accounted for as a derivative.

Warrants that are issued with exercise prices other than the Company's functional currency of the U.S. dollar are accounted for as liabilities. The fair value of the outstanding warrants liabilities is determined at each reporting date with any change to the liability from a previous period recorded in the Statement of Operations. We record changes in fair value of the warrant liabilities as a component of other income and expense as we believe the amounts recorded relate to financing activities and not as a result of our operations. If a stock purchase warrant is exercised the Company is only obligated to issue shares in its common stock.

If the Company were to issue stock purchase warrants with exercise prices in its functional currency, the warrants would be considered indexed to our stock and the fair value at date of issue recorded as equity. There would be no requirement under U.S. GAAP to report changes in its fair value from period to period.

Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. Transactions involving foreign currencies for items included in operations are translated into U.S. dollars using the monthly average exchange rate and monetary assets and liabilities are translated at the exchange rate prevailing at the consolidated balance sheet date and all other consolidated balance sheet items are translated at historical rates applicable to the transactions that comprise the amounts. Translation gains and losses are included in the determination of other comprehensive loss and gains in the Statement of Operations.

Reclassification

Certain comparative figures have been reclassified to conform to the current quarter presentation.

Off-Balance Sheet Arrangements

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

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

The Company holds cash balances in both U.S. and Canadian dollars. We transact most of our business in US and Canadian dollars. Some of our expenses, including labor and operating supplies are denominated in Mexican Pesos. As a result, currency exchange fluctuations may impact our operating costs. We do not manage our foreign currency exchange rate risk through the use of financial or derivative instruments, forward contracts or hedging activities.

In general, the strengthening of the U.S. dollar or Canadian dollar will positively impact our expenses transacted in Mexican Pesos. Conversely, any weakening of the U.S dollar or Canadian dollar will increase our expenses transacted in Mexican Pesos. We do not believe that any weakening of the U.S. or Canadian dollar as compared to the Mexican peso will have an adverse material affect on our operations.

Interest Rate Risk

The Company's investment policy for its cash and cash equivalents is focused on the preservation of capital and supporting the liquidity requirements of the Company. The Company's interest earned on its cash balances is impacted on the fluctuations of U.S. and Canadian interest rates. We do not use interest rate derivative instruments to manage exposure to interest rate changes. We do not believe that interest rate fluctuations will have any effect on our operations

Item 8. Financial Statements and Supplementary Data.

Our financial statements have been examined to the extent indicated in its reports by Meyers Norris Penny LLP, Chartered Accountants and have been prepared in accordance with generally accepted accounting principles and pursuant to Regulation S-X as promulgated by the SEC and are included herein, of Page F-1 hereof.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Annual Report (June 30, 2011). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as the principal executive and financial officers, respectively, to allow timely decisions regarding required disclosure.

It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Management believes that the Company's system of disclosure and controls currently in place are effective to provide reasonable assurance levels as to their accuracy.

Table of Contents

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f).

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as of June 30, 2011. In conducting this evaluation, management used the framework established by the Committee of Sponsoring Organizations of the Treadway Commission as set forth in Internal Control – Integrated Framework. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of June 30, 2011.

The effectiveness of our internal control over financial reporting as of June 30, 2011, has been audited by Meyers Norris Penny LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Meyers Norris Penny LLP's report on the Company's internal control over financial reporting is included in this Annual Report on Form 10-K.

Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of Changes in Internal Controls over Financial Reporting

There was no change in the internal control over financial reporting that occurred during the fiscal year ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following information sets forth the names of our officers and directors, their present positions, and some brief information about their background.

Name	Age	Position(s)
Christopher Crupi	42	Director/CEO/President/Treasurer
Robert Dinning	72	Director
Michael Clancy	46	Secretary
John Carden	63	Director
Christopher Reynolds	46	Director
Michel Yvan Stinglhamber	78	Director
Eliseo Gonzalez-Urien	70	Director
Rudi P. Fronk	52	Director
Carlo Buffone	41	Chief Financial Officer
Shawn Kennedy	60	Director
Glen Van Treek	42	Vice President, Exploration

Christopher Crupi

Mr. Crupi is a chartered accountant and has served as our CEO and director since April, 2005. Mr. Crupi founded the Company in March 2005 and oversees the administrative and operational activities of the Company. From 2000 to 2004, Mr. Crupi was a Vice President of PricewaterhouseCoopers LLP, an international accounting firm. Mr. Crupi received his Bachelor of Commerce degree from the University of Ottawa in 1992 and a Chartered Accountant designation in 1995.

Michael Clancy

Mr. Clancy was appointed our Corporate Secretary in August 2007. Mr. Clancy is a partner in the Ottawa office of Gowling Lafleur Henderson LLP (“Gowlings”). Mr. Clancy practices business law and has been with Gowlings since 1989. Mr. Clancy completed two years of a Bachelor of Arts at Carleton University and obtained his Bachelor of Laws from Osgoode Hall Law School. Gowlings serves as our corporate and securities counsel for non-U.S. related securities matters.

Robert Dinning

Mr. Dinning joined Paramount in March 2008 as a director. Mr. Dinning is a Chartered Accountant, and life time member of the Alberta Institute of Chartered Accountants. Mr. Dinning has operated a consulting practice since 1977. He has an extensive background in corporate finance, operating in the mining and high tech industries. Mr. Dinning has been an officer and director of various public and private companies for the past 35 years, including various companies in both the United States and Canada. Mr. Dinning is currently a director or officer of 6 other public companies and currently serves as President and CEO of Meadow Bay Gold Corp and President and CEO of Simba Energy Inc, both companies being TSX Venture listings.

John Carden, Ph.D

Dr. Carden joined the Company as a director in September, 2006. Dr. Carden has more than 25 years in experience in exploration management, teaching and research. Since 2001 he has been a geologic consultant and a director of a number of junior resource companies each which were TSX Venture Exchange listed companies. Dr. Carden worked for Exxon Minerals for many years and later was Director of U.S. Exploration from 1992 until 1998 for Echo Bay Mines. He and is a Licensed Professional Geologist in the State of Washington. Dr. Carden received his B.Sc. and M.Sc. in geology From Kent State University in Ohio, and his doctorate in geology from the Geophysical Institute at the University of Alaska in 1978.

Table of Contents

Michel Yvan Stinglhamber

Mr. Stinglhamber joined the Company as a director in May 2007. Mr. Stinglhamber has significant experience in the Mexican mining industry. He currently represents Umicore Belgium in Mexico, a materials technology company, and serves as a director for Unimet SA de CV, a wholly owned subsidiary of Umicore Belgium which is active in the fields of precious metals exploration. Mr. Stinglhamber is also the Chairman of the Mining Group-Compania Minera Misiones SA de CV, a mining company located in Mexico. He is also on the board of directors of Marina Costa Baja in Mexico.

Since 1991, Mr. Stinglhamber has been involved in a number of mining ventures in Mexico. He was the president of the Belgo Luxemburg Mexican Chamber of Commerce in 1987, and in 2002, was awarded the Belgian decoration of "Officer of the Crown".

Eliseo Gonzalez-Urien

Mr. Gonzalez-Urien joined our Board in March 2009. He currently serves as a member of the board of directors of Seabridge Gold. He is an exploration geologist with over 30 years of experience in the mining industry. From 1989 through 2001 Mr. Gonzalez-Urien held various executive positions with Placer Dome Inc. including senior vice president of the parent company and president of Placer Dome Exploration Inc. During this period he was charged with responsibility for Placer Dome's worldwide exploration activities. Prior to Placer Dome, Mr. Gonzalez-Urien held senior positions with BHP-Utah Inc. and Noranda. He holds a degree in geology from the University of Santiago, Chile, followed by post graduate studies in geology at the University of California, Berkley.

Rudi P. Fronk

Mr. Fronk joined our Board in March 2009. Since 1999 he has served as the president, chief executive officer and a director of Seabridge Gold Inc. Seabridge is located in Toronto, Ontario, and has gold projects throughout North America. Prior to Seabridge, Mr. Fronk held senior management positions with Greenstone Resources, Columbia Resources, Behre Dolbear & Company, Riverside Associates, Phibro-Salomon, Amax, and DRX. Mr. Fronk is a graduate of Columbia University from which he holds a Bachelor of Science in Mining Engineering and a Master of Science in Mineral Economics. Mr. Fronk resides in Toronto, Ontario.

