

PARAMOUNT GOLD & SILVER CORP.  
Form 10-Q  
May 08, 2013

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Paramount Gold and Silver Corp.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation)

0-51600  
(Commission  
File Number)

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

665 Anderson Street, Winnemucca, Nevada 89445  
(Address of Principal Executive Office) (Zip Code)

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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

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: 155,531,068 shares of Common Stock, \$.001 par value as of May 3, 2013.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 contains “forward-looking statements”. Generally, the words “believes,” “anticipates,” “may,” “will,” “should,” “expect,” “intend,” “estimate,” “continue,” and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements which include, but are not limited to, statements concerning the Company’s expectations regarding its working capital requirements, financing requirements, business prospects, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Such statements are subject to certain risks and uncertainties, including the matters set forth in this Quarterly Report or other reports or documents the Company files with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected.

These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, economic, political and market conditions and fluctuations, the prevailing market price for gold and silver, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein.

Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

OTHER PERTINENT INFORMATION

When used in this report, the terms “Paramount,” the “Company,” “we,” “our,” and “us” refers to Paramount Gold and Silver Corp., a Delaware corporation.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Financial Statements

(Unaudited)

Period ended March 31, 2013 and 2012

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## PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Balance Sheets

As at March 31, 2013 and June 30, 2012

(Expressed in United States dollars, unless otherwise stated)

|  | As at March 31,<br>2013 | As at June 30,<br>2012 |
|--|-------------------------|------------------------|
| Assets   |                         |                        |
| Current Assets   |                         |                        |
| Cash and cash equivalents  | \$ 14,303,077           | \$ 12,500,708          |
| Short-term investments   | -                       | 7,500,000              |
| Amounts receivable   | 1,371,889               | 1,458,365              |
| Prepaid and deposits   | 356,602                 | 354,667                |
| Investments- available-for-sale securities (Note 3)  | 2,640,000               | -                      |
| Prepaid insurance, current portion (Note 11)   | 245,215                 | 245,215                |
| <b>Total Current Assets</b>  | <b>18,916,783</b>       | <b>22,058,955</b>      |
| Non-Current Assets   |                         |                        |
| Mineral properties (Note 8)  | 51,875,798              | 50,479,859             |
| Property and equipment (Note 9)  | 439,396                 | 458,937                |
| Prepaid insurance, non current portion (Note 11)   | 183,910                 | 367,822                |
| Reclamation bond (Note 11)   | 2,755,292               | 2,754,316              |
| <b>Total Non-Current Assets</b>  | <b>55,254,396</b>       | <b>54,060,934</b>      |
| <b>Total Assets</b>  | <b>\$ 74,171,179</b>    | <b>\$ 76,119,889</b>   |
| Liabilities and Stockholders' Equity   |                         |                        |
| Liabilities  |                         |                        |
| Current Liabilities  |                         |                        |
| Accounts payable and accrued liabilities   | \$ 684,871              | \$ 1,364,419           |
| Warrant liability (Note 4)   | -                       | 10,746,787             |
| <b>Total Current Liabilities</b>   | <b>684,871</b>          | <b>12,111,206</b>      |
| Non-Current Liabilities  |                         |                        |
| Reclamation and environmental obligation (Note 11)   | 1,259,661               | 1,198,179              |
| <b>Total Liabilities</b>   | <b>\$ 1,944,532</b>     | <b>\$ 13,309,385</b>   |
| Stockholders' Equity   |                         |                        |
| Capital Stock, par value \$0.001 per share; authorized 200,000,000 shares,<br>155,531,068 issued and outstanding at March 31, 2013 and 147,412,603 shares<br>issued and outstanding at June 30, 2012 | 155,532                 | 147,413                |
| Additional paid in capital   | 168,337,535             | 151,564,888            |
| Contributed surplus  | 12,872,935              | 12,892,174             |
| Deficit accumulated during the exploration stage   | (104,310,346 )          | (101,729,241 )         |
| Accumulated other comprehensive income (loss)  | (4,829,009 )            | (64,730 )              |

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|  |               |              |
|--|---------------|--------------|
| Total Stockholders' Equity                 | 72,226,647    | 62,810,504   |
| Total Liabilities and Stockholders' Equity |               |              |
| Subsequent Events (Note 12)                | \$ 74,171,179 | \$76,119,889 |

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

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## PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

For the Three and Nine Month Period Ended March 31, 2013 and 2012

(Expressed in United States dollars, unless otherwise stated)

