

PARAMOUNT GOLD & SILVER CORP.
Form 10-Q/A
November 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A-1

(Mark One)

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

For the quarterly period ended September 30, 2010

Or

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 offices) (Zip Code)

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

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

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

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/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 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: 132,077,034 shares of Common Stock, \$.001 par value as of October 31, 2010.

Explanatory Note

Paramount Gold and Silver Corp. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the period ended September 30, 2009, as filed with the Securities and Exchange Commission on November 16, 2009 (the "Original Filing"). The Company is filing this amendment to its Original Filing to reflect the following changes:

1. Consolidated Statement of Operations: Allocated stock based compensation to type of expense incurred
2. Consolidated Statement of Operations: Recomputed Basic and Diluted Loss per Share to reflect shares issued that are held in escrow
3. Consolidated Balance Sheets, Consolidated Statement of Operations, Consolidated Statement of Cash Flows and Consolidated Statement of of Stockholder's Equity: Adopted amended provisions of ASC 815. Warrants and Options issued with exercise prices denominated in Canadian dollars are now recorded as liabilities whereas they were previously recorded as equity.
4. Corresponding Management Discussion and Analysis has been amended to reflect the changes to the Company's Financial Statements that have been amended by this Form 10-Q/A

These restatements are further described in our Notes to the Consolidated Financial Statements (Note 15). Except as indicated above, no other information included in the Original Filing is amended by this Form 10-Q/A Amendment No. 1.

PARAMOUNT GOLD AND SILVER CORP.

INDEX

PART I – FINANCIAL INFORMATION

| | | |
|----------|--|----|
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets (Unaudited) | 6 |
| | Consolidated Statements of Operations (Unaudited) | 7 |
| | Consolidated Statements of Cash Flows | 8 |
| | Consolidated Statement of Stockholders' Equity | 9 |
| | Notes to Consolidated Financial Statements (unaudited) | 12 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operation | 40 |
| Item 3. | Quantitative and Qualitative Disclosure About Market Risk | 48 |
| Item 4. | Controls and Procedures | 48 |
| Item 4T. | The Information Required By Item 4T is Contained in Item 4. | 48 |

PART II. – OTHER INFORMATION

| | | |
|----------|---|----|
| Item 1. | Legal Proceedings | 49 |
| Item 1A. | Risk Factors | 49 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 49 |
| Item 3. | Defaults upon senior securities | 49 |
| Item 4. | Submission of matters to a vote of security holders | 49 |
| Item 5. | Other information | 49 |
| Item 6. | Exhibits | 50 |

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 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, 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.

PART I. – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Financial Statements

(Unaudited)

Period ended September 30, 2009 and 2008

PARAMOUNT GOLD AND SILVER CORP.
(An Exploration Stage Mining Company)
Consolidated Balance Sheets (Unaudited)
As at September 30, 2009 and June 30, 2009
(Expressed in United States dollars, unless otherwise stated)

| | As at September 30, 2009 (Unaudited) (Restated) | As at June 30, 2009 (Audited) |
|--|---|--|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,851,389 | \$7,040,999 |
| Amounts receivable | 368,611 | 221,267 |
| Notes Receivable (Note 9) | 91,365 | 91,365 |
| Prepaid and Deposits | 169,925 | 82,583 |
| Term deposit | 1,045,615 | 1,063,772 |
| | 3,526,905 | 8,499,986 |
| Long Term Assets | | |
| Mineral properties (Note 7) | 22,138,703 | 18,436,951 |
| Fixed assets (Note 8) | 509,274 | 520,858 |
| | 22,647,977 | 18,957,809 |
| | \$ 26,174,882 | \$27,457,795 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 973,386 | \$383,445 |
| Warrant Liability (Note 2) | 13,162,453 | - |
| | 14,135,839 | 383,445 |
| Stockholders' Equity | | |
| Capital stock (Note 5) | 83,023 | 83,018 |
| Additional paid in capital | 52,509,802 | 52,506,278 |
| Contributed surplus | 14,515,091 | 17,969,510 |
| Deficit accumulated during the exploration stage | (54,792,344) | (43,197,264) |
| Cumulative translation adjustment | (276,529) | (287,192) |
| | 12,039,043 | 27,074,350 |

\$ 26,174,882 \$27,457,795

Commitments (Note 13) Subsequent Events (Note 14)

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

6

PARAMOUNT GOLD AND SILVER CORP.
 (An Exploration Stage Mining Company)
 Consolidated Statements of Operations (Unaudited)
 (Expressed in United States dollars, unless otherwise stated)

| | Period Ended September 30, 2009 (Restated) | Period Ended September 30, 2008 | Cumulative Since Inception March 29, 2005 to September 30, 2009 (Restated) |
|---|---|---------------------------------------|---|
| Revenue | | | |
| Interest Income | \$ 54,514 | \$ 97,277 | \$ 1,036,623 |
| Expenses: | | | |
| Incorporation Costs | - | - | 1,773 |
| Exploration | 859,211 | 1,449,884 | 14,875,619 |
| Professional Fees | 239,932 | 234,976 | 5,533,581 |
| Travel & Lodging | 22,124 | 72,953 | 878,730 |
| Geologist Fees & Expenses | 219,288 | 399,995 | 3,956,353 |
| Corporate Communications | 39,626 | 255,286 | 2,824,584 |
| Consulting Fees | 234,182 | 328,171 | 13,620,565 |
| Office & Administration | 60,181 | 293,474 | 1,721,419 |
| Interest & Service Charges | 6,438 | 2,539 | 45,636 |
| Loss on disposal of Fixed Assets | - | 44,669 | 44,669 |
| Insurance | 14,144 | 28,193 | 242,212 |
| Depreciation | 14,651 | 27,348 | 244,563 |
| Office | 20,757 | 22,915 | 286,201 |
| Miscellaneous | 5,014 | (1,748) | 189,991 |
| Financing | - | - | (22,024) |
| Acquisition expenses | 364,458 | - | 364,458 |
| Write Down of Mineral Property | - | - | 1,471,049 |
| Total Expense | 2,100,006 | 3,158,655 | 46,279,379 |
| Net Loss before other item | 2,045,492 | 3,061,378 | 45,242,756 |
| Other item | | | |
| Change in fair value of warrant liability | (3,088,287) | - | 9,549,588 |
| Net Loss (Gain) | (1,042,795) | 3,061,378 | 54,792,344 |
| Other comprehensive loss | | | |
| Foreign Currency Translation Adjustment | (10,663) | 32,294 | 276,529 |
| Total Comprehensive Loss for the Period | \$ (1,053,458) | \$ 3,093,672 | \$ 55,068,873 |
| Loss (Gain) per Common Share | \$ (0.01) | \$ 0.06 | |
| Basic | | | |
| Diluted | \$ (0.01) | \$ 0.06 | |
| Weighted Average Number of Common Shares Used in Per Share Calculations | | | |

| | | |
|---------|------------|------------|
| Basic | 78,023,648 | 52,627,417 |
| Diluted | 83,023,648 | 52,627,417 |

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

7

PARAMOUNT GOLD AND SILVER CORP.
(An Exploration Stage Mining Company)
Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in United States dollars, unless otherwise stated)

| | For the Period Ended September 30, 2009 (Restated) | For the Period Ended September 30, 2008 | Cumulative Since Inception to September 30, 2009 (Restated) |
|---|--|---|--|
| Operating Activities: | | | |
| Net Gain (Loss) | \$ 1,042,795 | \$ (3,061,378) | \$ (54,792,344) |
| Adjustment for: | | | |
| Depreciation | 14,651 | 27,348 | 244,563 |
| Allowance for doubtful accounts | - | - | 172,170 |
| Loss on disposal of assets | - | 44,669 | 44,669 |
| Stock based compensation | 161,975 | 346,566 | 16,309,659 |
| Accrued interest | - | (32,982) | (58,875) |
| Change in fair value of warrant liability | (3,088,287) | | 9,549,588 |
| (Increase) Decrease in accounts receivable | (147,344) | 4,170 | (515,953) |
| (Increase) Decrease in prepaid expenses | (87,342) | 114,338 | 11,497 |
| Increase (Decrease) in accounts payable | 589,941 | 108,664 | 741,365 |
| Write-down of mineral property | - | - | 1,471,049 |
| Cash used in Operating Activities | (1,513,611) | (2,665,933) | (26,822,613) |
| Investing Activities: | | | |
| Purchase of GIC receivable | - | 36,778 | (1,004,897) |
| Note receivable | - | (500,000) | (3,344,557) |
| Purchase of Mineral Properties | (3,701,751) | (12,000) | (4,527,668) |
| Purchase of Equipment | (3,067) | (340,173) | (73,067) |
| Cash used in Investing Activities | (3,704,818) | (815,395) | (8,950,189) |
| Financing Activities: | | | |
| Increase (decrease) in demand notes payable | - | - | 105,580 |
| Issuance of capital stock | - | 1,486,950 | 37,796,160 |
| Cash from Financing Activities: | - | 1,486,950 | 37,901,740 |
| Effect of exchange rate changes on cash | 28,819 | 6,027 | (277,549) |
| Increase (Decrease) in Cash | (5,189,610) | (1,988,351) | 1,851,389 |
| Cash, beginning | 7,040,999 | 3,199,848 | - |