Christopher Reynolds

Mr. Reynolds has over 20 years of mineral industry and public accounting experience and is currently the Vice President Finance and Chief Financial Officer of Seabridge Gold Inc., a TSX and AMEX listed corporation. He previously served as Vice President, Finance and Chief Financial Officer of Norsemont Mining Inc. and as Senior Vice President, CFO and Secretary of SouthernEra Diamonds Inc. He has held various finance and accounting positions at Southern Platinum Corp., TVX Gold Inc., Inmet Mining Corporation and Price Waterhouse, now PricewaterhouseCoopers. Mr. Reynolds also served as a director of Arizona Star Resource Corp. Mr. Reynolds became a Certified General Accountant in 1994 and received a B.A. (Economics) from McGill University in 1987.

Carlo Buffone

Mr. Buffone currently serves as the Company's Chief Financial Officer. He was appointed in February 2010. Prior to joining the Company, Mr. Buffone founded a private company which developed sales channels for European and domestic artisanal wine makers. From 1995 to 2005, he has held various senior financial management positions including his employment as a corporate development specialist for CMA Holdings Group, a wealth management firm with over \$23 billion in assets under administration where he was responsible for mergers and

acquisitions. Mr. Buffone is a Certified Management Accountant (CMA) and received his Bachelor of Commerce Degree from the University of Ottawa in 1993 and studied mergers and acquisitions at the Kellogg School of Management at Northwestern University in 2004.

Shawn Kennedy

Mr. Kennedy incorporated X-Cal in 1981 as a private company under the name of X-Calibre Resources. In 1985 the company was listed on the Toronto Stock Exchange and the name changed to X-Cal. Mr. Kennedy has served as President and director of X-Cal since incorporation. His first prospector's license was issued in British Columbia in 1974.

Table of Contents

Glen Van Treek

Mr. Van Treek joined Paramount in January 2011 and serves as Vice President of Exploration. He has over 20 years of progressive global experience in all stages of mineral exploration. Prior to joining Paramount, he held various senior positions at Teck Resources Ltd. and most recently he managed the production geology, resource modeling and exploration programs at Teck's Quebrada Blanca mine in Chile. Prior to his experience at Teck, Mr. Van Treek held positions with Placer Dome and other junior exploration companies. He is a graduate geologist from the University of Chile.

Committees of the Board

The Board has established an Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee. A minimum of three Board members serve on each committee. All of our Committees meet throughout the year.

Our Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, consists of Christopher Reynolds, Robert Dinning and John Carden. Mr. Reynolds serves as chairman of the Audit Committee. The Board has determined that Mr. Dinning is independent and is an "audit committee financial expert" within the meaning of applicable SEC regulations. Dr. Carden and Christopher Reynolds are independent directors. The Audit Committee meets quarterly to review the Company's financial statements in connection with the filings of its quarterly and annual report.

Our Audit Committee oversees the accounting and financial reporting processes of the Company and audits of the financial statements. The Audit Committee also assists the Board in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance, and (iv) the Company's internal accounting and financial controls.

Our Compensation Committee consists of Robert Dinning, John Carden and Rudi Fronk. Each member of our Compensation Committee is an independent director. Mr. Dinning serves as the chairman of the Compensation Committee. Our Compensation Committee discharges the Board's responsibilities relating to compensation of the Company's executive officers. The Compensation Committee reviews and approves for the CEO and the other executive officers of the Company (i) the annual base salary, (ii) the annual incentive bonus, including the specific goals and amount, (iii) equity compensation, (iv) employment agreements, severance arrangements, and change in control agreements/provisions, and (v) any other benefits, compensation or arrangements. The Compensation Committee will have overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the Company and administering the Company's equity compensation plans.

Our Nominating Committee consists of Michel Yvan Stinglhamber, Rudi Fronk and Eliseo Gonzalez-Urien. Each member of our Nominating Committee is an independent director. Mr. Fronk serves as the chairman of the Nominating Committee. The Nominating/Corporate Governance Committee's responsibilities are to (i) identify individuals qualified to become Board members; (ii) select, or recommend to the Board, director nominees for each election of directors, (iii) develop and recommend to the Board criteria for selecting qualified director candidates, and (iv) consider committee member qualifications, appointment and removal; and (v) review corporate governance policies and procedures.

Our Corporate Governance Committee consists of all the independent members of the Board of Directors. The Corporate Governance Committee has not yet met and will do so only if matters arise that require consideration.

During our last fiscal year our Board met a total of 13 times, our Audit Committee met 3 times, our Nominating Committee met 1 time and our Compensation Committee met 1 time. All of our directors attended at least 75% of our Board meetings.

We anticipate that our Board and the committees will continue to meet on a periodic basis throughout the year.

Table of Contents

Corporate Cease Trade Orders or Bankruptcies

Other than as set out herein, no director, officer or other member of management of the Company is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other issuer that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that issuer, was the subject of a cease trade order or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Penalties or Sanctions

To the best of our knowledge, none of our directors, officers or stockholders holding a sufficient number of securities to affect materially the control of the Company, has been subject to 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 been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

To the best of our knowledge, none of our directors, officers or stockholders holding a sufficient number of securities to affect materially the control of the Company, nor any personal holding company of any such person has, within the last ten years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been 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 that person.

Compensation of Directors

For their services as directors or members of committees of our Board, each director receives annual cash compensation of \$30,000. The Chairman of the Board and Chair of the Audit Committee receives an additional \$20,000 and \$10,000 respectively. Directors are also reimbursed for their reasonable expenses incurred in attending Board or committee meetings. As more fully set forth under Item 11. "Executive Compensation," our directors have been issued stock options for their service on the Board and for their serving on various committees of the Board.

Terms of Office

Our directors are appointed for one-year terms to hold office or until the next annual general meeting of the holders of our common stock or until removed from office in accordance with our by-laws. Our directors were approved by our stockholders at the Company's annual meeting held December 10, 2010. Our officers are appointed by our Board and hold office until removed by our Board.

Family Relationships

There are no family relationships among our directors and/or officers.

Section 16(a) Beneficial Ownership Reporting Compliance

For companies registered pursuant to section 12(g) of the Exchange Act, Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, for the fiscal year ended June 30, 2010, based solely on a review of the copies of reports furnished to us and written representations that no other reports were required, Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with on a timely basis for the period which this report relates.

Table of Contents

Code of Ethics

The Company has adopted a Code of Ethics that meets the requirements of Section 406 of the Sarbanes-Oxley Act of 2002. Our Code of Ethics can be reviewed on our corporate website located at www.paramountgold.com. We intend to satisfy the disclosure requirements regarding an amendment to, or a waiver from, a provision of the Code of Ethics by posting such information on our corporate website.

Item 11. Executive Compensation.

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement for the 2011 Annual Meeting of Shareholders, or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report under the captions “Compensation of Officers and Directors” and “Board of Directors and Compensation of Directors”.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Pursuant to General Instruction G(3) of Form 10-K, certain information called for by this item is hereby incorporated by reference from our definitive proxy statement for the 2011 Annual Meeting of Shareholders or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report under the caption “Security Ownership of Certain Beneficial Owners and Management”.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Pursuant to General Instruction G(3) of Form 10-K, certain information called for by this item is hereby incorporated by reference from our definitive proxy statement for the 2011 Annual Meeting of Shareholders or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report under the caption “Certain Relationships and Related Transactions, and Director Independence”.

Item 14. Principal Accounting Fees and Services.

Pursuant to General Instruction G(3) of Form 10-K, certain information called for by this item is hereby incorporated by reference from our definitive proxy statement for the 2011 Annual Meeting of Shareholders or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report under the caption “Principal Accounting Fees and Services”.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statements Schedules.

- a. The following report and financial statements are filed together with this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2011 AND 2010

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009 AND CUMULATIVE LOSSES SINCE INCEPTION MARCH 29, 2005 TO JUNE 30, 2011.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND JUNE 30, 2009 AND CUMULATIVE SINCE INCEPTION TO JUNE 30, 2011.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009.