|   | For the Three<br>Month Period<br>Ended March<br>31,<br>2013 | For the Nine<br>Month Period<br>Ended March<br>31,<br>2013 | For the Three<br>Month Period<br>Ended March<br>31,<br>2012 | For the Nine<br>Month Period<br>Ended March<br>31,<br>2012 | Cumulative<br>Since<br>Inception to<br>March<br>31 2013 |
|---|---|--|---|--|---|
| <b>Revenue</b>                                  |   |  |   |  |   |
| Interest income                                 | \$ 8,000  | \$ 40,645  | \$ 6,297  | \$ 23,237  | \$ 1,220,137  |
| Gain on sale of mineral property                | -   | 7,361,233  | -   | -  | 7,361,233   |
| Other income                                    | -   | 61,530   | -   | 73,130   | 315,493   |
| <b>Total Revenue</b>                            | <b>\$ 8,000</b>   | <b>\$ 7,463,408</b>  | <b>\$ 6,297</b>   | <b>\$ 96,367</b>   | <b>\$ 8,896,863</b>                                     |
| <b>Expenses:</b>                                |   |  |   |  |   |
| Incorporation costs                             | -   | -  | -   | -  | 1,773   |
| Exploration                                     | 3,028,463   | 9,827,297  | 3,046,194   | 9,850,449  | 55,036,710  |
| Professional fees                               | 206,388   | 867,249  | 265,380   | 874,308  | 9,540,053   |
| Directors compensation                          | 136,924   | 341,527  | 948,312   | 1,172,080  | 2,652,956   |
| Travel & lodging                                | 79,397  | 184,441  | 53,997  | 162,850  | 1,671,393   |
| Corporate communications                        | 160,641   | 267,819  | 146,822   | 314,266  | 4,085,608   |
| Consulting fees                                 | 54,525  | 246,268  | 116,975   | 373,605  | 14,990,965  |
| Office & administration                         | 79,184  | 348,130  | 121,706   | 332,103  | 3,489,525   |
| Interest & service charges                      | 2,787   | 9,264  | 3,062   | 7,498  | 129,397   |
| Loss on disposal of fixed assets                | -   | -  | -   | -  | 44,669  |
| Insurance                                       | 107,634   | 285,827  | 81,409  | 237,387  | 1,202,933   |
| Depreciation                                    | 15,367  | 48,498   | 19,547  | 58,985   | 495,231   |
| Accretion                                       | 41,936  | 125,808  | 38,426  | 115,278  | 399,396   |
| Miscellaneous                                   | -   | -  | -   | -  | 203,097   |
| Financing & listing fees                        | -   | -  | -   | -  | (22,024 )   |
| Acquisition expenses                            | -   | -  | -   | -  | 1,505,334   |
| Income and other taxes                          | -   | -  | -   | -  | 64,747  |
| Write down of mineral property                  | -   | -  | 100,000   | 100,000  | 1,856,049   |
| <b>Total Expenses</b>                           | <b>3,913,246</b>  | <b>12,552,128</b>  | <b>4,941,830</b>  | <b>13,598,809</b>  | <b>97,347,812</b>                                       |
| <b>Net Loss before other items</b>              | <b>\$ 3,905,246</b>   | <b>\$ 5,088,720</b>  | <b>\$ 4,935,533</b>   | <b>\$ 13,502,442</b>                                       | <b>\$ 88,450,949</b>                                    |
| <b>Other items</b>                              |   |  |   |  |   |
| Change in fair value of equity conversion right | -   | -  | -   | -  | 990,236   |
| Change in fair value of warrant liability       | (1,504,439 )  | (2,507,615 )   | 228,312   | (7,059,807 )   | 14,702,429  |
| Loss on sale of marketable securities           | -   | -  | 162,603   | 166,732  | 166,732   |
| <b>Net Loss</b>                                 | <b>\$ 2,400,807</b>   | <b>\$ 2,581,105</b>  | <b>\$ 5,326,448</b>   | <b>\$ 6,609,367</b>  | <b>\$ 104,310,346</b>                                   |



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|   |                     |                     |                     |                     |                       |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Other comprehensive loss (gain)   |                     |                     |                     |                     |                       |
| Foreign currency translation adjustment                                 | (23,491 )           | (35,721 )           | 59,217              | 120,343             | 29,009                |
| Unrealized loss on available-for-sale-investments                       | 1,860,000           | 4,800,000           | -                   | -                   | 4,800,000             |
| <b>Total Comprehensive Loss for the Period</b>                          | <b>\$ 4,237,316</b> | <b>\$ 7,345,384</b> | <b>\$ 5,385,665</b> | <b>\$ 6,729,710</b> | <b>\$ 109,139,355</b> |
| Loss (Gain) per Common share  |                     |                     |                     |                     |                       |
| Basic   | \$ 0.02             | \$ 0.02             | 0.04                | \$ 0.05             |                       |
| Diluted   | \$ 0.02             | \$ 0.02             | 0.04                | \$ 0.05             |                       |
| Weighted Average Number of Common Shares Used in Per Share Calculations |                     |                     |                     |                     |                       |
| Basic   |                     |                     |                     |                     |                       |
| Diluted   | 149,085,869         | 149,064,418         | 136,970,327         | 136,799,824         | 136,809,006           |

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

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## PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Statements of Cash Flows

For the Nine Month Period Ended March 31, 2013 and 2012

(Expressed in United States dollars, unless otherwise stated)

|   | For the Nine Month<br>Period Ended<br>March 31,<br>2013 | For the Nine Month<br>Period Ended<br>March 31,<br>2012 | Cumulative Since<br>Inception to March<br>31,<br>2013 |
|---|---|---|---|
| Net Gain (Loss)                                 | \$ (2,581,105 )   | \$ (6,609,367 )   | \$ (104,310,346 )                                     |
| Adjustment for:                                 |   |   |   |
| Depreciation                                    | 48,498  | 58,985  | 495,231   |
| Loss on disposal of assets                      | -   | -   | 44,669  |
| Stock based compensation                        | 379,735   | 1,511,822   | 19,956,858  |
| Accrued interest                                | -   | -   | (58,875 )   |
| Write-down of mineral properties                | -   | 100,000   | 1,856,049   |
| Accretion expense                               | 125,808   | 115,278   | 399,396   |
| Change in reclamation                           | (2,308 )  | (4,555 )  | 55,971  |
| Insurance expense                               | 183,912   | 183,911   | 611,360   |
| Other non cash transactions                     | (7,361,233 )  | 205,474   | (7,156,658 )  |
| Change in fair value of equity conversion right | -   | -   | 990,236   |
| Change in fair value of warrant liability       | (2,507,615 )  | (7,059,807 )  | 14,702,429  |
| (Increase) Decrease in accounts receivable      | 86,476  | 10,239  | (1,288,463 )  |
| (Increase) Decrease in prepaid expenses         | (1,935 )  | (307,321 )  | (356,602 )  |
| Increase (Decrease) in accounts payable         | (679,548 )  | 1,507,237   | (1,198,912 )  |
| Cash used in operating activities               | \$ (12,309,315 )  | \$ (10,288,104 )  | \$ (75,257,657 )                                      |
| Sale (purchase) of marketable securities        | -   | 144,690   | 144,690   |
| Increase of reclamation bond                    | (62,994 )   | (82,678 )   | (145,672 )  |
| Sale (purchase) of GIC receivable               | 7,500,000   | -   | 58,875  |
| Notes receivable issued                         | -   | -   | 21,365  |
| Purchase of equity conversion right             | -   | -   | (1,337,700 )  |
| Purchase of mineral properties                  | (1,460,000 )  | (100,000 )  | (8,669,870 )  |
| Sale of mineral properties                      | (14,706 )   | -   | (14,706 )   |
| Cash acquired on acquisition of X-Cal           | -   | -   | 843,101   |
| Purchase of equipment                           | (28,957 )   | (36,218 )   | (979,171 )  |
| Cash provided by (used in) investing activities | \$ 5,933,343  | \$ (74,206 )  | \$ (10,079,088 )                                      |
| Demand notes payable issued                     | -   | -   | 105,580   |
| Issuance of capital Stock                       | 8,142,620   | 11,936,020  | 99,608,199  |
| Cash provided by financing activities           | \$ 8,142,620  | \$ 11,936,020   | \$ 99,713,779   |
| Effect of exchange rate changes on cash         | 35,721  | (120,343 )  | (73,957 )   |
| Change in cash during period                    | 1,802,369   | 1,453,367   | 14,303,077  |