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/A

| | | | |
|------------------------------------|--------------|--------------|--------------|
| Cash, ending | \$ 1,851,389 | \$ 1,211,497 | \$ 1,851,389 |
| Supplemental Cash Flow Disclosure: | | | |
| Interest Received | \$ - | \$ - | 7,642 |
| Taxes Paid | - | - | - |
| Cash | - | - | 1,859,339 |

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

PARAMOUNT GOLD AND SILVER CORP.
(An Exploration Stage Mining Company)
Consolidated Statement of Stockholders' Equity
For the Period Ended September 30, 2009
(Expressed in United States dollars, unless otherwise stated)

| | Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings (Deficiency) | Contributed Surplus | Cumulative Translation Adjustment | Total Stockholders Equity |
|---|--------------|-----------|--------------------------------|-----------------------------------|---------------------|-----------------------------------|---------------------------|
| Balance at Inception | - | \$- | \$- | \$- | \$- | \$- | \$- |
| Balance September 30, 2005 | 11,267,726 | 11,268 | 1,755 | (1,773) | - | - | 11,250 |
| Capital issued for financing | 34,000,000 | 34,000 | - | - | - | - | 34,000 |
| Forward split | 45,267,726 | 45,267 | (45,267) | - | - | - | - |
| Returned to treasury | (61,660,000) | (61,660) | 61,600 | - | - | - | - |
| Capital issued for financing | 1,301,159 | 1,301 | 3,316,886 | - | - | - | 3,318,187 |
| Capital issued for services | 280,000 | 280 | 452,370 | - | - | - | 452,650 |
| Capital issued for mineral properties | 510,000 | 510 | 1,033,286 | - | - | - | 1,033,796 |
| Fair value of warrants | - | - | - | - | 444,002 | - | 444,002 |
| Net Income (loss) | - | - | - | (1,874,462) | - | - | (1,874,462) |
| Balance June 30, 2006 | 30,966,611 | 30,966 | 4,820,690 | (1,876,235) | 444,002 | - | 3,419,423 |
| Capital issued for financing | 11,988,676 | 11,990 | 15,225,207 | - | - | - | 15,237,197 |
| Capital issued for services | 3,107,500 | 3,107 | 7,431,343 | - | - | - | 7,434,450 |
| Capital issued for mineral properties | 400,000 | 400 | 1,159,600 | - | - | - | 1,160,000 |
| Capital issued on settlement of notes payable | 39,691 | 39 | 105,541 | - | - | - | 105,580 |
| Fair value of warrants | - | - | - | - | 7,546,270 | - | 7,546,270 |
| Stock based compensation | - | - | - | - | 2,169,050 | - | 2,169,050 |

| | | | | | | | |
|--|------------|--------|------------|--------------|------------|-------|--------------|
| Foreign currency translation adjustment | - | - | - | - | - | 8,412 | 8,412 |
| Net Income (loss) | - | - | - | (15,669,889) | - | - | (15,669,889) |
| Balance at June 30, 2007 | 46,502,478 | 46,502 | 28,742,381 | (17,546,124) | 10,159,322 | 8,412 | 21,410,493 |

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

PARAMOUNT GOLD AND SILVER CORP.
 (An Exploration Stage Mining Company)
 Consolidated Statement of Stockholders' Equity
 For the Period Ended September 30, 2009
 (Expressed in United States dollars, unless otherwise stated)

| | Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings (Deficiency) | Contributed Surplus | Cumulative Translation Adjustment | Total Stockholders Equity |
|---|------------|-----------|--------------------------------|-----------------------------------|---------------------|-----------------------------------|---------------------------|
| Balance at June 30, 2007 | 46,502,478 | 46,502 | 28,742,381 | (17,546,124) | 10,159,322 | 8,412 | 21,410,493 |
| Capital issued for financing | 1,000,000 | 1,000 | 1,778,590 | - | - | - | 1,779,590 |
| Capital issued for services | 770,000 | 770 | 1,593,582 | - | - | - | 1,594,352 |
| Capital issued for mineral properties | 268,519 | 269 | 489,731 | - | - | - | 490,000 |
| Fair Value of warrants | - | - | - | - | 470,410 | - | 470,410 |
| Stock based compensation | - | - | - | - | 2,911,213 | - | 2,911,213 |
| Foreign currency translation | - | - | - | - | - | (28,389) | (28,389) |
| Net Income (loss) | - | - | - | (18,409,961) | - | - | (18,409,961) |
| 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 exercised | 384,627 | 385 | 249,623 | - | (237,008) | - | 13,000 |
| Capital issued for mineral properties | 16,200,000 | 16,200 | 13,140,250 | - | - | - | 13,156,450 |
| Fair Value of warrants | - | - | - | - | 3,612,864 | - | 3,612,864 |
| Stock based compensation | - | - | - | - | 1,052,709 | - | 1,052,709 |
| Foreign currency translation | - | - | - | - | - | (267,215) | (267,215) |
| | - | - | - | (7,241,179) | - | - | (7,241,179) |

Net Income
(loss)

Balance at June

| | | | | | | | |
|----------|------------|--------|------------|--------------|------------|------------|------------|
| 30, 2009 | 83,018,219 | 83,018 | 52,506,278 | (43,197,264) | 17,969,510 | (287,192) | 27,074,350 |
|----------|------------|--------|------------|--------------|------------|------------|------------|

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

PARAMOUNT GOLD AND SILVER CORP.
 (An Exploration Stage Mining Company)
 Consolidated Statement of Stockholders' Equity
 For the Period Ended September 30, 2009
 (Expressed in United States dollars, unless otherwise stated)

| | Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings (Deficiency) (Restated) | Contributed Surplus (Restated) | Cumulative Translation Adjustment | Total Stockholders' Equity (Restated) |
|--|------------|-----------|--------------------------------------|---|--------------------------------------|---|--|
| 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 from stock options exercised | 5,429 | 5 | 3,524 | - | (3,529) | - | - |
| Stock based compensation | - | - | - | - | 161,975 | - | 161,975 |
| Transition Adjustment (Note 2) | - | - | - | (12,637,875) | (3,612,865) | - | (16,250,740) |
| Foreign currency translation | - | - | - | - | - | 10,663 | 10,663 |
| Net Income (loss) | - | - | - | 1,042,795 | - | - | 1,042,795 |
| Balance at September 30, 2009 | 83,023,648 | 83,023 | 52,509,802 | (54,792,344) | 14,515,091 | (276,529) | 12,039,043 |

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

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

1. Basis of Presentation:

a) 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 Consolidated financial statements of Paramount Gold and Silver Corp. include the accounts of its wholly owned subsidiaries, Paramount Gold de Mexico S.A. de C.V., Magnetic Resources Ltd, and Compania Minera Paramount SAC. On August 23, 2007 the board of directors and stockholders' approved the name change from Paramount Gold Mining Corp. to Paramount Gold & Silver Corp.

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's consolidated financial statements filed as part of the Company's September 30, 2009, Quarterly Report on Form 10-Q.

In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at September 30, 2009 and the consolidated results of operations and consolidated statements of cash flows for the period ended September 30, 2009.

b) 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.

c) Exploration Stage Enterprise

The Company's consolidated financial statements are prepared using the accrual method of accounting and according to the provision of Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting for Development Stage Enterprises", as it were devoting substantially all of its efforts to acquiring and exploring mineral properties. It is industry practice that mining companies in the development stage are classified under Generally Accepted Accounting Principles as exploration stage companies. Until such properties are acquired and developed, the Company will continue to prepare its consolidated financial statements and related disclosures in accordance with entities in the exploration or development stage.

2. Principal Accounting Policies

The consolidated financial statements are prepared by management in accordance with generally accepted accounting principles of the United States of America. The principal accounting policies followed by the Company are as

follows:

12

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2.Principal Accounting Policies: (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with an original maturity of three months or less.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The fair market value of the Company's financial instruments comprising cash, accounts receivable and accounts payable and accrued liabilities were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments. The Company maintains cash balances at financial institutions which at times, exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

Term Deposit

The GIC is non-redeemable until May 7, 2010 and bears an interest rate of 3.25% and has been pledged as collateral to support a letter of credit issued by a secured lender.

Notes Receivable

Notes receivable are classified as available-for-sale or held-to-maturity, depending on our intent with respect to holding such investments. If it is readily determinable, notes receivable classified as available-for-sale is accounted for at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported net of tax as a component of other comprehensive income within stockholders' equity. Interest income is recognized when earned.

Stock Based Compensation

The Company has adopted the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS 123(R), 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

SFAS No. 130, "Reporting Comprehensive Income" establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As of September 30, 2009, the Company's only component of comprehensive income is foreign currency translation adjustments.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

Long Term Assets

Mineral Properties

The Company has been in the exploration stage since its inception on March 29, 2005, and has not yet realized any revenues from its planned operations. It is primarily engaged in the acquisition and exploration of mining properties. The Company expenses all costs related to the maintenance, development and exploration of mineral claims in which it has secured exploration rights prior to establishment of proven and probable reserves. To date, the Company has not established the commercial feasibility of its exploration prospects; therefore, all exploration costs are being expensed.

Mineral property acquisition costs are initially capitalized when incurred using the guidance in EITF 04-02, "Whether Mineral Rights Are Tangible or Intangible Assets." The Company assesses the carrying cost for impairment under SFAS No. 144, "Accounting for Impairment or Disposal of Long Lived Assets" at each fiscal quarter end. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs then incurred to develop such property are capitalized. Such costs will be amortized using the units-of-production method over the estimated life of the probable reserve. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to operations.