NOTES TO FINANCIAL STATEMENTS

- b. INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Binding Letter Agreement, dated July 20, 2009, between the Company and Klondex Mines Ltd., incorporated by reference to Exhibit 2.1 to Form 8-K filed July 22, 2009
3.1	Certificate of Incorporation, effective March 31, 2005, incorporated by reference to Exhibit 3.1 to Form 10-SB filed November 2, 2005
3.2	Certificate of Amendment to Certificate of Incorporation, effective August 23, 2007, incorporated by reference to Exhibit 3 to Form 8-K filed August 28, 2007
3.2(b)	Certificate of Amendment to Certificate of Incorporation, effective March 3, 2009, incorporated by reference to Exhibit 3.1 to Form 8-K filed February 26, 2009
3.3	Restated Bylaws, effective April 18, 2005
4.1	Registration Rights Agreement, dated March 30, 2007, incorporated by reference to Exhibit 10.2 to Form 8-K filed April 6, 2007
4.2	Form of Investor Warrant, incorporated by reference to Exhibit 10.3 to Form 8-K filed April 6, 2007
4.3	Form of Broker Warrant, incorporated by reference to Exhibit 10.4 to Form 8-K filed April 6, 2007

- 4.4 Warrant Certificate, dated March 20, 2009, issued by the Company to Dahlman Rose & Company LLC, incorporated by reference to Exhibit 4.1 to Form 8-K/A filed April 21, 2009
- 10.1 Option Agreement on San Miguel properties, dated December 19, 2005, incorporated by reference to Exhibit 10.11 to our Amendment to Form 10-SB filed February 9, 2006
- 10.2 Agency Agreement with Blackmont Capital, Inc., et al., dated March 30, 2007, incorporated by reference to Exhibit 10.1 to Form 8-K filed April 6, 2007
- 10.3 Agreement of Purchase and Sale between the Company and Tara Gold Resources, dated August 22, 2008, incorporated by reference to Exhibit 10.4 to Form 8-K filed September 2, 2008
- 10.4 Forebearance Agreement between the Company and Mexoro Minerals Ltd., dated March 17, 2009, incorporated by reference to Exhibit 10.5 to Form 8-K on March 23, 2009

Table of Contents

10.5	Letter Agreement for Purchase and Sale of Magnetic Resources Ltd., dated February 12, 2009, incorporated by reference to Exhibit 10.6 to Form 8-K filed on March 23, 2009
10.6	Letter Agreement for Assignment of Option Agreement between the Company and Garibaldi Resources Corp., dated February 2, 2009, incorporated by reference to Exhibit 10.7 to Form 8-K on March 23, 2009
10.7*	2006/07 Stock Incentive and Compensation Plan, incorporated by reference to Exhibit 10.1 to Form S-8 filed November 8, 2006
10.8*	2007/08 Stock Incentive and Equity Compensation Plan, incorporated by reference to Exhibit A to our proxy statement filed June 29, 2007
10.9*	2008/09 Stock Incentive and Equity Compensation Plan, incorporated by reference to Exhibit B to our proxy statement filed January 8, 2009
10.10	Financial Advisory Services Agreement, effective March 1, 2009, by and between the Company and Dahlman Rose & Company LLC, incorporated by reference to Exhibit 10.1 to Form 8-K filed April 21, 2009
10.11	Form of Klondex Support Agreement, incorporated by reference to Schedule “A” to Exhibit 2.1 to Form 8-K filed July 22, 2009
10.12	Form of Paramount Support Agreement, incorporated by reference to Schedule “B” to Exhibit 2.1 to Form 8-K filed July 22, 2009
10.13	Support Agreement between the Company and FCMI Financial Corporation, dated August 5, 2009, incorporated by reference to Exhibit 10.1 to Form 8-K filed August 6, 2009
10.14	Support Agreement between the Company and Garibaldi Resources Corp., dated August 5, 2009, incorporated by reference to Exhibit 10.2 to Form 8-K filed August 6, 2009
10.15	Arrangement Agreement between the Company and X-Cal Resources Ltd. dated June 22, 2010 and incorporated by reference to Exhibit 2.1 to Form 8-k filed June 25, 2010
24	Power of attorney (see signature page)
<u>31.1</u>	Certificate of the Chief Executive Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
<u>31.2</u>	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
<u>32.1</u>	Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
<u>32.2</u>	Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

* Denotes management contract

61

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARAMOUNT GOLD AND SILVER CORP.

By:/s/ CHRISTOPHER CRUPI
Christopher Crupi
President and Chief Executive
Officer(principal executive officer)

Date: September 12, 2011

By:/s/ CARLO BUFFONE
Carlo Buffone
Chief Financial Officer(principal financial and
accounting officer)

Date: September 12, 2011

Table of Contents

POWER OF ATTORNEY

By signing this Annual Report on Form 10-K below, I hereby appoint Christopher Crupi as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other documents related to the Form 10-K) with the Securities and Exchange Commission. I authorize my attorney-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorney-in-fact and by any properly appointed substitute attorney-in-fact.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CHRISTOPHER CRUPI Christopher Crupi	President and Chief Executive Officer/Director	September 12, 2011
/s/ CARLO BUFFONE Carlo Buffone	Chief Financial Officer	September 12, 2011
/s/ JOHN CARDEN John Carden	Director	September 12, 2011
/s/ RUDI P. FRONK Rudi P. Fronk	Director	September 12, 2011
/s/ ELISEO GONZALEZ-URIEN Eliseo Gonzalez-Urien	Director	September 12, 2011
/s/ MICHEL YVAN STINGLHAMBER Michel Yvan Stinglhamber	Director	September 12, 2011
/s/ ROBERT DINNING Robert Dinning	Director	September 12, 2011
/s/ Christopher Reynolds Christopher Reynolds	Director	September 12, 2011
/s /Shawn Kennedy Shawn Kennedy	Director	September 12, 2011

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Index to Consolidated Financial Statements

(Audited)

Year ended June 30, 2011, 2010 and 2009

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets (Audited) As at June 30, 2011 and June 30, 2010	F-4
Consolidated Statements of Operations (Audited) For the Year Ended June 30, 2011, June 30, 2010, and June 30, 2009	F-5
Consolidated Statements of Cash Flows (Audited) For the Year Ended June 30, 2011, June 30, 2010, and June 30, 2009	F-6
Consolidated Statement of Stockholders' Equity (Audited) For the Year Ended June 30, 2011, June 30, 2010, and June 30, 2009	F-7
Notes to Consolidated financial statements (Audited) For the Year Ended June 30, 2011	F-8

F-1

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Paramount Gold and Silver Corp. (An Exploration Stage Corporation):

We have audited the accompanying consolidated balance sheets of Paramount Gold and Silver Corp. (the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of loss, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2011 and from the date of inception (March 29, 2005) through June 30, 2011. We also have audited the Company's internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Table of Contents

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2011 and 2010 and the results of its operations and its cash flows for each of the years in the three year period ended June 30, 2011 and from the date of inception (March 29, 2005) through June 30, 2011 in conformity with generally accepted accounting principles in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

MNP LLP

Vancouver, BC

September 6, 2011

F-3

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.
 (An Exploration Stage Mining Company)
 Consolidated Balance Sheets (Audited)
 For the Year Ended June 30, 2011
 (Expressed in United States dollars, unless otherwise stated)

	As at June 30, 2011	As at June 30, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,689,241	\$ 21,380,505
Amounts receivable	1,625,724	1,511,619
Equity conversion right	-	516,545
Loan advance	-	243,495
Prepaid and deposits	34,252	45,368
Prepaid insurance, current portion (Note 11)	245,215	-
Marketable securities (Note 9)	319,219	-
Total Current Assets	16,913,651	23,697,532
Non-Current Assets		
Mineral properties (Note 7)	49,515,859	22,111,203
Fixed assets (Note 8)	487,740	519,446
Prepaid insurance, non current portion (Note 11)	613,035	-
Reclamation bond (Note 11)	2,765,742	-
Total Non-Current Assets	53,382,376	22,630,649
Total Assets	\$ 70,296,027	\$ 46,328,181
Liabilities and Shareholder's Equity		
Liabilities		
Current Liabilities		
Accounts payable	\$ 769,172	\$ 430,323
Warrant liability (Note 2)	16,914,660	5,979,767
Total Current Liabilities	17,683,832	6,410,090
Non-Current Liabilities		
Reclamation and environmental obligation (Note 11)	1,143,892	-
Total Non-Current Liabilities	1,143,892	-
Shareholder's Equity		
Capital stock (Note 5)	136,249	110,069
Additional paid in capital	129,664,660	90,613,573
Contributed surplus	11,287,242	10,825,222
Deficit accumulated during the exploration stage	(89,637,633)	(61,187,098)
Accumulated other comprehensive income	17,785	(443,675)
Total Shareholder's Equity	51,468,303	39,918,091