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|  |               |               |               |
|--|---------------|---------------|---------------|
| Cash at beginning of period              | 12,500,708    | 14,689,241    | -             |
| Cash at end of period                    | \$ 14,303,077 | \$ 16,142,608 | \$ 14,303,077 |
| <b>Supplemental Cash Flow Disclosure</b> |               |               |               |
| Cash                                     | \$ 1,696,862  | \$ 13,584,103 |               |
| Cash Equivalents                         | \$ 12,606,215 | \$ 2,558,505  |               |

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

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## PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Statements of Shareholders' Equity

From Inception to the Nine Month Period Ended March 31, 2013

(Expressed in United States dollars, unless otherwise stated)

|  | Shares        | Par Value | Additional Paid in Capital | Deficit Accumulated During Exploration Stage | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Total Stockholders Equity |
|--|---------------|-----------|----------------------------|--|---------------------|---|---------------------------|
| Balance at inception                                     | —             | \$—       | \$—                        | \$—  | \$—                 | \$—   | \$—                       |
| Capital issued for financing                             | 121,533,078   | 121,533   | 26,105,855                 | —  | —                   | —   | 26,227,388                |
| Capital issued for services                              | 5,342,304     | 5,342     | 10,160,732                 | —  | —                   | —   | 10,166,074                |
| Capital issued from stock options and warrants exercised | 384,627       | 385       | 249,623                    | —  | (237,008 )          | —   | 13,000                    |
| Capital issued for mineral properties                    | 17,378,519    | 17,379    | 15,822,867                 | —  | —                   | —   | 15,840,246                |
| 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                                   | —             | —         | —                          | —  | 12,073,546          | —   | 12,073,546                |
| Stock based compensation                                 | —             | —         | —                          | —  | 6,132,972           | —   | 6,132,972                 |
| Foreign currency translation                             | —             | —         | —                          | —  | —                   | (287,192 )                                    | (287,192 )                |
| Net Income (loss)  | —             | —         | —                          | (43,197,264 )                                | —                   | —   | (43,197,264 )             |
| 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           | 8,351,360     | 8,351     | 16,361,552                 | —  | (3,841,264 )        | —   | 12,528,639                |

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|  |             |            |                |                 |               |              |               |
|--|-------------|------------|----------------|-----------------|---------------|--------------|---------------|
| exercised  |             |            |                |                 |               |              |               |
| 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  | \$(61,187,097 ) | \$ 10,825,222 | \$(443,675 ) | \$ 39,918,092 |
| 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 available for sale securities         | —           | —          | —              | —               | —             | (30,945 )    | (30,945 )     |
| Net Income (loss)  | —           | —          | —              | (28,450,536 )   | —             | —            | (28,450,536 ) |
| 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 condensed consolidated interim financial statements

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## PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Condensed Consolidated Interim Statements of Shareholders' Equity

From Inception to the Nine Month Period Ended March 31, 2013

(Expressed in United States dollars, unless otherwise stated)

|  | Shares      | Par Value | Additional Paid in Capital | Deficit Accumulated During Exploration Stage | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Total Stockholders Equity |
|--|-------------|-----------|----------------------------|--|---------------------|---|---------------------------|
| Capital issued for financing                             | —           | —         | —                          | —  | —                   | —   | —                         |
| Capital issued for financing                             | 10,417,776  | 10,418    | 20,335,755                 | —  | —                   | —   | 20,346,173                |
| Capital issued from stock options and warrants exercised | 345,315     | 346       | 600,873                    | —  | (313,792 )          | —   | 287,427                   |
| Capital issued for mineral properties                    | 400,000     | 400       | 963,600                    | —  | —                   | —   | 964,000                   |
| Stock based compensation                                 | —           | —         | —                          | —  | 1,918,724           | —   | 1,918,724                 |
| Foreign currency translation                             | —           | —         | —                          | —  | —                   | (113,460 )                                    | (113,460 )                |
| Unrealized loss on available for sale securities         | —           | —         | —                          | —  | —                   | 30,945  | 30,945                    |
| Net Income (loss)  | —           | —         | —                          | (12,091,608 )                                | —                   | —   | (12,091,608)              |
| Balance at June 30, 2012                                 | 147,412,603 | \$147,413 | \$151,564,888              | \$(101,729,241)                              | \$12,892,174        | \$(64,730 )                                   | \$62,810,504              |
| Capital issued from stock options and warrants exercised | 133,581     | 134       | 269,478                    | —  | (217,612 )          | —   | 52,000                    |
| Stock based compensation                                 | —           | —         | —                          | —  | 266,039             | —   | 266,039                   |
| Foreign currency translation                             | —           | —         | —                          | —  | —                   | 27,287  | 27,287                    |
| Net Income (loss)  | —           | —         | —                          | (5,859,463 )                                 | —                   | —   | (5,859,463 )              |