Fixed Assets

Property and equipment are recorded at cost and are amortized over their estimated useful lives 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 |

Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 as of its inception. Pursuant to SFAS No. 109 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.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

Foreign Currency Translation

The 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 SFAS No. 52 "Foreign Currency Translation" ("SFAS No. 52). 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 Peruvian sols. 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 Mexican peso, the Canadian Dollar, and Peruvian sol. The financial statements of the subsidiaries are translated to United States dollars in accordance with SFAS No. 52 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 current operations.

Asset Retirement Obligation

The Company has adopted SFAS No. 143 "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 flow, discounted at the Company's credit-adjusted-risk-free interest rate. To date, no material asset retirement obligation exists due to the early stage of the Company's mineral exploration. Accordingly, no liability has been recorded.

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. The Company does not anticipate any material capital expenditures for environmental control facilities.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

Basic and Diluted Net Loss Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share". SFAS No. 128 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 stockholders (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. The basic and diluted EPS has been retroactively restated to take into effect the 2 for 1 stock split that occurred on July 11, 2005.

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 and amounts receivable, mainly representing value added tax recoverable from a foreign government. Management does not believe that the Company is subject to significant credit or foreign exchange risk from these financial instruments.

Fair Value Option for Financial Assets

On July 1, 2008, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (fair value option) with changes in fair value reported in earnings. The adoption of SFAS 159 had no impact on the financial statements as management did not elect the fair value option for any other financial instruments or other assets and liabilities.

Accounting Standards Adopted

In March 2008, the FASB issued ASC 815, "Disclosures about Derivative Instruments and Hedging Activities" ("ASC 815"). ASC 815 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal periods beginning after November 15, 2008.

Effective July 1, 2009, we 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 for the purpose of evaluating the first criteria of the scope exception in ASC 815. 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, 2009, we 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.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

We have 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.

We 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, we have recorded a gain related to the change in fair value of the warrant liability of \$3,088,287 on the Consolidated Statements of Operations for the period ended September 30, 2009.

Fair Value Measurements

On July 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (“SFAS 157”) as it relates to financial assets and financial liabilities. In February 2008, the FASB staff issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (“FSP FAS 157-2”). FSP FAS 157-2 delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP FAS 157-2 are effective for the Company’s fiscal year beginning July 1, 2009.

SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard is now the single source in GAAP for the definition of fair value, except for the fair value of leased property as defined in SFAS 13. SFAS 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). 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 SFAS 157 are described below:

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

Fair Value Measurements (continued)

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.

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 SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Fair Value at September 30, 2009 | | | | June 30, |
|---------------------|----------------------------------|-----------|---------|------------|-----------|
| | Total | Level 1 | Level 2 | Level 3 | 2009 |
| | \$ | \$ | \$ | \$ | Total |
| Assets | | | | | \$ |
| Cash equivalents | 1,851,389 | 1,851,389 | – | – | 7,040,999 |
| Accounts receivable | 368,611 | 368,611 | – | – | 221,267 |
| Notes receivable | 91,365 | | 91,265 | | 91,365 |
| GIC | 1,045,615 | 1,045,775 | – | – | 1,063,772 |
| Liabilities | | | | | |
| Warrant liability | 13,162,453 | – | – | 13,162,453 | – |

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 notes receivable is classified within Level 2 of the fair value hierarchy.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

2. Principal Accounting Policies: (Continued)

Fair Value Measurements (continued)

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 and options 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:

| | September 30, 2009 |
|---------------------------------------|-----------------------|
| Risk free interest rate | 0.80% |
| Expected life of warrants and options | 1-2 years |
| Expected stock price volatility | 78% to 107% |
| Expected dividend yield | 0% |

The changes in fair value of the warrants during the period ended September 30, 2009 were as follows:

| | |
|---|-------------|
| Balance at July 1, 2009 | 16,250,740 |
| Issuance of warrants and options | - |
| Change in fair value recorded in earnings | (3,088,287) |
| Transferred to equity upon exercise | - |
| Balance at September 30, 2009 | 13,162,453 |

3. Recent Accounting Pronouncements:

(i) Business Combinations

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development, and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal periods beginning after December 15, 2008. We have adopted SFAS 141R on July 1, 2009. This standard will change our

accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, “No controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”), 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 no 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 provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal periods beginning after December 15, 2008. We have adopted SFAS 160 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.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

3. Recent Accounting Pronouncements: (Continued)

(ii) SFAS 161

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities. It requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal periods beginning after November 15, 2008. The Company has adopted SFAS 161 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.

(iii) SFAS 162

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company has evaluated the new statement and has determined that it will not have a significant impact on the determination or reporting of the Company's financial results.

(iv) SFAS 163

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60." SFAS 163 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. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. We adopted SFAS 160 on July 1, 2009. Adoption of this standard did not have a material impact on its financial condition or results of operation.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

3. Recent Accounting Pronouncements: (Continued)

(v) SFAS 165

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective with interim and annual financial periods ending after June 15, 2009. We have adopted SFAS 165 on July 1, 2009. Adoption of this standard did not have an impact on the Company's results of operations, financial position or cash flows.

(vi) SFAS 166

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement" ("SFAS 166"). SFAS No. 166 is intended to establish standards of financial reporting for the transfer of assets and transferred assets to improve the relevance, representational faithfulness, and comparability. SFAS 166 was established to clarify derecognition of assets under FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 166 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. We will adopt SFAS 166 on July 1, 2010. The Company has determined that the adoption of SFAS No. 166 will have no impact on its consolidated financial statements.

(vii) SFAS 167

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). SFAS No. 167 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. SFAS No. 167 becomes effective for the Company's fiscal 2011 year-end and interim reporting periods thereafter. The Company does not expect SFAS No. 167 to have a material impact on its financial statements.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

3. Recent Accounting Pronouncements: (Continued)

(viii) SFAS 168

In July 2009, the FASB issued SFAS No. 168, "FASB Accounting Standards Codification" ("SFAS 168"), 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 SFAS 168. All other accounting literature not included in the Codification is non-authoritative. Management is currently evaluating the impact of the adoption of SFAS 168 but does not expect the adoption of SFAS 168 to impact the Company's results of operations, financial position or cash flows.

(ix) APB 141

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.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

4. Non-Cash Transactions:

During the three month period ended September 30, 2009 and 2008, the Company entered into certain non-cash activities as follows:

| | 2009 | 2008 |
|--|------|--------------|
| Operating and Financing Activities | | |
| From issuance of shares for consulting and geological services | \$ - | \$ 210,988 |
| From issuance of shares for mineral property | \$ - | \$ 8,828,450 |

5. Capital Stock:

Authorized capital stock consists of 200,000,000 common shares with par value of \$0.001 each. During the three month period ending September 30, 2009, the Company issued a total of 5,429 common shares which are summarized as follows:

| | 2009 | 2008 |
|-----------------------------------|---------------|-----------|
| | Common Shares | |
| Financing | - | 1,071,429 |
| Acquisition of mineral properties | - | 7,350,000 |
| For services | 5,429 | 551,206 |
| | 5,429 | 8,972,635 |

During the three month period ended, the Company issued 5,429 common shares pursuant to exercise of stock options. The exercise price of these options was \$0.65 per share. Of the shares issued, 5,429 shares were issued from the cashless exercise of 10,000 options.

The following share purchase warrants and agent compensation warrants were outstanding at September 30, 2009:

| | Exercise price | Number of warrants | Remaining contractual life (years) |
|---|----------------|--------------------|------------------------------------|
| Warrants | 3.25 | 1,000,000 | 0.08 |
| Warrants | .90 | 12,000,000 | 3.41 |
| Agent compensation Warrants | .90 | 840,000 | 3.41 |
| Warrants | .85 | 3,636,362 | 1.25 |
| Warrants | 2.15 | 35,715 | 0.85 |
| Outstanding and exercisable at September 30, 2009 | | 17,512,077 | |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

5. Capital Stock (continued):

| | September 30, 2009 | September 30, 2008 |
|------------------------------------|-----------------------|-----------------------|
| Risk free interest rate | N/A | 0.98-1.78% |
| Expected life of warrants | N/A | 0.5 - 1 years |
| Expected stock price volatility | N/A | 58% |
| Expected dividend yield | N/A | 0% |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

6. Related Party Transactions:

During the period ended September 30, 2009, directors received payments on account of professional fees in the amount of \$87,157 (2008: \$96,049).

During the period ended September 30, 2009, the Company did not issue any common shares to directors (2008- 21,432 common shares) for services rendered, (2008 - \$0.64 to \$1.27) per share for total consideration of \$0 (2008 - \$23,160).

During the period ended September 30, 2009 the Company made payments of \$19,765 pursuant to a premises lease agreement with a corporation having a stockholder in common with a director of the company.