Total Liabilities and Shareholder's Equity	\$70,296,027	\$46,328,181
--	--------------	--------------

Subsequent Events (Note 14)

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

F-4

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Operations (Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009	Cumulative Since Inception to June 30, 2011
Revenue				
Interest Income	\$ 118,870	\$ 35,853	\$ 249,082	1,136,832
Other Income	180,833	-	-	180,833
Total Revenue	299,703	35,853	249,082	1,317,665
Expenses:				
Incorporation Costs	-	-	-	1,773
Exploration	7,984,774	6,043,791	2,372,621	31,782,037
Professional Fees	1,280,869	931,404	1,244,792	7,505,923
Directors Compensation (Note 6)	813,154	141,224	-	954,378
Travel & Lodging	212,999	192,642	228,920	1,262,247
Corporate Communications	260,309	332,139	803,186	3,377,407
Consulting Fees	464,790	418,437	1,561,084	14,269,610
Office & Administration	333,789	429,149	960,700	2,689,622
Interest & Service Charges	12,643	57,644	18,987	109,485
Loss on Disposal of Fixed Assets	-	-	44,669	44,669
Insurance	317,457	47,804	76,705	593,329
Depreciation	73,299	66,367	99,010	369,578
Accretion	119,884	-	-	119,884
Miscellaneous	-	18,124	91,592	203,097
Financing & Listing Fees	-	-	(12,005)	(22,024)
Acquisition Expenses	262,764	1,242,569	-	1,505,334
Income and other taxes	13,015	51,732	-	64,747
Write Down of Mineral Property	10,000	275,000	-	1,756,049
Total Expense	12,159,746	10,248,026	7,490,261	66,587,145
Net Loss before other items	11,860,043	10,212,173	7,241,179	65,269,480
Other items				
Change in fair value of Equity Conversion Right	169,081	821,155	-	990,236
Change in fair value of Warrant Liability	16,421,412	(5,681,370)	-	23,377,917
Net Loss	\$ 28,450,536	\$ 5,351,958	\$ 7,241,179	89,637,633
Other comprehensive loss				
Foreign Currency Translation Adjustment	(492,405)	156,483	267,215	(48,730)
Unrealized loss on Available For Sale Securities	30,945	-	-	30,945
Total Comprehensive Loss for the Period	\$ 27,989,076	\$ 5,508,441	\$ 7,508,394	89,619,848

Loss per Common share			
Basic	\$0.21	\$0.06	\$0.12
Diluted	\$0.21	\$0.06	\$0.11

Weighted Average Number of Common Shares Used in Per Share Calculations			
Basic	130,677,585	98,617,938	62,941,467
Diluted	130,677,585	98,617,938	65,433,659

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

F-5

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Cash Flow (Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009	Cumulative Since Inception to June 30, 2011
Net Loss	\$(28,450,535)	\$(5,351,958)	\$(7,241,179)	\$(89,637,633)
Adjustment for:				
Depreciation	73,299	66,367	99,010	369,578
Loss on disposal of assets	-	-	44,669	44,669
Stock based compensation	1,200,875	309,840	1,733,052	17,658,399
Accrued interest	-	-	(58,875)	(58,875)
Write-down of mineral properties	10,000	275,000	-	1,756,049
Accretion expense	119,884	-	-	119,884
Change in reclamation	63,592	-	-	63,592
Insurance expense	182,235	-	-	182,235
Other non cash transactions	(899)	-	-	(899)
Change in fair value of equity conversion right	169,081	821,155	-	990,236
Change in fair value of warrant liability	16,421,412	(5,681,370)	-	23,377,917
(Increase) Decrease in accounts receivable	(30,679)	(1,290,352)	1,163,225	(1,542,298)
(Increase) Decrease in prepaid expenses	11,116	37,215	296,765	(34,252)
Increase (Decrease) in accounts payable	(1,544,935)	46,878	(1,331,175)	(1,114,611)
Cash used in operating activities	\$(11,775,554)	\$(10,767,225)	\$(5,294,508)	\$(47,826,009)
Purchase of GIC receivable	-	1,063,772	-	58,875
Notes receivable issued	243,495	(152,130)	800,000	21,365
Purchase of Equity conversion right	-	(1,337,700)	-	(1,337,700)
Purchase of Mineral Properties	(191,061)	(3,574,252)	(469,754)	(7,109,870)
Cash acquired on acquisition of X-Cal	843,101	-	-	843,101
Purchase of Equipment	(10,989)	(64,955)	(340,000)	(901,862)
Cash provided by (used in) investing activities	\$884,546	\$(4,065,265)	\$(9,754)	\$(8,426,091)
Demand notes payable issued	-	-	-	105,580
Issuance of capital Stock	3,707,339	29,328,480	9,399,256	70,831,979
Cash provided by financing activities	\$3,707,339	\$29,328,480	\$9,399,256	\$70,937,559
Effect of exchange rate changes on cash	492,405	(156,484)	(253,843)	3,782
Change in cash during period	(6,691,264)	14,339,506	3,841,151	14,689,241
Cash at beginning of period	21,380,505	7,040,999	3,199,848	-
Cash at end of period	\$14,689,241	\$21,380,505	\$7,040,999	\$14,689,241

Supplemental Cash Flow Disclosure

Interest Received	\$ 118,870	\$ 35,853	\$-
Cash	\$3,680,403	\$2,723,992	\$180,225
Short-term investments	\$11,008,837	\$18,656,513	\$6,887,139

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

F-6

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Stockholder's Equity (Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

	Shares	Par Value	Capital in Excess of Par Value	Deficit	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at inception	—	\$—	\$—	\$—	\$—	\$—	\$—
Capital issued for financing	104,825,287	104,826	20,277,171	—	—	—	20,381,997
Capital issued for services	4,157,500	4,157	9,477,295	—	—	—	9,481,452
Capital issued for mineral properties	1,178,519	1,179	2,682,617	—	—	—	2,683,796
Capital issued on settlement of notes payable	39,691	39	105,541	—	—	—	105,580
Returned to treasury	(61,660,000)	(61,660)	61,660	—	—	—	—
Fair Value of warrants	—	—	—	—	8,460,682	—	8,460,682
Stock based compensation	—	—	—	—	5,080,263	—	5,080,263
Foreign currency translation	—	—	—	—	—	(19,977)	(19,977)
Net Income (loss)	—	—	—	(35,956,085)	—	—	(35,956,085)
Balance at June 30, 2008	48,540,997	\$ 48,541	\$ 32,604,284	\$ (35,956,085)	\$ 13,540,945	\$ (19,977)	\$ 10,217,708
Capital issued for financing	16,707,791	16,707	5,828,684	—	—	—	5,845,391
Capital issued for services	1,184,804	1,185	683,437	—	—	—	684,622
Capital issued from stock options and warrants exercised	384,627	385	249,623	—	(237,008)	—	13,000
Capital issued for mineral	16,200,000	16,200	13,140,250	—	—	—	13,156,450