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|  |             |            |                |                 |               |               |               |
|--|-------------|------------|----------------|-----------------|---------------|---------------|---------------|
| Balance at September 30, 2012                            | 147,546,184 | \$ 147,547 | \$ 151,834,366 | \$(107,588,704) | \$ 12,940,601 | \$(37,443 )   | \$ 57,296,367 |
| Stock based compensation                                 | —           | —          | —              | —               | 23,372        | —             | 23,372        |
| Foreign currency translation                             | —           | —          | —              | —               | —             | (15,057 )     | (15,057 )     |
| Unrealized loss on available for sale investments        | —           | —          | —              | —               | —             | (2,940,000)   | (2,940,000 )  |
| Net Income (loss)  | —           | —          | —              | 5,679,165       | —             | —             | 5,679,165     |
| Balance at December 31, 2012                             | 147,546,184 | \$ 147,547 | \$ 151,834,366 | \$(101,909,539) | \$ 12,963,973 | \$(2,992,500) | \$ 60,043,847 |
| Capital issued from stock options and warrants exercised | 7,984,884   | 7,985      | 16,503,169     | —               | (181,362 )    | —             | 16,329,792    |
| Stock based compensation                                 | —           | —          | —              | —               | 90,324        | —             | 90,324        |
| Foreign currency translation                             | —           | —          | —              | —               | —             | 23,491        | 23,491        |
| Unrealized loss on available for sale investments        | —           | —          | —              | —               | —             | (1,860,000)   | (1,860,000 )  |
| Net Income (loss)  | —           | —          | —              | (2,400,807 )    | —             | —             | (2,400,807 )  |
| Balance at March 31, 2013                                | 155,531,068 | \$ 155,532 | \$ 168,337,535 | \$(104,310,346) | \$ 12,872,935 | \$(4,829,009) | \$ 72,226,647 |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Condensed Consolidated Interim Financial Statements

For the Nine Month Period Ended March 31, 2013

(Expressed in United States dollars, unless otherwise stated)

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1. Principal Accounting Policies:

Paramount Gold and Silver Corp. (the “Company”), incorporated under the General Corporation Law of the State of Delaware, and its wholly-owned subsidiaries are engaged in the acquisition, exploration and development of 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, and X-Cal Resources Ltd. The Company is an exploration stage mining company operating in both the United States and Mexico, and has not yet determined whether its properties contain reserves that are economically recoverable.

Basis of Presentation and Preparation

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. In the opinion of management, all of the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future years.

These interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States and, with the exception of new accounting pronouncements described in Note 2, follow the same accounting policies and methods of their application as the most recent annual financial statements. 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. These interim financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Annual Report on Form 10-K of Paramount Gold and Silver Corp. for the year ended June 30, 2012.

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 employee’s requisite service period (generally the vesting period of the equity grant). New shares of the Company’s Common Stock will be issued for any options exercised or awards granted.

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.

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1. Principle Accounting Policies (Continued):

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."

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.

Net Income per Share

Basic earnings per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during each period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Concentration of Credit Risk and Amounts Receivable

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and amounts receivable. We deposit our cash with financial institutions which we believe have sufficient credit quality to minimize risk of loss.

Impuesto al Valor Agregado taxes (IVA) are recoverable value-added taxes charged by the Mexican government on goods sold and services rendered at a rate of 16%. Under certain circumstances, these taxes are recoverable by filing a tax return and as determined by the Mexican taxing authority. Each period, receivables are reviewed for collectability. When a receivable is determined to not be collectable we allow for the receivable until we are either assured of collection or assured that a write-off is necessary. Allowances in association with our receivable from IVA from our Mexico subsidiaries is based on our determination that the Mexican government may not allow the complete refund of these taxes. The Company believes that all amounts recorded as a receivable from the Mexican government will be recovered.

Investments- Available-for-Sale Securities

Unrealized gains and temporary losses on investments classified as available for sale are included within accumulated other comprehensive income, net of any related tax effect. Upon realization, such amounts are reclassified from accumulated other comprehensive income to other income, net. Realized gains and losses and other than temporary impairments, if any, are reflected in the statements of operations as other income, net. The Company does not recognize changes in the fair value of its investments in income unless a decline in value is considered other than temporary.

#### Foreign Currency

The parent company's functional currency is the United States dollar. The functional currencies of the Company's wholly-owned subsidiaries are the U.S. Dollar and the Canadian Dollar. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the consolidated balance sheet date. Foreign currency transaction gains and losses are included in the statement of operations and comprehensive loss. The aggregate foreign transaction gain for the nine month period ended March 31, 2013 is \$215,778 (2012- \$10,217 aggregate foreign transaction loss).

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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.

2. Recent Accounting Pronouncements:

i)ASU 2012-03

In August 2012, the FASB issued ASU 2012-03, "Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)" in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on our financial position or results of operations.

ii)ASU 2012-04

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-04, "Technical Corrections and Improvements" in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial position or results of operations.

iii)ASU 2013-02

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. The guidance in ASU 2013-02 is intended to provide guidance in the reclassification of Accumulated Other Comprehensive Income to net income. The amendments in this ASU are effective for fiscal years beginning after December 15, 2012. Early adoption is permitted if an entity's financial statements for the most recent annual or interim period have yet been issued. The adoption of ASU 2013-02 is not expected to have a material impact on our financial position or results of operations.