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

7. Mineral Properties:

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

| | September 30, 2009 | June 30, 2009 |
|-----------------------|-----------------------|------------------|
| Vidette Lake – Canada | \$ 275,000 | \$ 275,000 |
| Temoris | 4,074,754 | 4,074,754 |
| Iris Royalty | 50,000 | 50,000 |
| Morelos | 100,000 | 100,000 |
| San Miguel Project | 17,608,324 | 13,906,572 |
| Andrea | 20,625 | 20,625 |
| Peru | 10,000 | 10,000 |
| | \$ 22,138,703 | \$ 18,436,951 |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties (Continued):

a. San Miguel Project

The Company has an option to acquire a 100% in the La Blanca property located in Guazaparez, Chihuahua, Mexico. Pursuant to the option agreement, payments of \$180,000 have been made. Furthermore, the company must pay a royalty of \$1.00 for each ounce proven or probable gold reserves. No gold reserves have been discovered as at September 30, 2009. The Company has incurred \$500,000 in exploration expenses.

The Company has a 100% interest in the Santa Cruz mining concession located in the San Miguel Project, subject to satisfactory title transfer. The terms of the agreement called for payments of \$50,000 prior to March 7, 2006 and all required payments were made by the Company. The option also includes a 3% NSR payable to optioner. This concession was acquired as part of the San Miguel asset project purchased from Tara Gold.

b. Temoris

On March 19, 2009 the company closed an agreement with Garibaldi Resources Corp. in which the company acquired the outstanding option on the Temoris project. The option covers an area of approximately 54,000 hectares adjacent to the San Miguel groupings and Andrea project. In consideration for the acquisition, the company paid Garibaldi \$400,000 and issued six million shares of the company's common stock (with legend). The shares of Common stock were delivered to an escrow agent who will release 500,000 shares of common stock six months from the date of closing and an additional 500,000 shares of common stock every three months thereafter.

On February 12, 2009, the company acquired all of the issued and outstanding shares of common stock of Magnetic Resources Ltd. ("Magnetic"). Magnetic is the sole beneficial stockholder of Minera Gama, S.A. de C.V. which holds interest in various mineral concessions in Mexico known as the Temoris Project and the Morelos Project and also holds a royalty of the Iris Project.

In consideration for the acquisition of all of the issued and outstanding common shares (which was 8.4 million) of Magnetic and the assumption and discharge of the stockholder loans, the company issued to the stockholders of Magnetic 1,350,000 shares of the company's common stock valued at \$675,000 and an advisor was paid a finder's fee of 200,000 common shares of the company valued at \$100,000. All shares were issued pursuant to the Company's Shelf Registration Statement.

These financial statements reflect income earned and expenses incurred of Magnetic Resources Ltd. as of February 12, 2009. The following is the purchase price allocation at date of acquisition:

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties (continued):

c. Andrea

The Company staked the Andrea mining concession located in the Guazaparez mining district in Chihuahua, Mexico for a cost of \$20,000.

d. Vidette Lake, Canada

Paramount entered into an option agreement to acquire an interest in the Vidette Lake Gold Mine in British Columbia, Canada. Paramount issued 500,000 common shares to earn an initial 25% interest and can earn a further 25% interest by expending \$300,000 of exploration expenditures, making a cash payment of \$100,000 and by issuing an additional 100,000 common shares. Once Paramount has increased its interest to 50% it may increase its interest to 90% any time prior to December 31, 2010 by expending an additional sum of \$600,000 on exploration and issuing 400,000 common shares. Once Paramount has increased its interest to 90% and exercises its option, a joint venture agreement will be created.

8. Fixed Assets:

| | Cost | Accumulated Amortization | Net Book Value | |
|------------------------|------------|-----------------------------|--------------------------|------------------|
| | | | September 30, 2009 | June 30, 2009 |
| Property and Equipment | \$ 704,453 | \$ 195,179 | \$ 509,274 | \$ 520,858 |

During the period ended September 30, 2009, total additions to property, plant and equipment were \$3,068 (2008-\$340,173). During the period ended September 30, 2009 the Company recorded depreciation of \$14,652.

9. Notes Receivable:

The Company holds convertible notes receivable with face value of \$70,000 plus accrued interest issued by Mexoro Minerals Ltd. pursuant to a Letter of Intent dated May 2, 2008 between Mexoro Minerals Ltd. ("Mexoro") and Paramount Gold and Silver Corp. ("Paramount") with respect to the proposed Strategic Alliance between Mexoro and Paramount. The interest rate of the convertible notes is 8% but by mutual agreement, no interest was accrued for three months ending September 30, 2009.

| | Maturity Date | Interest Rate | September 30, 2009 | June 30, 2009 |
|-----------------------------------|-----------------------|------------------|-----------------------|------------------|
| Note Receivable – Mexoro Minerals | September 18, 2009 | 8% per annum | \$ 70,000 | \$70,000 |
| Note Receivable – Mexoro Minerals | | | - | - |

| | May 7, 2009 | 8% per annum | | |
|------------------|------------------|-----------------|-----------|----------|
| | July 10, 2009 | 8% per annum | - | - |
| Accrued Interest | - | - | 21,365 | 21,365 |
| | | | \$ 91,365 | \$91,365 |

The notes are convertible to units of one common share and one half common share purchase warrant of Mexoro Minerals Ltd. at a price of \$0.50 per unit. The Company entered into a forbearance agreement with Mexoro pursuant to which Mexoro repaid \$1,000,000 of the principal balance during the period ended March 31, 2009, and \$300,000 of the principal balance during the period ended June 30, 2009, and agreed to increase the remaining principal by \$127,500 plus anticipated legal fees of \$15,000. The \$127,500 plus legal fees are to be repaid on or before April 30, 2009. In consideration of the Company's forbearance, Mexoro also agreed to issue to the Company 225,000 common shares of Mexoro.

On May 19, 2009 the Company entered into a letter of agreement with Mexoro Minerals Ltd. to acquire all its legal and beneficial interest to 12 mining concessions adjacent to Paramount's San Miguel Project resource areas in Chihuahua, Mexico. The purchase price is \$3.7 million and all underlying property payments are to be deferred for 36 months and further, if Paramount or its assets are sold within this period an additional payment will be made to the vendors. Any amounts owing to Paramount by Mexoro on closing will be paid out of the closing proceeds. During the period ending September 30, 2009, the purchase price was deposited into an escrow account pending satisfaction of all due diligence issues.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information:

Segmented information has been compiled based on the geographic regions that the company has acquired mineral properties and performs its exploration activities.

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

| | United States | Peru | Mexico | Total |
|---|---------------|----------|----------------|----------------|
| Interest income | \$ 54,449 | \$ - | \$ 65 | \$ 54,514 |
| Expenses: | | | | |
| Exploration | (316,571) | (8,037) | 1,183,819 | 859,211 |
| Professional fees | 239,932 | - | - | 239,932 |
| Travel and lodging | 22,124 | - | - | 22,124 |
| Geologist fees and expenses | 190,171 | - | 29,117 | 219,288 |
| Corporate communications | 39,626 | - | - | 39,626 |
| Consulting fees | 234,182 | - | - | 234,182 |
| Office and administration | 38,221 | - | 21,960 | 60,181 |
| Interest and service charges | 5,163 | - | 1,275 | 6,438 |
| Loss on Disposal of Assets | - | - | - | - |
| Insurance | 14,144 | - | - | 14,144 |
| Amortization | 5,664 | - | 8,987 | 14,651 |
| Office | 20,757 | - | - | 20,757 |
| Acquisition Expenses | 364,458 | - | - | 365,458 |
| Miscellaneous | 5,013 | - | 1 | 5,014 |
| Total Expenses | 862,884 | (8,037) | 1,245,159 | 2,100,006 |
| Change in fair value of warrant liability | (3,088,287) | - | - | (3,088,287) |
| Net income | \$ 2,279,851 | \$ 8,037 | \$ (1,245,094) | \$ (1,042,795) |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

10. Segmented Information (Continued):

Loss for the period by geographical segment for the period ended September 30, 2008:

| | United States | Peru | Mexico | Total |
|------------------------------|---------------|------------|--------------|--------------|
| Interest income | \$ 62,969 | \$ 25,785 | \$ 8,523 | \$ 97,277 |
| Expenses: | | | | |
| Exploration (note 15) | 562,568 | 49,269 | 838,047 | 1,449,884 |
| Professional fees | 234,976 | - | - | 234,976 |
| Travel and lodging | 72,953 | - | - | 72,953 |
| Geologist fees and expenses | 194,719 | - | 205,276 | 399,995 |
| Corporate communications | 68,230 | - | - | 68,230 |
| Consulting fees | 328,171 | - | - | 328,171 |
| Marketing | 187,056 | - | - | 187,056 |
| Office and administration | 70,692 | 61,949 | 160,833 | 293,474 |
| Interest and service charges | 1,726 | 65 | 748 | 2,539 |
| Loss on Disposal of Assets | - | 44,669 | - | 44,669 |
| Insurance | 19,040 | - | 9,152 | 28,193 |
| Amortization | 14,082 | 5,258 | 8,009 | 27,348 |
| Rent | 22,915 | - | - | 22,915 |
| Financing | - | - | - | - |
| Miscellaneous | (1,748) | - | - | (1,748) |
| Total Expenses | 1,775,380 | 161,210 | 1,222,065 | 3,158,655 |
| Net loss | \$ 1,712,411 | \$ 135,425 | \$ 1,213,542 | \$ 3,061,378 |

Assets by geographical segment:

| | United States | Peru | Mexico | Total |
|--------------------|---------------|-----------|---------------|---------------|
| September 30, 2009 | | | | |
| Mineral properties | \$ - | \$ 10,000 | \$ 22,128,703 | \$ 22,138,703 |
| Equipment | 120,246 | - | 389,028 | 509,274 |
| June 30, 2009 | | | | |
| Mineral properties | - | 10,000 | 18,426,951 | 18,426,951 |
| Equipment | \$ 125,908 | \$ - | \$ 394,950 | \$ 520,858 |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

11. Employee Stock Option Plan:

On August 23, 2007, the board and stockholders approved the 2007/08 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 2008/09 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.