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-K

properties							
Stock based compensation	—	—	—	—	3,612,864	—	3,612,864
Transition Adjustment (Note 2)	—	—	—	—	1,052,709	—	1,052,709
Foreign currency translation	—	—	—	—	—	(267,215)	(267,215)
Net Income (loss)	—	—	—	(7,241,179)	—	—	(7,241,179)
Balance at June 30, 2009	83,018,219	\$ 83,018	\$ 52,506,278	\$ (43,197,264)	\$ 17,969,510	\$ (287,192)	\$ 27,074,350
Capital issued for financing	18,400,000	18,400	21,371,043	—	—	—	21,389,443
Capital issued from stock options and warrants exercised	8,351,360	8,351	16,361,552	—	(3,841,264)	—	12,528,639
Capital issued for mineral properties	300,000	300	374,700	—	—	—	375,000
Stock based compensation	—	—	—	—	309,840	—	309,840
Transition Adjustment (Note 2)	—	—	—	(12,637,875)	(3,612,864)	—	(16,250,739)
Foreign currency translation	—	—	—	—	—	(156,483)	(156,483)
Net Income (loss)	—	—	—	(5,351,958)	—	—	(5,351,958)
Balance at June 30, 2010	110,069,579	\$ 110,069	\$ 90,613,573	\$ (61,187,098)	\$ 10,825,222	\$ (443,675)	\$ 39,918,091
Capital issued for financing	19,395	19	23,970	—	—	—	23,989
Capital issued from stock options and warrants exercised	4,153,085	4,154	10,219,361	—	(1,053,645)	—	9,169,870
Capital issued for acquisition	22,007,453	22,007	28,807,756	—	314,790	—	29,144,553
Stock based compensation	—	—	—	—	1,200,875	—	1,200,875
Foreign currency translation	—	—	—	—	—	492,405	492,405
Unrealized loss on	—	—	—	—	—	(30,945)	(30,945)

available for
sale securities

Net Income (loss)	—	—	—	(28,450,535)	—	—	(28,450,535)
Balance at June 30, 2011	136,249,512	\$ 136,249	\$ 129,664,660	\$ (89,637,633)	\$ 11,287,242	\$ 17,785	\$ 51,468,303

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

F-7

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

1. Organization and Business Activity:

Paramount Gold and Silver Corp. (“the Company”), incorporated under the General Corporation Law of the State of Delaware, is a natural resource company engaged in the acquisition, exploration and development of gold, silver and precious metal properties. The Company’s wholly owned subsidiaries include Paramount Gold de Mexico S.A. de C.V., Magnetic Resources Ltd, Minera Gama SA de CV, Compania Minera Paramount SAC and X-Cal Resources Ltd. The Company is an exploration stage company in the process of exploring its mineral properties, and has not yet determined whether these properties contain reserves that are economically recoverable.

2. Principal Accounting Policies:

Basis of Presentation

The consolidated financial statements are prepared by management in accordance with U.S generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash and cash equivalents.

Marketable Securities

The Company classifies its marketable securities as available-for-sale securities. The securities are measured at fair market value in the financial statements with unrealized gains or losses recorded in other comprehensive income. At the time securities are sold, gains or losses are included in net income.

Fair Value Measurements

The Company has adopted FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. The company applies fair value accounting for all financial assets and liabilities and non – financial assets and liabilities

that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company has adopted FASB ASC 825, Financial Instruments, which allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. The Company has not elected the fair value option for any eligible financial instruments.

F-8

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Stock Based Compensation

The Company has adopted the provisions of FASB ASC 718, “Stock Compensation” (“ASC 718”), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employees’ requisite service period (generally the vesting period of the equity grant).

Comprehensive Income

FASB ASC 220 “Reporting Comprehensive Income” establishes standards for the reporting and display of comprehensive income and its components in the financial statements.

Long Term Assets

Mineral Properties

Mineral property acquisition costs are capitalized when incurred and will be amortized using the units –of – production method over the estimated life of the reserve following the commencement of production. If a mineral property is subsequently abandoned or impaired, any capitalized costs will be expensed in the period of abandonment or impairment.

Acquisition costs include cash consideration and the fair market value of shares issued on the acquisition of mineral properties.

Exploration Costs

Exploration costs, which include maintenance, development and exploration of mineral claims, are expensed as incurred. When it is determined that a mineral deposit can be economically developed as a result of establishing proven and probable reserves, the costs incurred after such determination will be capitalized and amortized over their useful lives. To date, the Company has not established the commercial feasibility of its exploration prospects; therefore, all exploration costs are being expensed.

Fixed Assets

Equipment is recorded at cost less accumulated depreciation. All equipment is amortized over its estimated useful life at the following annual rates, with half the rate being applied in the period of acquisition:

Computer equipment	30% declining balance
--------------------	-----------------------

Equipment	20% declining balance
Furniture and fixtures	20% declining balance
Exploration equipment	20% declining balance

F-9

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Income Taxes

Income taxes are determined using assets and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted FASB ASC 740 as of its inception. Pursuant to FASB ASC 740 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future periods; and accordingly is offset by a valuation allowance. FIN No.48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken into in tax returns.

To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts would be accrued and classified as a component of income tax expense in our Consolidated Statements of Operations. The Company elected this accounting policy, which is a continuation of our historical policy, in connection with our adoption of FIN 48.

Foreign Currency Translation

The parent company's functional currency is the United States dollar. The consolidated financial statements of the Company are translated to United States dollars in accordance with FASB ASC 830 "Foreign Currency Translation" ("ASC 830"). Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the consolidated balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Mexican pesos and Canadian Dollars. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

The functional currencies of the Company's wholly-owned subsidiaries are the U.S. Dollar and the Canadian Dollar. The financial statements of the subsidiaries are translated to United States dollars in accordance with ASC 830 using period-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Foreign currency transaction gains and losses are included in the statement of operations.

Asset Retirement Obligation

The Company has adopted ASC 410-20 “Accounting for Asset Retirement Obligations”, which requires that an asset retirement obligation (“ARO”) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO, is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense is recognizable over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash flows, discounted at the Company’s credit-adjusted-risk-free interest rate.

F-10

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Environmental Protection and Reclamation Costs

The operations of the Company have been, and may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company may vary from region to region and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against statements of operations as incurred or capitalized and amortized depending upon their future economic benefits.

Loss per Share

The Company computes net income (loss) per share in accordance with FASB ASC 260, "Earnings per Share". FASB ASC 260 requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during the period using the treasury stock method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

Concentration of Credit and Foreign Exchange Rate Risk

Financial instruments that potentially subject the Company to credit and foreign exchange risk consist principally of cash, deposited with a high quality credit institution, amounts receivable, mainly representing value added tax recoverable from a foreign government and marketable securities. Management does not believe that the Company is subject to significant credit or foreign exchange risk from these financial instruments.

Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization with the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are

observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs that are both significant to the fair value measurement and unobservable.

F-11

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Fair Value Measurements (Continued):

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy.

Assets	Total \$	Fair Value at June 30, 2011			June 30, 2010
		Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash equivalents	14,689,241	14,689,241	-	-	21,380,505
Accounts receivable	-1,625,724	-1,625,724	-	-	1,511,619
Loan advance	--	--	-	-	243,495
Equity conversion right	-	-	-	-	516,545
Marketable securities	319,219	319,219	-	-	-
Liabilities					
Warrant liability	16,914,660	-	-	16,914,660	5,979,767

The Company's cash equivalents and GIC are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash equivalents that are valued based on quoted market prices in active markets are primarily comprised of commercial paper, short-term certificates of deposit and U.S. Treasury securities. The accounts receivable represent amounts due from a national government regarding refund of taxes.

The Equity Conversion Right was accounted for as an asset and is classified within Level 1 because the underlying security has a published and observable market. The Company uses the published closing stock price of the underlying security at the end of the financial reporting period to determine the fair value of the asset. The change in fair value has been recorded in the statement of operations as a loss (gain). During the year ended June 30, 2011, the company exercised its conversion right and received common shares in the underlying company.

The changes in fair value of the Equity Conversion Right during the year ended June 30, 2011 was as follows:

Balance at June 30, 2010	\$516,545
Loss in fair value recorded in earnings	(169,081)
Value of right at conversion	(347,464)
Balance at June 30, 2011	\$-

The estimated fair value of warrants and options accounted for as liabilities was determined on the date of closing and marked to market at each financial reporting period. The change in fair value of the warrants is recorded in the statement of operations as a gain (loss) and is estimated using the Black-Scholes option-pricing model with the

following inputs:

	June 30, 2011
Risk free interest rate	0.19 %
Expected life of warrants and options	1-2 years
Expected stock price volatility	72 %
Expected dividend yield	0 %

F-12

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

The changes in fair value of the warrants during the year ended June 30, 2011 were as follows:

Balance at July 1, 2010	\$5,979,767
Issuance of warrants and options	-
Change in fair value recorded in earnings	16,421,412
Transferred to equity upon exercise	(5,486,519)
Balance at June 30, 2011	\$ 16,914,660

The Company applies ASC 820-10-65 to determine fair value measurements for assets or liabilities when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The adoption of FASB ASC 820-10-65 had no impact on the company's consolidated operating results, financial position, or cash flows.