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## 3. Marketable Securities and Investments:

The investments reflected in the table below include certain equity securities of entities involved in the exploration of precious metals. The following table summarizes the Company's available-for sale securities on hand as of March 31, 2013:

## Investments in available-securities-for-sale

|                   | Cost         | Gross Unrealized<br>Losses | Gross<br>Realized<br>Gains | Fair Value   |
|-------------------|--------------|----------------------------|----------------------------|--------------|
| Equity Securities | \$ 7,440,000 | \$ 4,800,000               | -                          | \$ 2,640,000 |

During the nine month period ended March 31, 2013, the Company recorded an unrealized loss on available-for-sale securities of \$4,800,000. This loss is recorded as other comprehensive loss on the consolidated statement of shareholders' equity.

## 4. 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:

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy under ASC 820 are described below:

- 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.



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## 4. 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. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets                          | Total         | Fair Value at March 31, 2013 |         |         | June 30,   |
|---------------------------------|---------------|------------------------------|---------|---------|------------|
|                                 |               | Level 1                      | Level 2 | Level 3 | Total      |
| Cash and cash equivalents       | \$ 14,303,077 | 14,303,077                   | -       | -       | 12,500,708 |
| Short-term investments          | -             | -                            | -       | -       | 7,500,000  |
| Investments- available for sale | 2,640,000     | 2,640,000                    | -       | -       | -          |
| <b>Liabilities</b>              |               |                              |         |         |            |
| Warrant liability               | \$-           | -                            | -       | -       | 10,746,787 |

The Company's cash and cash equivalents, available for sale investments and short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash and 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 available for sale investments that are valued based on quoted market prices in active markets are comprised of publicly traded common shares.

The changes in fair value of the warrants during the nine month period ended March 31, 2013 were as follows:

|   |               |
|---|---------------|
| Balance at June30, 2012                   | \$ 10,746,787 |
| Issuance of warrants and options          | -             |
| Change in fair value recorded in earnings | (2,507,615 )  |
| Transferred to equity upon exercise       | (8,239,172 )  |
| Balance at March 31, 2013                 | \$-           |

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## 5. Non-Cash Transactions:

During the nine month period ended March 31, 2013 and 2012, the Company entered into certain non-cash activities as follows:

|  | 2013         | 2012       |
|--|--------------|------------|
| Operating and Financing Activities                         |              |            |
| From issuance of shares for cashless exercise of options   | \$ 113,975   | \$ -       |
| From issuance of shares for purchase of mineral properties | \$ -         | \$ 964,000 |
| Receipt of shares for sale of mineral properties           | \$ 7,361,233 | \$ -       |

## 6. Capital Stock:

## a) Share issuances:

Authorized capital stock consists of 200,000,000 common shares with par value of \$0.001 per share. At March 31, 2013 there were 155,531,068 shares issued and outstanding and 147,412,603 shares issued and outstanding at June 30, 2012.

During the nine month period ended March 31, 2013 and 2012, the Company issued the following shares:

|                                      | Common Shares |            |
|--------------------------------------|---------------|------------|
|                                      | 2013          | 2012       |
| Financing                            | -             | 10,417,776 |
| Acquisition of mineral properties    | -             | 400,000    |
| For exercise of warrants and options | 8,118,465     | 237,500    |
|                                      | 8,118,465     | 11,055,276 |

For the nine month period ended March 31, 2013, the Company issued 418,465 shares for the exercise of 498,120 options and received cash in the amount of \$272,680. Also during the nine month period ended March 31, 2013, the Company issued 7,700,000 shares for the exercise of warrants and received cash in the amount of \$7,869,939.

## b) 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.



On December 2, 2011, the stockholders approved the 2011/2012 Stock Incentive & Equity Compensation Plan thereby reserving an additional 4,000,000 common shares for future issuance to employees, directors and consultants.

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## 6. Capital Stock (Continued):

## 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 for the three month periods ended March 31, 2013 and 2012:

|                                    | March 31, 2013 |   | March 31, 2012 |   |
|------------------------------------|----------------|---|----------------|---|
| WA Risk free interest rate         | 0.18           | % | 0.323          | % |
| WA Expected dividend yield         | 0              | % | 0              | % |
| WA Expected stock price volatility | 61             | % | 82             | % |
| WA Expected life of options        | 2 years        |   | 1 to 4 years   |   |

Changes in the Company's stock options for the nine-month period ended March 31, 2013 are summarized below:

| Options                       | Number     | Weighted Avg. Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-------------------------------|------------|------------------------------|---|---------------------------|
| Outstanding at June 30, 2012  | 3,129,120  | \$ 2.16                      | 2.41  | \$ 1,166,543              |
| Issued                        | 132,500    | 2.87                         |   |                           |
| Cancelled / Expired           | (125,000 ) | 2.78                         |   |                           |
| Exercised                     | (498,120 ) | 0.87                         |   | \$ 398,975                |
| Outstanding at March 31, 2013 | 2,638,500  | \$ 2.41                      | 2.00  | \$ 264,250                |
| Exercisable at March 31, 2013 | 2,448,501  | \$ 2.38                      | 2.00  | \$ 264,250                |

At March 31, 2013, there were 2,638,500 options outstanding. Options outstanding above that have not been vested at period end are 189,999 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. As of March 31, 2013, there was \$185,452 (2012 - \$701,164) of unrecognized compensation cost related to non-vested stock options to be recognized over a weighted average period of 1.48 years.