Changes in the Company's stock options for the period ending September 30, 2009 are summarized below:

| | Number | Weighted Avg. Exercise Price |
|------------------------------|-----------|------------------------------------|
| Balance, beginning of period | 4,487,000 | \$ 0.97 |
| Issued | 125,000 | 1.29 |
| Cancelled | - | - |
| Exercised | - | - |
| Granted | - | - |
| Balance, end of period | 4,612,000 | \$ 0.98 |

At September 30, 2009, there were 3,777,000 exercisable options outstanding. Options outstanding above that have not been vested at year end amount to 835,000 which have a maximum service term of 1- 4 years and weighted average exercise price of \$1.46. The vesting of these options is dependent on market conditions which have yet to be met.

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:

| | September 30, 2009 | September 30, 2008 |
|-------------------------|-----------------------|-----------------------|
| Risk free interest rate | .040% - .47% | 0.50% - .91% |

| | | |
|---------------------------------|-------------|--------------|
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 114% - 116% | 121% - 123% |
| Expected life of options | 1 year | 1 to 2 years |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

11. Employee Stock Option Plan (continued):

During the period ended September 30, 2009 the Company recognized stock based compensation expense in the amount of \$161,975 (2008: 139,804) for the vested portion of options issued in the previous year.

12. Differences Between US and Canadian Generally Accepted Accounting Principles:

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). Set out below are the material adjustments to net loss for the period ending September 30, 2009 and 2008 and to stockholders' equity at September 30, 2009 and June 30, 2009 in order to conform to accounting principles generally accepted in Canada ("Canadian GAAP").

| Statement of Loss | Period ended September 30, 2009 | Period ended September 30, 2008 |
|--|---------------------------------------|---------------------------------------|
| Net gain (loss) based on US GAAP | \$ 1,042,795 | \$ (3,267,693) |
| Deferred exploration costs prior to the establishment of proven and probable reserves (Note 14a) | (859,211) | 1,722,371 |
| Net gain (loss) for the period based on Canadian GAAP | 1,902,006 | (1,545,322) |

| Stockholders' Equity | September 30, 2009 | June 30, 2009 |
|--|-----------------------|---------------|
| Stockholders' Equity based on US GAAP | \$ 12,039,043 | \$ 27,074,350 |
| Deferred exploration costs prior to the establishment of proven and probable reserves (Note 14a) | 14,875,619 | 14,016,407 |
| Stockholders' Equity based on Canadian GAAP | 26,914,662 | 41,090,757 |

The following sets out the material balance sheet differences between Canadian and U.S. GAAP:

| Mineral Properties | September 30, 2009 | June 30, 2009 |
|--|-----------------------|---------------|
| US GAAP | \$ 22,138,703 | \$ 18,436,951 |
| Deferred exploration costs prior to the establishment of proven and probable reserves (Note 14a) | 14,875,619 | 14,016,407 |
| Canadian GAAP | 37,014,322 | 32,453,358 |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

12. Differences Between US and Canadian Generally Accepted Accounting Principles (Continued):

(a) Interest in Exploration Properties and Deferred Exploration Costs

Under U.S. GAAP, acquisition costs are capitalized, but exploration costs are not considered to have the characteristics of property, plant and equipment and, accordingly, are expensed prior to the Company determining that economically proven and probable mineral reserves exist, after which all such costs are capitalized.

Under Canadian GAAP, acquisition and exploration expenditures on properties less recoveries in the pre-production stage are deferred until such time as the properties are put into commercial production, sold or become impaired. On the commencement of commercial production, the deferred costs are charged to operations on the unit-of-production method based upon estimated recoverable proven and probable reserves. General exploration expenditures are charged to operations in the period in which they are incurred. The Company recognizes the payment or receipt of payment required under option agreements when paid or received.

(b) Statement of Cash Flows

As a result of the treatment of mining interests under item (a) above, cash expended for the exploration costs would have been classified as investing rather than operating, resulting in the following totals under Canadian GAAP:

| | September 30, 2009 | September 30, 2008 |
|-----------------------------------|-----------------------|-----------------------|
| Cash used in operating activities | \$ (654,400) | \$ (943,562) |
| Cash used in investing activities | (4,564,029) | (2,537,766) |

(c) Recent Accounting Pronouncements

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five period transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the period ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

12. Differences Between US and Canadian Generally Accepted Accounting Principles (Continued):

Capital Disclosures

As a result of new Section 1535, Capital Disclosures, the Company will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and procedures for managing capital.

Disclosure and Presentation of Financial Instruments

New accounting recommendations for disclosure and presentation of financial instruments are effective for the Company beginning July 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed.

Goodwill and Intangible Assets

The Accounting Standards Board has also issued a new Section 3064, Goodwill and Intangible Assets, to replace current Section 3062, Goodwill and Other Intangible Assets. The new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. Canadian Institute of Chartered Accountants Handbook Section 3064 is effective for fiscal periods beginning on or after October 1, 2008. The company has adopted Section 3064 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.

13. Klondex Mines Ltd.

On July 20, 2009 the Company and Klondex Mines Ltd. ("Klondex") entered into a binding letter agreement (the "Letter Agreement") to combine the two companies under a plan of arrangement, subject to stockholders approvals. Pursuant to the Letter Agreement, each Klondex share was to have been exchanged for 1.45 Paramount shares, implying a purchase price of C\$2.32 per Klondex share using closing share prices on the TSX on July 17, 2009. Both Paramount and Klondex had agreed to obtain support agreements from each of their respective directors and certain of their stockholders to vote any shares which they control in favor of the Transaction.

Under the terms of the Transaction, Klondex stockholders were to have received 1.45 shares of common stock of Paramount for each common share of Klondex. All options and warrants of Klondex outstanding at the time of the Transaction were to be exchanged for options and warrants of Paramount on the same basis. On closing of the Transaction Klondex was to have become a wholly-owned subsidiary of Paramount. Following closing of the Transaction, one Klondex director was to have joined Paramount Board of Directors. The letter agreement setting out the Transaction included a commitment by Klondex not to solicit alternative transactions to the proposed Transaction. Paramount was also been provided with certain other rights customary for a transaction of this nature, including the

right to match competing offers made to Klondex.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

13. Klondex Mines Ltd. (continued):

The letter agreement also provides a reciprocal break fee of US\$2.85 million to be payable by each of the parties under certain circumstances. The letter agreement provided a basis for the preparation of a definitive agreement, including representations and warranties and covenants customary for a transaction of this nature.

On September 24, 2009, Klondex formally terminated the Letter Agreement. Klondex cites that the public disclosure record dated November 20, 2008 contained material misstatements and omissions regarding the inferred resource at Paramount's San Miguel Project in Mexico. Klondex believes that it is entitled to a reverse break fee of US\$2.85 million plus damages.

On October 2, 2009, the Company filed a statement of claim in the Supreme Court of British Columbia, Canada, naming Klondex Mines Ltd as a defendant in connection with the termination by Klondex of the binding Letter Agreement dated July 20, 2009 whereby Klondex agreed to be acquired by Paramount on the basis of 1.45 shares of Paramount common stock for each common share of Klondex. The Statement of Claim alleges Klondex acted in bad faith and in breach of the Agreement along with damages for breach of contract and, in addition, damages for malicious falsehood and defamation.

14. Subsequent events:

Subsequent events noted below have been identified as of November 6, 2009.

On October 15, 2009, the Company closed its public offering of 16 million shares of its common stock at \$1.25 per share. In addition, the underwriters also exercised all of their overallotment of 2.4 million common shares generating net proceeds of approximately \$21.7 million. There are no warrants issued in connection with this financing. Proceeds are being used to further explore the San Miguel project and to consider acquisition of new precious metals projects.

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

15. Restatement

We determined that certain warrants issued by the Company in connection with 2008 and 2009 securities offering (“Warrants”) contain exercise prices which are denominated in a currency other than our functional currency of the U.S. Dollar, which should have been accounted for in the accordance with the amended provisions of ASC 815 effective July 1, 2009. ASC 815-40-15 concerns the determination of 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 purposes of evaluating the scope exception in ASC 815. Since certain outstanding Warrants are exercisable in Canadian dollars, they are not considered indexed to the Company’s own stock and therefore, do not qualify for the scope exception in ASC 815 and must be accounted for as a derivative liability. Accordingly, beginning July 1, 2009 we should have reclassified the Warrants as liabilities under the caption “Warrant liability” and recorded them at estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Thereafter, changes in the warrant liability from period to period should have been recorded in the Statements of Operations under the caption “Change in fair value of warrant liability.” Effective July 1, 2009, we should have recorded a cumulative effect adjustment based on the grant date fair value of the outstanding Warrants and the change in fair value of the warrant liability from the issuance date through July 1, 2009.