Derivatives

The Company accounts for its derivative instruments not indexed to our stock as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges must be adjusted to fair value through earnings.

Warrants and options issued in prior periods with exercise prices denominated in Canadian dollars are no longer considered indexed to our stock, as their exercise price is not in the Company's functional currency of the US dollar, and therefore no longer qualify for the scope exception and must be accounted for as a derivative. These warrants and options are reclassified as liabilities under the caption "Warrant liability" and recorded at estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in the liability from period to period are recorded in the Statements of Operations under the caption "Change in fair value of warrant liability." On July 1, 2010, the Company recorded a cumulative effect adjustment based on the grant date fair value of warrants issued during the year ended June 30, 2009 that were outstanding at July 1, 2009 and the change in fair value of the warrant liability from the issuance date through to July 1, 2009.

The Company elected to record the change in fair value of the warrant liability as a component of other income and expense on the statement of operations as we believe the amounts recorded relate to financing activities and not as a result of our operations.

The Company recorded the following cumulative effect of change in accounting principal pursuant to its adoption of the amendment as of July 1, 2009:

	Contributed surplus	Warrant liability	Accumulated deficit
Grant date fair value of previously issued warrants outstanding as of July 1, 2009	3,612,865	(3,612,865)	—

Change in fair value of previously issued warrants outstanding as of July 1, 2009	—	(12,637,875)	12,637,875
Cumulative effect of change in accounting principal	3,612,865	(16,250,740)	12,637,875

In addition, a gain related to the change in fair value of the warrant liability of \$5,681,370 was recorded on the Consolidated Statements of Operations for the year ended June 30, 2010 and a loss of \$16,421,412 for the year ending June 30, 2011.

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Business Combinations

In December 2007, the FASB issued FASB ASC 805 (revised 2007), "Business Combinations" ("ASC 805"). ASC 805 significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre acquisition contingencies, transaction costs, in-process research and development, and restructuring costs. In addition, under ASC 805, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. ASC 805 is effective for fiscal periods beginning after December 15, 2008. The Company has adopted ASC 805 on July 1, 2009. This standard will change the accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued ASC 810, "No controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51" ("ASC 810"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. ASC 810 is effective for fiscal periods beginning after December 15, 2008. The Company has adopted ASC 810 on July 1, 2009. Adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

Accounting Standards Codification

In July 2009, the FASB issued ASC 105-20-05, "FASB Accounting Standards Codification" ("ASC 105-10-05"), as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in ASC 105-10-05. All other accounting literature not included in the Codification is non-authoritative.

Financial Guarantee Insurance Contracts

In May 2008, the FASB issued ASC 460, "Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60." ASC 460 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. ASC 460 will be effective for financial statements issued for fiscal years beginning after

December 15, 2008. Adoption of this standard did not have an impact on the Company's results of operations, financial position, or cash flows.

F-14

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies (Continued):

Subsequent Events

The Company discloses the date through which it has evaluated subsequent events. Subsequent events are evaluated through the date the financial statements are issued.

Convertible Debt Instruments

In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP 14-1"). FSP 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FASB Statement No. 133. Convertible debt instruments within the scope of FSP 14-1 are not addressed by the existing APB 14. FSP 14-1 would require that the liability and equity components of convertible debt instruments within the scope of FSP 14-1 be separately accounted for in a manner that reflects the entity's nonconvertible debt borrowing rate. This will require an allocation of the convertible debt proceeds between the liability component and the embedded conversion option (i.e., the equity component). The difference between the principal amount of the debt and the amount of the proceeds allocated to the liability component would be reported as a debt discount and subsequently amortized to earnings over the instrument's expected life using the effective interest method. FSP APB 14-1 is effective for the Company's fiscal year beginning July 1, 2009 and will be applied retrospectively to all periods presented. Adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

3. Recent Accounting Pronouncements Adopted:

i) ASC 860

In June 2009, the FASB issued ASC 860, Accounting for Transfers of Financial Assets—an amendment of FASB Statement (ASC 860). ASC 860 is intended to establish standards of financial reporting for the transfer of assets to improve the relevance, representational faithfulness, and comparability. ASC 860 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. The Company will adopt ASC 860 on July 1, 2010. The Company has determined that the adoption of ASC 860 will have no impact on its consolidated financial statements.

ii) ASC 810

In June 2009, the FASB issued ASC 810, Amendments to FASB Interpretation No. 46(R) (ASC 810). ASC 810 eliminates the exception to consolidate a qualifying special-purpose entity, changes the approach to determining the primary beneficiary of a variable interest entity, and requires companies to more frequently re-assess whether they must consolidate variable interest entities. Under the new guidance, the primary beneficiary of a variable interest

entity is identified qualitatively as the enterprise that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. ASC 810 becomes effective for the Company's fiscal 2011 year-end and interim reporting periods thereafter. The Company does not expect ASC 810 to have a material impact on its financial statements.

iii) ASU 2010-29

In December 2010, the Financial Accounting Standards Board (FASB) issued additional Accounting Standards Update (ASU) 2010-29 on interim and annual disclosure of pro forma financial information related to business combinations. The new guidance clarifies the acquisition date that should be used for reporting the pro forma financial information in which comparative financial statements are presented. It is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

F-15

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

iv) ASU 2011-6

In January 2010, the FASB issued guidance regarding fair value: 1) adding new requirements for disclosures about transfers into and out of Levels 1 and 2 measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements, and 2) clarifying existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The guidance also required that disclosures about postretirement benefit plan assets be provided by classes of assets instead of by major categories of assets. The guidance is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide Level 3 activity, which was effective for fiscal years beginning after December 15, 2010. The Company has adopted this guidance, which did not have any effect on its results of operations, financial position and cash flows.

4. Non-Cash Transactions:

During the years ended June 30, 2011, 2010 and 2009, the Company entered into certain non-cash activities as follows:

	2011	2010	2009
Operating and Financing Activities			
From issuance of shares for consulting and geological services	\$-	\$-	\$684,617
From issuance of shares for acquisitions	\$28,829,763	\$-	\$-
From issuance of shares for cashless exercise of options	\$1,016,273	\$1,596,896	\$237,008
From issuance of shares for mineral property	\$-	\$375,000	\$13,228,450

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

5. Capital Stock:

a) Share issuances

Authorized capital stock consists of 200,000,000 common shares with par value of \$0.001 each.

During year ended June 30, 2011, the Company issued a total of 26,179,931 common shares which are summarized as follows:

	Common Shares		
	2011	2010	2009
Financing	19,395	18,400,000	16,707,791
For acquisition of companies	22,007,453	-	-
Acquisition of mineral properties	-	300,000	16,200,000
For exercise of warrants and options	4,153,083	8,351,360	-
For services	-	-	1,184,804
	26,179,931	27,051,360	34,092,595

During the three month period ended June 30, 2011, the Company issued 47,500 shares for the exercise of options at \$1.68 to \$2.94. The Company completed a financing during the quarter ending June 30, 2011 and issued 19,395 common shares at \$3.61 per share.

During the three month period ended March 31, 2011, the Company issued 840,000 shares for the exercise of warrants at \$1.05 CAD per share and 1,723,643 shares for the exercise of options at \$0.65 to \$2.94.

During the three month period ended December 31, 2010, the Company issued 1,300,000 shares for the exercise of warrants at \$1.05 CAD per share and 71,250 shares for the exercise of options at \$0.84 to \$1.68.

During the three month period ended September 30, 2010, the Company issued 22,007,453 shares in exchange for all the outstanding and issued shares of X-Cal Resources Ltd. The Company also issued 170,690 common shares pursuant to the cashless exercise of 300,000 options at an exercise price of \$0.65.

b) Warrants:

The following share purchase warrants were outstanding at June 30, 2011:

	Exercise price in CAD	Exercise price in USD at June 30, 2011	Number of warrants	Remaining contractual life (years)
Warrants *	\$ 1.05	\$ 1.09	7,700,000	1.72
			7,700,000	

Outstanding and exercisable at June 30,
2011

* Strike price of warrant contract in Canadian dollars. At June 30, 2011 \$1.00 CAD = \$1.04 USD.