A summary of the non-vested options as of June 30, 2012 and changes during the nine month period ended March 31, 2013 is as follows:

| Non-vested Options | Number | Weighted Avg. Grant-Date Fair Value |
|--------------------|--------|-------------------------------------|
|--------------------|--------|-------------------------------------|

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|                              |           |    |      |
|------------------------------|-----------|----|------|
| Non-vested at June 30, 2012  | 704,999   | \$ | 1.84 |
| Issued                       | 132,500   |    | 0.65 |
| Vested                       | (647,500) |    | 1.52 |
| Forfeited                    | -         |    | -    |
| Non-vested at March 31, 2013 | 189,999   | \$ | 1.84 |

For the three and nine month period ended March 31, 2013, the Company recognized a stock based compensation expense in the amount of \$90,324 and \$379,735 respectively (2012 - \$1,125,068 and \$1,511,822) .

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(An Exploration Stage Mining Company)

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## 7. Related Party Transactions:

During the three month period ended March 31, 2013, the Company accrued director fees in the amount of \$54,000 (2012 – \$45,000) for their services as directors or members of committees of the Company’s Board. During the three month period ended March 31, 2013, the Company also recorded a non-cash transaction to recognize stock based compensation for directors in the amount of \$79,251 (2012 -\$903,312)

During the three month period ended March 31, 2013 the Company made payments of \$23,233 (2012 - \$24,041) pursuant to a premises lease agreement to a corporation in which an officer is a shareholder.

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

## 8. Mineral Properties:

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

|                    | March 31, 2013 | June 30, 2012 |
|--------------------|----------------|---------------|
| Iris Royalty       | 50,000         | 50,000        |
| San Miguel Project | 23,452,263     | 21,992,263    |
| Sleeper            | 25,891,490     | 25,891,490    |
| Mill Creek         | 2,096,616      | 2,096,616     |
| Spring Valley      | 385,429        | 385,429       |
| Reese River        | -              | 64,061        |
|                    | \$ 51,875,798  | \$ 50,479,859 |

For the three month period ended September 30, 2012, the Company exercised two options to acquire 11 mining concessions located in Mexico and related to its San Miguel project. In consideration for the mining concessions, the Company has made cash payments totaling \$1,693,000. Included in the payment is a value added tax amount of \$233,000 due from the Mexican Government.

For the three month period ended December 31, 2012, the Company sold its Reese River mineral claims with a recorded book value of \$64,061 to Valor Gold Corp. for \$21,000 in cash and 6 million restricted shares of Valor Gold Corp. with a market value of \$7,440,000. A gain on disposal of mineral property, net of transaction costs, of \$7,361,233 has been recorded on the statement of operations.

## 9. Property and Equipment:

|                        | Cost      | Accumulated<br>Amortization | Net Book Value    |                 |
|------------------------|-----------|-----------------------------|-------------------|-----------------|
|                        |           |                             | March 31,<br>2013 | June<br>30,2012 |
| Property and Equipment | \$885,242 | \$445,846                   | \$439,396         | \$458,937       |

During the nine month period ended March 31, 2013, net additions to property, and equipment were \$28,957 (2012-\$36,218). During the nine month period ended March 31, 2013 the Company recorded depreciation of \$48,498 (2012-\$58,985).

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## 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 (Gain) for the period by geographical segment for the nine month period ended March 31, 2013:

|   | United<br>States | Mexico      | Total       |
|---|------------------|-------------|-------------|
| Interest income                                   | \$33,963         | \$6,682     | \$40,645    |
| Gain on sale of mineral property                  | 7,361,233        | -           | 7,361,233   |
| Other income                                      | 57,500           | 4,030       | 61,530      |
| Total income                                      | \$7,452,696      | \$10,712    | \$7,463,408 |
| Expenses:   |                  |             |             |
| Exploration                                       | 5,313,666        | 4,513,631   | 9,827,297   |
| Professional fees                                 | 867,249          | -           | 867,249     |
| Directors compensation                            | 341,527          | -           | 341,527     |
| Travel and lodging                                | 184,441          | -           | 184,441     |
| Corporate communications                          | 267,819          | -           | 267,819     |
| Consulting fees                                   | 246,268          | -           | 246,268     |
| Office and administration                         | 274,102          | 74,028      | 348,130     |
| Interest and service charges                      | 7,063            | 2,201       | 9,264       |
| Insurance   | 285,827          | -           | 285,827     |
| Amortization                                      | 25,115           | 23,383      | 48,498      |
| Accretion   | 125,808          | -           | 125,808     |
| Total Expenses                                    | 7,938,885        | 4,613,243   | 12,552,128  |
| Net loss before other items                       | \$486,189        | \$4,602,531 | \$5,088,720 |
| Other items                                       |                  |             |             |
| Change in fair value of warrant liability         | (2,507,615)      | -           | (2,507,615) |
| Net Loss (Gain)                                   | \$(2,021,426)    | \$4,602,531 | \$2,581,105 |
| Other comprehensive loss (gain)                   |                  |             |             |
| Foreign currency translation adjustment           | (35,721)         | -           | (35,721)    |
| Unrealized loss on available for sale investments | 4,800,000        | -           | 4,800,000   |
| Total Comprehensive Loss for the Period           | \$2,742,853      | \$4,602,531 | \$7,345,384 |

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## PARAMOUNT GOLD AND SILVER CORP.