The impact of the restatement on the quarter ended September 30, 2009 contained in this Form 10-Q/A is to record a warrant liability of \$13,162,453, a reduction of contributed surplus of \$3,612,865 and increase of accumulated deficit of \$9,549,588 on the consolidated balance sheet. In addition, a further adjustment to record a gain related to the change in fair value of the warrant liability of \$3,088,287 on the Consolidated Statements of Operations for the three months ended September 30, 2009.

Additionally, we determined that Stock Based Compensation expenses should be allocated to the type of expense incurred. We have also determined that the shares we issued to Garibaldi Resources Corp, held in escrow should be excluded from the basic loss per share computation. The Consolidated Statements of Cash Flows and Notes to Unaudited Financial Statements have been restated where applicable to reflect the adjustments.

The adjustment to net loss for the three months ended September 30, 2009 is summarized below:

| | Period Ended September 30, 2009 \$ |
|--|---|
| Net loss, as previously reported | 2,045,492 |
| Adjustment for change in fair value of warrant liability (pre-tax) | 3,088,287 |
| Tax effect of restatement adjustment | - |
| Net loss (gain), as restated | (1,042,795) |
| Basic net income per share, as restated | (0.01) |
| Diluted net income per share, as restated | (0.01) |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

15. Restatement (Continued):

The Consolidated Balance Sheets for the Period Ended September 30, 2009, included in Form 10-Q/A have been restated to include the effects of the adjustment as follows:

| | As at September 30, 2009 (Unaudited) (As previously reported) | As at September 30, 2009 (Unaudited) (Restated) |
|--------------------------------------|--|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,851,389 | \$ 1,851,389 |
| Amounts receivable | 368,611 | 368,611 |
| Notes Receivable (Note 9) | 91,365 | 91,365 |
| Prepaid and Deposits | 169,925 | 169,925 |
| Term deposit | 1,045,615 | 1,045,615 |
| | 3,526,905 | 3,526,905 |
| Long Term Assets | | |
| Mineral properties (Note 7) | 22,138,703 | 22,138,703 |
| Fixed assets (Note 8) | 509,274 | 509,274 |
| | 22,647,977 | 22,647,977 |
| | \$ 26,174,882 | \$ 26,174,882 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 973,386 | \$ 973,386 |
| Warrant Liability (Note 2) | | 13,162,453 |
| | 973,386 | 14,135,839 |
| Stockholders' Equity | | |

| | | |
|--|---------------|---------------|
| Capital stock (Note 5) | 83,023 | 83,023 |
| Additional paid in capital | 52,509,802 | 52,509,802 |
| Contributed surplus | 18,127,956 | 14,515,091 |
| Deficit accumulated during the exploration stage | (45,242,756) | (54,792,344) |
| Cumulative translation adjustment | (276,529) | (276,529) |
| | 25,201,496 | 12,039,043 |
| | \$ 26,174,882 | \$ 26,174,882 |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

15. Restatement (Continued)

The Consolidated Statements of Operations for the Period Ended September 30, 2009, included in Form 10-Q/A have been restated to include the effects of the adjustment as follows:

| | For the Period Ended | | | | As | |
|----------------------------------|---|--------------------------------|---|--------------------------------|--|--|
| | As Previously Reported September 30, 2009 | As Restated September 30, 2009 | As Previously Reported September 30, 2008 | As Restated September 30, 2008 | Previously Reported Cumulative Since Inception | As Restated Cumulative Since Inception |
| Revenue | | | | | | |
| Interest Income | \$ 54,514 | \$ 54,514 | \$ 97,277 | \$ 97,277 | \$ 1,036,623 | \$ 1,036,623 |
| Expenses: | | | | | | |
| Incorporation Costs | - | - | - | - | 1,773 | 1,773 |
| Exploration | 859,211 | 859,211 | 1,449,884 | 1,449,884 | 14,875,619 | 14,875,619 |
| Professional Fees | 239,932 | 239,932 | 234,976 | 234,976 | 3,497,498 | 5,533,581 |
| Travel & Lodging | 22,124 | 22,124 | 72,953 | 72,953 | 878,730 | 878,730 |
| Geologist Fees and Expenses | 219,288 | 219,288 | 339,595 | 399,995 | 2,804,497 | 3,956,353 |
| Corporate Communications | 39,626 | 39,626 | 255,286 | 255,286 | 2,824,584 | 2,824,584 |
| Consulting Fees | 72,207 | 234,182 | 42,005 | 328,171 | 715,582 | 13,620,565 |
| Office & Administration | 60,181 | 60,181 | 293,474 | 293,474 | 1,721,419 | 1,721,419 |
| Interest & Service Charges | 6,438 | 6,438 | 2,539 | 2,539 | 45,636 | 45,636 |
| Loss on disposal of Fixed Assets | - | - | 44,669 | 44,669 | 44,669 | 44,669 |
| Insurance | 14,144 | 14,144 | 28,193 | 28,193 | 242,212 | 242,212 |
| Amortization | 14,651 | 14,651 | 27,348 | 27,348 | 244,563 | 244,563 |
| Rent | 20,757 | 20,757 | 22,915 | 22,915 | 286,201 | 286,201 |
| Miscellaneous Financing | 5,014 | 5,014 | (1,748) | (1,748) | 189,991 | 189,991 |
| Stock Based Compensation | - | - | - | - | (22,024) | (22,024) |
| Write Down of Mineral Property | 364,458 | 364,458 | - | - | 364,458 | 364,458 |
| | 161,975 | | 346,566 | | 16,092,922 | |

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/A

| | | | | | | |
|---|--------------|-----------------|--------------|--------------|---------------|---------------|
| | | - | - | - | 1,471,049 | 1,471,049 |
| Total Expense | 2,100,006 | 2,100,006 | 3,158,655 | 3,158,655 | 46,279,379 | 46,279,379 |
| Net Loss before other item | 2,045,492 | 2,045,492 | 3,061,378 | 3,061,378 | 45,242,756 | 45,242,756 |
| Other item | | | | | | |
| Change in fair value of warrant liability | 0 | (3,088,287) | 0 | 0 | 0 | 9,549,588 |
| Net Loss (Gain) | 2,045,492 | (1,042,795) | 3,061,378 | 3,061,378 | 45,242,756 | 54,792,344 |
| Other comprehensive loss | | | | | | |
| Foreign Currency Translation Adjustment | (10,663) | (10,663) | 32,294 | 32,294 | 276,529 | 276,529 |
| Total Comprehensive Loss for the Period | \$ 2,034,829 | \$ (1,053,458) | \$ 3,093,672 | \$ 3,093,672 | \$ 45,519,285 | \$ 55,068,873 |
| Basic Income Loss (Gain) per Common Share | 0.02 | (0.01) | 0.06 | 0.06 | | |
| Diluted Income Loss (Gain) per Common Share | 0.02 | (0.01) | 0.06 | 0.06 | | |
| Weighted Average Number of Common Shares Used in Per Share Calculations | | | | | | |
| - Basic | 83,023,648 | 78,023,648 | 52,627,417 | 52,627,417 | | |
| - Diluted | 83,023,648 | 83,023,648 | 52,627,417 | 52,627,417 | | |

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

15. Restatement (Continued)

The Consolidated Statements of Cash Flows for the Period Ended September 30, 2009, included in Form 10-Q/A have been restated to include the effects of the adjustment as follows:

| | For the Period Ended September 30, 2009 (As previously reported) | For the Period Ended September 30, 2009 (Restated) | Cumulative Since Inception to September 30, 2009 (As previously reported) | Cumulative Since Inception to September 30, 2009 (Restated) |
|--|---|--|---|--|
| Operating Activities: | | | | |
| Net Gain (Loss) | \$ (2,045,492) | \$ 1,042,795 | \$ (45,242,756) | \$ (54,792,344) |
| Adjustment for: | | | | |
| Depreciation | 14,651 | 14,651 | 244,563 | 244,563 |
| Allowance for doubtful accounts | - | - | - | 172,170 |
| Loss on disposal of assets | - | - | 44,669 | 44,669 |
| Stock based compensation | 161,975 | 161,975 | 16,309,659 | 17,780,707 |
| Accrued interest | - | - | (58,875) | (58,875) |
| Change in fair value of warrant liability | - | (3,088,287) | - | 9,549,588 |
| (Increase) Decrease in accounts receivable | (147,344) | (147,344) | (343,782) | (515,953) |
| (Increase) Decrease in prepaid expenses | (87,342) | (87,342) | 11,497 | 11,497 |
| Increase (Decrease) in accounts payable | 589,941 | 589,941 | 741,365 | 741,365 |
| Cash used in Operating Activities | (1,513,611) | (1,513,611) | (26,822,611) | (26,822,613) |
| Investing Activities: | | | | |
| Purchase of GIC receivable | - | - | (1,004,897) | (1,004,897) |
| Note receivable | - | - | (3,344,557) | (3,344,557) |
| Purchase of Mineral Properties | (3,701,751) | (3,701,751) | (4,527,668) | (4,527,668) |
| Purchase of Equipment | (3,067) | (3,067) | (73,067) | (73,067) |
| Cash used in Investing Activities | (3,704,818) | (3,704,818) | (8,950,189) | (8,950,189) |
| Financing Activities: | | | | |
| Increase (decrease) in demand notes payable | - | - | 105,580 | 105,580 |
| Issuance of capital stock | - | - | 37,796,160 | 37,796,160 |