	June 30, 2011		June 30, 2010	
Risk free interest rate	0.19	%	0.61	%
Expected life of warrants	1 year		1-2 years	
Expected stock price volatility	72	%	85	%
Expected dividend yield	0	%	0	%

F-17

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

5. Capital Stock (Continued):

c) Stock options:

On August 23, 2007, the board and stockholders approved the 2007/2008 Stock Incentive & Compensation Plan thereby reserving an additional 4,000,000 common shares for issuance to employees, directors and consultants.

On February 24, 2009 the stockholders approved the 2008/2009 Stock Incentive & Equity Compensation Plan thereby reserving an additional 3,000,000 common shares for future issuance. The stockholders also approved the re-pricing of the exercise price of all outstanding stock options to \$0.65 per share.

Stock Based Compensation

The Company uses the Black-Scholes option valuation model to value stock options granted. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following assumptions were used:

	June 30, 2011		June 30, 2010	
Risk free interest rate	0.43	%	.046%	-
Expected dividend yield	0	%	0	%
Expected stock price volatility	62%-87	%	87%-120	%
Expected life of options	2 years		3 years	

Changes in the Company's stock options for the year ended June 30, 2011 are summarized below:

Options	Number	Weighted Avg. Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, beginning of period	2,785,000	\$ 0.91	2.4	1,261,750
Issued	1,999,375	2.09		
Cancelled / Expired	(200,000)	1.75		
Exercised	(2,423,255)	1.08		
Outstanding at June 30, 2011	2,161,120	1.74	2.08	3,280,911
Exercisable at June 30, 2011	1,931,121	1.62	1.88	3,161,312

At June 30, 2011, there were 2,161,120 options outstanding. Options outstanding above that have not been vested at period end are 229,999 which have a maximum service term of 1- 4 years. The vesting of these options is dependent on market conditions which have yet to be met.

For the year ended June 30, 2011 the Company recognized stock based compensation expense in the amount of \$1,200,875 (2010 - \$309,840, 2009 - \$1,733,052)

F-18

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

6. Related Party Transactions:

During the year ended June 30, 2011, directors received cash payments in the amount of \$215,000 (2010 -\$144,758, 2009 - \$289,756) for their services as directors or members of committees of the Company's Board. During the year ended June 30, 2011, the Company also recorded a non-cash transaction to recognize stock based compensation for directors in the amount of \$598,153 (2010 -\$nil, 2009 -\$nil)

During the year ended June 30, 2011 the Company made payments of \$96,080 (2010 - \$91,469, 2009 -\$87,885) pursuant to a premises lease agreement to a corporation in which the CEO is a shareholder.

All transactions with related parties are made in the normal course of operations and measured at exchange value.

7. Mineral Properties:

The Company has capitalized acquisition costs on mineral properties as follows:

	June 30, 2011	June 30, 2010
Iris Royalty	50,000	50,000
Morelos	100,000	100,000
San Miguel Project	21,992,263	21,951,203
Sleeper	24,827,490	-
Mill Creek	2,096,616	-
Spring Valley	385,429	-
Reese River	64,061	-
Peru	-	10,000
	\$ 49,515,859	\$ 22,111,203

For the year ended June 30, 2011, the Company made a payment of \$150,000 towards a previously purchased mineral claim that is part of the Sleeper Gold project. The Company has one payment remaining due December 7, 2011 for \$100,000.

8. Fixed Assets:

	Cost	Accumulated Amortization	Net Book Value	
			2011	2010
Property and Equipment	\$807,933	\$ 320,193	\$487,740	\$519,446

During the year ended June 30, 2011, total additions to property, plant and equipment were \$60,404 (2010- \$64,956) and total disposals of property, plant and equipment were \$18,811(2010- \$nil). During the year ended June 30, 2011 the Company recorded depreciation of \$73,299 (2010-\$66,368).

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

9. Marketable Securities and Investments:

Changes to the Company's marketable securities for the year ending June 30, 2011 are as follow:

Balance at June 30, 2010	\$-
Acquisitions	350,164
Unrealized losses	(30,945)
Balance at June 30, 2011	\$319,219

Pan American Goldfields Ltd.

The Company holds 250,000 shares of common stock of Pan American Goldfields Ltd. (Formerly Mexoro Minerals Ltd.) It has not recorded these shares in its financial statements because the shares as of the date of this report were restricted from sale and the Company cannot determine if there is any net realizable value until the shares have been liquidated.

Garibaldi Resources Corp.

For the year ended June 30, 2011, the Company sold 400,000 shares of common stock of Garibaldi Resources Corp for net proceeds of \$154,590. It recorded the gain as other income in its Consolidated Statements of Operations.

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information:

Segmented information has been compiled based on the geographic regions in which the Company has acquired mineral properties and performs exploration activities.

Loss for the period by geographical segment for the year ended June 30, 2011:

	United States	Mexico / Latin America	Total
Interest income	\$81,265	\$37,605	\$118,870
Other income	178,230	2,603	180,833
Total income	\$259,495	\$40,208	\$299,703
Expenses:			
Exploration	4,516,970	3,467,805	7,984,775
Professional fees	1,280,869	-	1,280,869
Directors compensation	813,154	-	813,154
Travel and lodging	212,999	-	212,999
Corporate communications	260,309	-	260,309
Consulting fees	464,790	-	464,790
Office and administration	297,702	36,086	333,788
Interest and service charges	9,586	3,057	12,643
Insurance	317,457	-	317,457
Amortization	20,161	53,138	73,299
Accretion	119,884	-	119,884
Acquisition Expenses	262,764	-	262,764
Write off of mineral property	-	10,000	10,000
Income and other taxes	13,015	-	13,015
Total Expenses	8,589,660	3,570,086	12,159,746
Net loss before other items	\$8,330,165	\$3,529,878	\$11,860,043
Other item			
Change in fair value of Equity Conversion Right	169,081	-	169,081
Change in fair value of warrant liability	16,421,412	-	16,421,412
Net Loss	\$24,920,658	\$3,529,878	\$28,450,536
Other comprehensive loss			
Foreign Currency Translation Adjustment	(492,405)	-	(492,405)
Unrealized loss on available for sale securities	30,945	-	30,945
Total Comprehensive Loss for the Period	\$24,459,198	\$3,529,878	\$27,989,076

F-21

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information (Continued):

Loss for the period by geographical segment for the year ended June 30, 2010:

	United States	Mexico / Latin America	Total
Interest income	\$35,779	\$74	\$35,853
Other income	-	-	-
Total income	\$35,779	\$74	\$35,853
Expenses:			
Exploration	640,045	5,403,746	6,043,791
Professional fees	930,926	478	931,404
Directors compensation	141,224	-	141,224
Travel and lodging	192,642	-	192,642
Corporate communications	332,139	-	332,139
Consulting fees	418,437	-	418,437
Office and administration	310,371	118,778	429,149
Interest and service charges	53,818	3,826	57,644
Insurance	47,804	-	47,804
Amortization	18,661	47,706	66,367
Acquisition Expenses	1,242,569	-	1,242,569
Miscellaneous	18,124	-	18,124
Write off of mineral property	275,000	-	275,000
Income and other taxes	51,732	-	51,732
Total Expenses	4,673,492	5,574,534	10,248,026
Net loss before other items	\$4,637,713	\$5,574,460	\$10,212,173
Other item			
Change in fair value of Equity Conversion Right	821,155	-	821,155
Change in fair value of warrant liability	(5,681,370)	-	(5,681,370)
Net Loss	\$(222,502)	\$5,574,460	\$5,351,958
Other comprehensive loss			
Foreign Currency Translation Adjustment	156,483	-	156,483
Total Comprehensive Loss for the Period	\$(66,019)	\$5,574,460	\$5,508,441

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information (Continued):

Loss for the period by geographical segment for the year ended June 30, 2009:

	United States	Mexico / Latin America	Total
Interest income	\$ 194,636	\$ 54,446	\$ 249,082
Other income	-	-	-
Total income	\$ 194,636	\$ 54,446	\$ 249,082
Expenses:			
Exploration	960,547	1,412,074	2,372,621
Professional fees	1,217,815	26,977	1,244,792
Travel and lodging	228,920	-	228,920
Corporate communications	803,186	-	803,186
Consulting fees	1,561,084	-	1,561,084
Office and administration	303,941	656,759	960,700
Interest and service charges	17,540	1,447	18,987
Loss on Disposal of Assets	-	44,669	44,669
Insurance	54,493	22,212	76,705
Amortization	45,501	53,509	99,010
Miscellaneous	79,587	-	79,587
Total Expenses	5,272,614	2,217,647	7,490,261
Net Loss	\$5,077,978	\$2,163,201	\$7,241,179
Other comprehensive loss			
Foreign Currency Translation Adjustment	267,215	-	267,215
Total Comprehensive Loss for the Period	\$5,345,193	\$2,163,201	\$7,508,394