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## 10. Segmented Information (Continued):

Loss for the period by geographical segment for nine month period ended March 31, 2012:

|   | United<br>States | Mexico       | Total         |
|---|------------------|--------------|---------------|
| Interest income                           | \$ 17,046        | \$ 6,191     | \$ 23,237     |
| Other income                              | 73,130           | -            | 73,130        |
| Total income                              | \$ 90,176        | \$ 6,191     | \$ 96,367     |
| Expenses:                                 |                  |              |               |
| Exploration                               | 3,344,404        | 6,506,045    | 9,850,449     |
| Professional fees                         | 874,308          | -            | 874,308       |
| Directors compensation                    | 1,172,080        | -            | 1,172,080     |
| Travel and lodging                        | 162,850          | -            | 162,850       |
| Corporate communications                  | 314,266          | -            | 314,266       |
| Consulting fees                           | 373,605          | -            | 373,605       |
| Office and administration                 | 289,139          | 42,964       | 332,103       |
| Interest and service charges              | 5,097            | 2,401        | 7,498         |
| Insurance                                 | 237,387          | -            | 237,387       |
| Amortization                              | 30,984           | 28,001       | 58,985        |
| Accretion                                 | 115,278          | -            | 115,278       |
| Write-down of mineral properties          | 100,000          | -            | 100,000       |
| Total Expenses                            | 7,019,398        | 6,579,411    | 13,598,809    |
| Net loss before other items               | \$ 6,929,222     | \$ 6,573,220 | \$ 13,502,442 |
| Other items                               |                  |              |               |
| Change in fair value of warrant liability | (7,059,807)      | -            | (7,059,807)   |
| Loss on sale of marketable securities     | 166,732          | -            | 166,732       |
| Net Loss                                  | \$ 36,147        | \$ 6,573,220 | \$ 6,609,367  |
| Other comprehensive loss                  |                  |              |               |
| Foreign currency translation adjustment   | 120,343          | -            | 120,343       |
| Total Comprehensive Loss for the Period   | \$ 156,490       | \$ 6,573,220 | \$ 6,729,710  |

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## 10. Segmented Information (Continued):

Assets by geographical segment:

|                        | United States | Mexico        | Total         |
|------------------------|---------------|---------------|---------------|
| March 31, 2013         |               |               |               |
| Mineral properties     | \$ 28,273,535 | \$ 23,602,263 | \$ 51,875,798 |
| Property and equipment | 74,571        | 364,825       | 439,396       |
| June 30, 2012          |               |               |               |
| Mineral properties     | 28,337,596    | \$ 22,142,263 | 50,479,859    |
| Property and equipment | \$ 99,686     | 359,251       | \$ 458,937    |

## 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 current and non-current prepaid insurance balance at March 31, 2013 is \$429,125 (\$613,037 - June 30, 2012).

As a part of the policy, the Company has funds in a commutation account which is used to reimburse reclamation costs and indemnity claims. For the nine month period ended March 31, 2013, The Bureau of Land Management of Nevada issued an exploration permit to the Company and as a result, the Company was required to post a bond to cover any future reclamation costs for the exploration activities performed by the Company associated with the permit in the amount of \$62,994. The bond amount was added to the commutation account and at March 31, 2013 the balance of the account was \$2,755,292 (\$2,754,316 – June 30, 2012).

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 for the nine month period ended March 31, 2013 are as follows:

|                                |              |
|--------------------------------|--------------|
| Balance at beginning of period | \$ 1,198,179 |
| Accretion expense              | 125,808      |
| Payments                       | (64,326 )    |
| Balance at end of period       | \$ 1,259,661 |

## 12. Subsequent Events:



On May 3, 2013, the Company issued 1,430,000 stock options to directors, officers, employees and consultants vesting immediately with a three year term and exercise price of \$1.70 per share.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with (i) our accompanying interim consolidated financial statements and related notes (included elsewhere in this report) and (ii) our consolidated financial statements, related notes and management's discussion and analysis of financial condition and results of operations included in our June 30, 2012 annual report filed on Form 10-K with the Securities and Exchange Commission on September 11, 2012.

We are an exploratory stage mining company that currently has mining concessions in Mexico and mining 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 planned operations for this fiscal year. It also analyzes our financial condition and summarizes the results of operations for the three and nine month period ended March 31, 2013 and compares those results to the three and nine month period ended March 31, 2012.

Plan of Operation:

Exploration

The Company has set its exploration budget to \$7.6 million for the 2013 calendar year. We plan to allocate \$4.0 million to our Sleeper Gold Project in Nevada and \$3.6 million to our San Miguel Project in Mexico.

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.

Nevada

Our plan in 2013 is to continue focusing on our Sleeper Gold Project. Our budget for this period is approximately \$4.0 million. The budget activities will include drilling, modeling and metallurgical testing. The drill plans include drilling to obtain metallurgical samples, infill drilling to increase confidence in mineralized material and exploration drilling in the south Sleeper zone.

We plan to update our mineralized material model with drill hole data that was not included. This will allow us, along with a newly created geo-metallurgical model, to update our Preliminary Economic Assessment (the "PEA") which we completed in 2012. An updated material estimate and PEA is expected by the end of 2013.

During the three month period ended December 31, 2012, the Company sold its Reese River property located in Lander County Nevada to Valor Gold Corp. for \$21,000 cash and 6,000,000 shares in Valor Gold Corp.'s common equity.

Mexico

At our San Miguel Project we continue to conduct exploration drilling by testing new areas or expanding on known mineralized zones with infill drilling. The plan is to maintain one core drill rig throughout the year. Over fifty drill holes have been completed since our last material estimate. The Company plans to update this estimate in the second half of 2013. The Company also intends to evaluate silver metallurgical recovery alternatives for the Don Ese Zone. The exploration budget for the 2013 calendar year has been set to \$3.6 million.



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During the nine-month period ended March 31, 2013, the Company exercised two options to acquire 11 mining concessions located in Mexico and related to its San Miguel project. In consideration for the mining concessions, the Company made cash payments totaling \$1,693,000. Included in the payment is a value added tax amount of \$233,000 due from the Mexican Government.