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/A

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Cash from Financing Activities: | - | - | 37,901,740 | 37,901,740 |
| Effect of exchange rate changes on cash | 28,819 | 28,819 | (227,550) | (277,549) |
| Increase (Decrease) in Cash | (5,189,610) | (5,189,610) | 1,851,389 | 1,851,389 |
| Cash, beginning | 7,040,999 | 7,040,999 | - | - |
| Cash, ending | \$ 1,851,389 | \$ 1,851,389 | \$ 1,851,389 | \$ 1,851,389 |

38

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated financial statements (Continued)

(Unaudited)

For the Period Ended September 30, 2009

(Expressed in United States dollars, unless otherwise stated)

15. Restatement (Continued)

The Consolidated Statements of Stockholder's Equity for the Period Ended September 30, 2009, included in Form 10-Q/A have been restated to include the effects of the adjustment as follows:

As previously reported:

| | Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings (Deficiency) | Contributed Surplus | Cumulative Translation Adjustment | Total Stockholders' Equity |
|---|------------|-----------|--------------------------------|-----------------------------------|---------------------|-----------------------------------|----------------------------|
| 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 from stock options exercised | 5,429 | 5 | 3,524 | — | (3,529) | — | — |
| Stock based compensation | — | — | — | — | 161,975 | — | 161,975 |
| Foreign currency translation | — | — | — | — | — | 10,663 | 10,663 |
| Net Income (loss) | — | — | — | (2,045,492) | — | — | (2,045,492) |
| Balance at September 30, 2009 | 83,023,648 | 83,023 | 52,509,802 | (45,242,756) | 18,127,956 | (276,529) | 25,201,496 |

As restated:

| | Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings (Deficiency) | Contributed Surplus | Cumulative Translation Adjustment | Total Stockholders' Equity |
|---|------------|-----------|--------------------------------|-----------------------------------|---------------------|-----------------------------------|----------------------------|
| 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 from stock options exercised | 5,429 | 5 | 3,524 | - | (3,529) | - | - |

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/A

| | | | | | | | |
|--------------------------------|------------|--------|------------|--------------|-------------|-----------|--------------|
| Stock based compensation | - | - | - | - | 161,975 | - | 161,975 |
| Transition Adjustment (Note 2) | - | - | - | (12,637,875) | (3,612,865) | - | (16,250,740) |
| Foreign currency translation | - | - | - | - | - | 10,663 | 10,663 |
| Net Income (loss) | - | - | - | 1,042,795 | - | - | 1,042,795 |
| Balance at September 30, 2009 | 83,023,648 | 83,023 | 52,509,802 | (54,792,344) | 14,515,091 | (276,529) | 12,039,043 |

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. OPERATION

Overview and History:

We are an exploration stage mining company which has as its core business, precious metals exploration in Mexico. We are a Delaware corporation and we were incorporated on March 29, 2005. Our administrative office is located at Suite 110, 346 Waverley Street, Ottawa, Canada K2P 0W5. We also have a field office located in Temoris, Mexico. Our primary objective is to explore and develop the San Miguel Project located in the State of 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 having during the year acquired the remaining 30% interest from our prior joint venture partner, Tara Gold Resources Corp. ("Tara Gold"). In consideration for the transfer of the 30% equity interest in the joint venture and other mining concessions, we issued to Tara Gold a total of 7,350,000 shares of our legended common stock and approximately \$10,000 for the transfer of certain mining concessions owned by Tara Gold.

In March 2009, we acquired all of the issued and outstanding shares of common stock of Magnetic 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. 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. These land holdings surround our San Miguel mining concessions. The Morelos Project and the Iris Project are ancillary to our primary business plan.

Also in March 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, subject to a net smelter returns royalty of 2.5% (which royalty may be reduced to 2.0% at closing). The Guazapares project comprises 12 claims surrounding Paramount's San Miguel Project. An additional payment of US\$1.6 million is due to Mexoro if, within 36 months, the project is put into commercial production or if Paramount or substantially all of its assets are sold.

Market for Gold and Silver:

The demand for gold and silver has created a bull market for both metals over the past several years. While there will likely continue to be increased volatility of market prices in the short run due to seasonality or speculation, the growth of the world's economy is driving demand for raw materials that has drawn down supplies. Despite concerns for a slowing U.S. economy, a growing middle class in both China and India is driving demand for precious metals. There also remains increased interest in holding precious metals such as gold and silver as a store of value during periods of increasing anxiety of either errant monetary policies or strained international relations. Contributing further to the increasing price of both gold and silver has been the fall in the value of the US dollar against other major foreign currencies and the deteriorating economic indicators in the United States and throughout the world.

Gold prices have generally trended upward during the last nine years, from a low of just under \$260 per ounce in early 2001 to a high of more than \$1,100 per ounce in November 2009. Despite declining from a high of \$21.00 per ounce in March 2008 to approximately \$17.00 per ounce in November 2009, silver has trended upward as well over the past 9 years from a low of approximately \$8.50 per ounce. Management remains encouraged with its ongoing drilling

program. If commercially recoverable deposits are identified, management believes that the Company will enter into an agreement with a mining partner who has experience implementing mining operations.

Financings and Related Agreements:

We have been dependent upon equity financings to operate our business. Our single largest equity financing came from a private placement of our securities which we closed on March 30, 2007 in the amount of \$21,836,841. The financing consisted of the sale of 10,398,496 units of our securities at a price of \$2.10 per unit. The warrants which were sold as part of the unit have expired.

From April 2007 through February 2009, we completed several 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 CDN\$0.75 per unit for a total of CDN\$9,000,000 (the "Financing"). (Based on an exchange rate of CDN\$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 CDN\$1.05 per share for a period of four years from the date of issuance. The warrants were not exercisable until six months from their issue date.

On October 15, 2009 we offered 16 million shares of our common stock at an offering price of \$1.25 per share. Our underwriters exercised all of their overallotment of 2.4 million shares. As a result of the foregoing, we received net proceeds of approximately \$21.7 million. The shares of common stock were offered pursuant to the Company's registration statement declared effective by the Commission on Paramount's shelf registration statement on Form S-3 (Registration No. 333-153104) (the "Registration Statement"), including a base prospectus dated January 8, 2009, as supplemented by a prospectus supplement dated October 8, 2009. FCMI Financial Corporation ("FCMI"), our largest stockholder, purchased 4,000,000 Shares in the Offering.

The proceeds from the offering will allow us to further develop the San Miguel project and investigate precious metal opportunities. We believe that these funds will be adequate to meet our budgeted expenses.

The San Miguel Project

Location

The San Miguel Project is located in southwestern Chihuahua in Northern Mexico, and is approximately 400 km by road from the state capital. 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 Map 1. The coordinate system used for all maps and sections in this report is the Universal Transverse Mercator system, Zone 12. GPS coordinates are referenced to NAD 27 Mexico.

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.

MAP 1 – SAN MIGUEL PROJECT LOCATION

The Chihuahua Informe Pericial (Department of Mines) administers the concessions in this area. As part of the concession acquisition process, concession boundaries are surveyed.

Deposit Types

At the San Miguel project, mineralization consists of epithermal, low sulfidation, gold/silver vein and breccia deposits which occur in north-northwest trending, steeply dipping structures. This type of mineralization is typical of the Sierra Madre Occidental gold-silver metallogenic province. These are multi-phase deposits which produced several phases of cross-cutting breccias and related hydrothermal alteration. Alteration ranges from peripheral propylitization to argillic alteration to strong to intense silicification, often with adularia development. This mineralization is physically expressed as sheeted quartz veins, silicified hydrothermal breccias, and vuggy, quartz-filled expansion breccias. Amethystine quartz is locally present. 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 | 12.9458 |
| 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 | 59.0864 |
| LAS TRES B.B.B. | Paramount | 166427 | 4-Jun-80 | 23.001 |
| SWANWICK | Paramount | 166428 | 4-Jun-80 | 70.1316 |
| LAS TRES S.S.S. | Paramount | 166429 | 4-Jun-80 | 19.1908 |
| 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 | 66.2403 |
| MONTECRISTO | Paramount* | 213579 | 18-May-01 | 38.056 |
| MONTECRISTO | | | | |
| FRACCION | Paramount* | 213580 | 18-May-01 | 0.2813 |
| MONTECRISTO II | Paramount* | 226590 | 2-Feb-06 | 27.1426 |
| SANTA CRUZ | Amermin | 186960 | 17-May-90 | 10 |
| ANDREA | Paramount | 231075 | 16-Jan-08 | 84112.6183 |
| GISSEL | Paramount | 228244 | 17-Oct-06 | 880 |
| ISABEL | Paramount | 228724 | 17-Jan-07 | 348.285 |
| ELYCA | Paramount | 179842 | 17-Dec-86 | 10.0924 |
| | | | Total | 85768.0715 |
| Temoris Project | | | | |
| Guazapares | Minera Gama | 232082 | 18-May-07 | 6265.2328 |
| Roble | Minera Gama | 232084 | 18-May-07 | 797.795 |
| Temoris Centro | Minera Gama | 232081 | 18-May-07 | 40386.1449 |
| Temoris Fracción 2 | Minera Gama | 229551 | 18-May-07 | 7328.1302 |
| Temoris Fracción 3 | Minera Gama | 229552 | 18-May-07 | 14.0432 |
| Temoris Fracción 4 | Minera Gama | 229553 | 18-May-07 | 18.6567 |
| | | | Total | 100713.042 |
| Guazapares Claims | | | | |
| San Francisco | Paramount* | 191486 | 19-Dec-91 | 38.1598 |
| Ampliación San | | | | |
| Antonio | Paramount* | 196127 | 23-Sep-92 | 20.9174 |
| San Antonio | Paramount* | 204385 | 13-Feb-97 | 14.8932 |
| Guazaparez | Paramount | 209497 | 3-Aug-99 | 30.9111 |
| Guazaparez 3 | Paramount | 211040 | 24-Mar-00 | 250 |
| Guazaparez 1 | Paramount | 212890 | 13-Feb-01 | 451.9655 |
| Guazaparez 5 | Paramount | 213572 | 18-May-01 | 88.8744 |
| Cantilito | Paramount | 220788 | 7-Oct-03 | 37.035 |
| San Antonio | Paramount | 222869 | 14-Sep-04 | 105.1116 |
| Guazaparez 4 | Paramount | 223664 | 2-Feb-05 | 63.9713 |