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information (Continued):

Assets by geographical segment:

	United States/Canada	Mexico / Latin America	Total
June 30, 2011			
Mineral properties	\$ 27,373,596	\$ 22,142,263	\$ 49,515,859
Equipment	131,683	356,057	487,740
June 30, 2010			
Mineral properties	-	22,111,203	22,111,203
Equipment	\$ 125,825	\$ 393,621	\$ 519,446

11. Reclamation and Environmental

The Company holds an insurance policy related to its Sleeper Gold Project that covers reclamation costs in the event the Company defaults on payments of its reclamation costs up to an aggregate of \$25 million. The insurance premium is being amortized over ten years and the prepaid insurance balance at June, 2011 is \$858,250. As a part of the policy, the Company has funds in a commutation account which is used to reimburse reclamation costs and indemnity claims. The balance of the commutation account at June 30, 2011 is \$2,574,070.

Reclamation and environmental costs are based principally on legal requirements. Management estimates costs associated with reclamation of mineral properties. On an ongoing basis the Company evaluates its estimates and assumptions; however, actual amounts could differ from those based on estimates and assumptions. A liability has been established equal to the present value of the obligation, and the carrying amount of the mineral properties has been increased by the same amount.

Changes to the Company's asset retirement obligations are as follows:

Balance, beginning of the period	\$-
Asset retirement obligations acquired	1,121,150
Accretion expense	119,884
Payments	(97,142)
Balance, end of period	\$1,143,892

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

12. X-Cal Resources Ltd.

On August 23, 2010, the Company acquired all the issued and outstanding shares of common stock of X-Cal Resources Ltd. X-Cal Resources Ltd. is an exploration stage mining company with advanced projects in the state of Nevada. The transaction was structured as a statutory Plan of Arrangement under the Business Corporations Act of British Columbia, Canada. Under the terms of the Plan of Arrangement, X-Cal shareholders received one (1) share of Paramount common stock for every eight (8) common shares of X-Cal.

At the Closing Date, X-Cal Resources Ltd. had 176,059,978 issued and outstanding shares of common stock. Holders of these shares received a total of 22,007,453 shares of Paramount common stock. All options to purchase common shares of X-Cal were terminated prior to the Closing Date, and 1,264,375 options to purchase shares of Paramount common stock were granted to those persons under Paramount's existing stock option plans.

The Company recorded acquisition related costs for the year ending June 30, 2011 of \$262,764.

The amounts of X-Cal Resources Ltd. revenue and Net Loss included in the Company's consolidated income statement for year ending June 30, 2011, and the revenue and earnings of the combined entity had the acquisition date been July 1, 2010, or July 1, 2009, are as follows:

	Revenue	Net Loss (Gain)	Net Loss Per Share
Actual from August 23, 2010 to June 30, 2011	\$ 0	\$ 1,057,417	\$ 0.01
Supplemental pro forma			
For the year ended June 30, 2011	\$ 299,703	\$ 30,056,939	\$ 0.23
Supplemental pro forma			
For year ended June 30, 2010	\$ 80,755	\$ 5,766,456	\$ 0.06

The following is the allocation of cost of acquisition of X-Cal Resources Ltd.:

Shares eligible for conversion	176,059,978
Common stock exchange ratio per share	0.125
Equivalent new shares	22,007,497
Total fractional shares in exchange not issued	(44)
Shares issued	22,007,453
Paramount common stock price on August 20, 2010	1.31
Total preliminary purchase price (common stock)	\$28,829,764
Estimated fair value of options issued	314,790
Total purchase price	\$29,144,554

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

The following represents the allocation of the total purchase price:

Total preliminary purchase consideration	\$29,144,554
Less historical X-Cal net assets acquired:	
Cash and equivalents	843,101
Prepaid insurance	1,040,485
Reclamation bond	2,926,476
Fixed assets	30,604
Mineral property interests	26,405,284
Other assets	85,226
Accounts payable	(1,065,473)
Reclamation and enviromental obligations	(1,121,150)
X-Cal Resources Ltd net assets acquired	\$29,144,554

On acquisition of X-Cal Resources Ltd., the Company acquired deferred tax assets of \$3,759,343. The benefit of these deferred tax assets was offset by a full valuation allowance.

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

13. Income taxes:

At June 30, 2011, the Company has unused tax loss carry forwards in the United States of \$29,501,090 (2010 - \$17,769,298, 2009 - \$12,361,729) expiring between the years 2015 and 2031 which are available to reduce taxable income. As at June 30, 2011 the Company has unused tax loss carry forwards in Canada of \$6,643,964 (2010 - \$nil, 2009 - \$nil) expiring between 2013 and 2031 which are available to reduce taxable income. As at June 30, 2011 the Company has unused tax loss carry forwards in Mexico and Peru of \$29,837,310 (2010 - \$24,633,228, 2009 - \$18,106,804) which are available to reduce taxable income. Losses in Peru are limited in their use to 50% of taxable income in that year. The tax effects of the significant components within the Company's deferred tax asset (liability) at June 30, 2011 are as follows:

	2011	2010	2009
United States			
Loss carry forwards	6,778,756	5,330,789	3,719,009
Other	343,168	(154,964)	-
Mineral properties	1,299,948	-	-
Property, plant and equipment	(25,207)	27	-
Canada			
Loss carry forwards	1,660,991	-	-
Other	7,469	-	-
Property, plant and equipment	63,961	-	-
Mexico			
Loss carry forwards	7,053,872	5,774,229	4,226,860
Property, plant and equipment	76,997	56,134	21,627
Peru			
Loss carry forwards	1,393,473	1,203,263	1,203,263
Valuation allowance	(18,653,428)	(12,209,478)	(9,170,759)
Net deferred tax asset	-	-	-

The income tax expense differs from the amounts computed by applying statutory tax to pre-tax losses as a result of the following:

	2011	2010	2009
Loss before income taxes	(28,450,536)	(5,351,958)	(7,241,179)
Statutory tax rate	30 %	30 %	30 %
Expected recovery at statutory tax rate	(8,535,161)	(1,605,587)	(2,172,354)
Adjustments to benefits resulting from:			

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-K

Impact of lower tax rate in subsidiaries	112,345	106,980	24,568
Permanent differences	5,738,202	(1,509,157)	624,269
Terminal loss on disposal of asset	-	-	(28,100)
Valuation allowance	(2,684,577)	3,007,764	1,551,618
Provision for income taxes	-	-	-

F-27

Table of Contents

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Audited)

For the Year Ended June 30, 2011

(Expressed in United States dollars, unless otherwise stated)

Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

Accounting for uncertainty for Income Tax

Effective July 1, 2009, the Company adopted the interpretation for accounting for uncertainty in income taxes which was an interpretation of the accounting standard accounting for income taxes. This interpretation created a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Effective July 1, 2009, the Company adopted the interpretation for accounting for uncertainty in income taxes which was an interpretation of the accounting standard accounting for income taxes. This interpretation created a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

As at June 30, 2011 and 2010, the Company's consolidated balance sheets did not reflect a liability for uncertain tax positions, nor any accrued penalties or interest associated with income tax uncertainties. The Company is subject to income taxation at the federal and state levels. The Company is subject to US federal tax examinations for the tax years 2008 through 2011. Loss carryforwards generated or utilized in years earlier than 2008 are also subject to examination and adjustment. The Company has no income tax examinations in process.

14. Subsequent Events:

Subsequent events have identified as of August 30, 2011.

On August 22, 2011, the Company entered into an agreement to purchase mining claims in northwestern Nevada in exchange for 400,000 shares of its common stock. The seller of the mineral claims retains a net smelter royalty of 1.5% on the portion of claims no subject to other royalties and a net smelter royalty of 0.5% on the portion already subject to a 2.0% royalty held by a third party. Closing of this transaction is subject to regulatory approval.