### Liquidity and Capital Resources

At March 31, 2013, we had cash and cash equivalents and short-term investments balances of \$14,303,077 compared to \$20,000,708 as at June 30, 2012. The decrease of \$5,697,631 was the result of the funding of our exploration programs, corporate overhead and option payments on mineral concessions.

At March 31, 2013, we had working capital in the amount of \$18,231,912. We anticipate our cash expenditures to fund exploration programs and general corporate expenses to be approximately \$850,000 per month for the remainder of 2013. Anticipated cash outlays will be funded by our available cash reserves.

During the nine month period ended March 31, 2013, the Company received \$272,680 pursuant to the exercise of stock options.

During the three month period ended March 31, 2013, the Company's largest shareholder FCMI Financial Corporation exercised 7,700,000 "in-the-money" stock purchase warrants for total proceeds to the Company of \$7,869,939.

At March 31, 2013, the amounts receivable amount of \$1,371,889 primarily consisted of value added tax due from the Mexican government

Historically, we have funded our exploration and development activities through equity financing arrangements. We continue to assess our needs for additional capital to ensure sufficient financial resources are available to fund our exploration and working capital needs. We believe that our existing cash resources will be sufficient to meet our needs for the next twelve months. If, however, we are unable to obtain additional capital or financing, our exploration and development activities will be significantly affected.

Comparison of Operating Results for the nine month period ended March 31, 2013 as to the nine month period ended March 31, 2012

### Net Loss

Our net loss before other items for the nine month period ended March 31, 2013 was \$5,088,720 compared to a loss of \$13,502,442 in the comparable period in the prior year. The decrease in net loss of \$8,413,722 or 62% was due to the gain on sale of the Reese River property recorded in the period. We will continue to incur losses for the foreseeable future as we continue with our planned explorations programs at both projects.

### Expenses

Our level of exploration expenditures for the nine month period ended March 31, 2013 has remained consistent from the prior year period as we continue to advance both the Sleeper Gold and the San Miguel Projects.

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The following table summarizes our drilling activities at both projects for the nine month period ended March 31, 2013 and 2012:

|                            | Nine month period ended<br>March 31,<br>2013 |                                 | Nine month period ended March<br>31,<br>2012 |                                 |
|----------------------------|--|---------------------------------|--|---------------------------------|
|                            | Holes  | Cumulative<br>Length in<br>Feet | Holes  | Cumulative<br>Length in<br>Feet |
| San Miguel Project, Mexico | 30   | 43,191                          | 113  | 104,024                         |
| Sleeper Gold Project, USA  | 37   | 39,430                          | 77   | 18,517                          |
| Total                      | 67   | 82,621                          | 190  | 122,541                         |

Our general corporate expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$1,729,466 for the nine month period ended March 31, 2013. This is a 9% decrease over the comparable nine month period in the 2012. Decreases in expenses in corporate communications and consulting fees were offset by increase in professional fees and office and administration fees.

Comparison of Operating Results for the three month period ended March 31, 2013 to the three month period ended March 31, 2012.

Net Loss

Our net loss before other items for the three month period ended March 31, 2013 was \$3,905,246 compared to a loss of \$4,935,533 in the comparable period in the prior year. The decrease in net loss of \$1,030,287 or 21% was mainly due to a reduction of stock based compensation over the comparable period in the prior year. We expect to incur losses for the foreseeable future as we continue with our planned explorations programs at both projects.

Expenses

Our level of exploration expenditures for the three month period ended March 31, 2013 has remained consistent from the prior year period as we continue to advance both the Sleeper Gold and the San Miguel Projects.

The following table summarizes our drilling activities at both projects for the three month period ended March 31, 2013 and 2012:

|                            | Three month period ended<br>March 31,<br>2013 |                                 | Three month period ended<br>March 31,<br>2012 |                                 |
|----------------------------|---|---------------------------------|---|---------------------------------|
|                            | Holes   | Cumulative<br>Length in<br>Feet | Holes   | Cumulative<br>Length in<br>Feet |
| San Miguel Project, Mexico | 9   | 14,478                          | 48  | 43,636                          |
| Sleeper Gold Project, USA  | 10  | 10,157                          | 5   | 485                             |
| Total                      | 9   | 24,635                          | 53  | 44,121                          |

Our general corporate expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$500,738 for the three month period ended March 31, 2013. This 23% decrease over the

comparable three month period in the 2012 was driven by reductions in professional fees, consulting fees and office and administration fees.

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### 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 expense if it is determined that the mineral property has no future economic value or the properties are sold or abandoned. Costs include 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.

### Exploration expenses

The company expenses exploration costs as incurred. When it is determined that a 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.



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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 parent company's functional currency is the United States dollar. The functional currencies of the Company's wholly-owned subsidiaries are the U.S. Dollar and the Canadian Dollar. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the consolidated balance sheet date. Foreign currency transaction gains and losses are included in the statement of operations and comprehensive loss. 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.

### 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.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed significantly from its year ended June 30, 2012.

### 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 effect 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.



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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and determined that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. The evaluation considered the procedures designed to ensure that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

During the period covered by this Quarterly Report on Form 10-Q, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(d) and 13d-15(d) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Inherent Limitations of Disclosure Controls and Internal Controls over Financial Reporting

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation or effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the period ended June 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company issued 7,700,000 shares of Common Stock pursuant to the exercise of stock purchase warrants and in consideration received \$7,869,939.

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## Item 6. Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 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   |
| <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)   |
| 101.INS        | XBRL Instance Document  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  |

## SIGNATURES

Pursuant to the requirements 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.

Date: May 8, 2013

By: /s/ Christopher Crupi  
Christopher Crupi  
Chief Executive Officer

Date: May 8, 2013

/s/ CARLO BUFFONE  
Carlo Buffone  
Chief Financial Officer