Edgar Filing: PARAMOUNT GOLD & SILVER CORP. - Form 10-Q/A

| | | | | |
|--------------|--------------|--------|-------------|------------|
| Guazaparez 2 | Paramount | 226217 | 2-Dec-05 | 404.0016 |
| Vinorama | Paramount | 226884 | 17-Mar-06 | 474.222 |
| San Antonio | CA T-204385* | 181963 | 17-Mar-88 | 15 |
| | | | Total | 1980.0629 |
| | | | Grand Total | 188461.176 |

(*) Under option

Current Agreements with respect to mining concessions:

San Miguel Group Agreement

The San Miguel Grouping forms the initial core of the property. It includes the concessions San Miguel, San Juan, San Luis, Empalme, Sangre de Cristo, Santa Clara, El Carmen, Las Tres BBB, Swanwick, Las Tres SSS, El Rosario and Guadalupe de Los Reyes as listed in Table 1, a total of 275 hectares. The San Miguel Groupings were acquired by Corporacion Amermin S.A. ("Amermin"), a subsidiary of Tara Gold. We earned our 70% interest in the concessions pursuant to an option agreement with Amermin dated August 3, 2005 by making \$450,000 in payments, issuing 700,000 restricted shares of Paramount common stock and incurring \$2.5 million in exploration expenditures. Under the terms of the joint venture with Amermin (the "Joint Venture") as contained in the Joint Venture Agreement between the parties effective February 7, 2007 (the "Joint Venture Agreement"), Paramount served as the manager of the Joint Venture. If Amermin chooses not to participate financially in the Joint Venture, its interest may be diluted to a 2% NSR, which may be decreased to 1% by a payment of \$500,000 from Paramount to Amermin.

On October 1, 2008, we closed on our agreement with Tara Gold to acquire all of the remaining equity ownership of the Joint Venture. In consideration for the acquisition of the remaining equity interest (30%) owned by Tara Gold in the Joint Venture, we issued to Tara Gold a total of 7,350,000 shares of our legended common stock. Also, in connection with the closing of the transaction, all invoices previously submitted by Paramount for Tara Gold's contribution to the exploration and development of the San Miguel property have been cancelled. In consideration for the transfer of the mining concessions, Paramount has paid to Tara Gold \$100,000MXN (approximately US\$10,000).

Temoris

In March 2009, we acquired all of the issued and outstanding shares of common stock of Magnetic Ltd. ("Magnetic") in consideration for the issuance of 1,350,000 shares of our common stock valued at \$675,000. The shares of common stock were issued pursuant to our shelf registration statement. 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. 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. These land holdings surround our San Miguel mining concessions. The Morelos Project and the Iris Project are ancillary to our primary business plan.

Also in March 2009 we closed an agreement with Garibaldi Resources Corp. in which we acquired the outstanding option on the Temoris project. The option covers an area of approximately 54,000 hectares adjacent to the San Miguel groupings and Andrea project. In consideration for the acquisition, we paid Garibaldi \$400,000 and issued six million shares of our legended common stock. The shares of Common Stock were delivered to an escrow agent who will release 500,000 shares of common stock six months from the date of closing and an additional 500,000 shares of common stock every three months thereafter.

La Blanca Agreement

The La Blanca agreement includes the Montecristo, Montecristo II, Monecristo Fraccion and Constituyentes 1917 concessions consisting of a total of 131hectares. We have invested the required \$500,000 in exploration costs on the concessions and otherwise met our agreements with respect to these concessions. Additional payments will be due to the concession owner based upon proven reserves. Additional payments are linked to the definition of reserves. The sum of \$1.00 is to be paid by August 31, 2007 for each gold-equivalent ounce of mineable reserves defined by December 31, 2006; the sum of \$1.00 is to be paid by February 29, 2008 for each gold-equivalent ounce of mineable reserves defined by December 31, 2007; and the sum of \$1.00 is to be paid by August 31, 2009 for each gold-equivalent ounce of mineable reserves defined by December 31, 2008. No mineable reserves have been defined

to date and no payments have been made.

Santa Cruz Agreement

The Santa Cruz concession totals 10.00 hectares. We own a 100% interest in the concession. .

Elyca Concession

The Elyca concession, totaling 10.0924 hectares . We purchased the concession from Minera Rio Tinto, S.A. de C.V. for cash and stock and was registered with the Public Registry of Mining. We own 90% of the joint venture interest in this concession.

Mexoro

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,, subject to a net smelter returns royalty of 2.5% (which royalty may be reduced to 2.0% at closing). The Guazapares project comprises 12 claims surrounding Paramount’s San Miguel Project. The purchase price will be released from escrow when certain conditions are met, and an additional payment of US\$1.6 million is due to Mexoro if, within 36 months, the project is put into commercial production or if Paramount or substantially all of its assets are sold.

Ejido Agreements

We have signed agreements with two ejidos, or surface-owner councils, allowing for surface disturbance during exploration activities. Agreements with the Guazapares and Batosegachi ejidos were signed on April 29th and 19th, 2007, respectively, and are effective for a period of five years. The Guazapares and Batosegachi ejido agreements were registered with the National Agrarian Registry on May 4th and 5th, 2007, respectively. The agreements permit us 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.

Andrea

We staked the Andrea mining concession located in Guazaparez mining district in Chihuahua, Mexico for a cost of \$20,000.

Other Properties

We also own additional mining concessions in the state of Chihuahua, Mexico. We will continue to explore additional opportunities through other joint ventures and acquisitions. We do not expect to generate revenues from these projects nor is it our objective to enter the mine management business. Rather we hope to identify a resource that will enable us to attract a larger company to partner with who has experience developing and managing a mine.

Vidette Lake

We acquired an option to acquire a group of three cell mineral claims known as the Vidette Lake property (“Vidette Lake”), which represents a core portion of an intermediate stage high grade gold exploration project located 70 kilometer northwest of the city of Kamloops, British Columbia, Canada. Mineral rights to the property total approximately 500 hectares.

To date, we have conducted limited exploration with respect to this project.

Property Location Map

Comparison of Operating Results for the Three Months ended September 30, 2009 and 2008 and from Inception, (March 25, 2005).

Revenues

We are an exploratory mining company with no revenues from operations to date. All of our revenues to date represent interest income which we have earned as a result of our cash holdings. Our cash holdings were generated from the sale of our securities. Interest income for the three months ended September 30, 2009 was \$54,514 as compared to \$97,277 the three months ended September 30, 2008. Since inception (March 29, 2005), we have generated \$1,036,623 in interest income. The interest income has been generated as a result of various financings which we have undertaken. Monies are deposited in interest bearing accounts until such time as needed for drilling and general working capital purposes.

Interest income declined as a result of our diminishing cash holdings.

Operating Expenses

For the three months ended September 30, 2009 as compared to the three months ended September 30, 2008, our total operating expenses were \$2,100,006 as compared to \$3,158,655. Total expenses since inception through September 30, 2009 were \$46,279,379.

Our total operating expenses for the comparative quarters in September 2009 as compared to September 2008 declined approximately 34% primarily due to a reduction in our office and administrative expenses and the limited use of stock based compensation.

We would have experienced even larger declines in our operating expenses but for the costs we incurred in connection with the proposed acquisition Klondex Mines Ltd. (“Klondex”). Specifically, on July 20, 2009 we entered into a binding letter agreement (“Letter Agreement”) to combine both Paramount and Klondex under a plan of agreement. Pursuant to this agreement each Klondex share was to be exchanged for 1.45 shares of our common stock. All outstanding Klondex options and warrants were to be exchanged for Paramount options and warrants. The Letter Agreement called for a break fee of \$2.85 million. On September 24, 2009 Klondex terminated the Letter Agreement alleging that the public disclosure record with respect to our San Miguel Project was inaccurate

On October 2, 2009 we filed a statement of claim in the Superior Court of British Columbia, Canada naming Klondex as a defendant whereby we alleged that Klondex acted in bad faith, breach of contract, malicious falsehoods and defamation.

Our exploration and geology costs declined from \$1,449,884 and \$399,995 for the three months ended September 30, 2008 as compared to \$859,211 and \$219,288 for the three months ended September 30, 2009.

Total exploration and geology costs since inception were \$14,875,619 and \$3,956,353 respectively.

We were able to reduce our office and administrative expenses by approximately \$230,000, declining from \$293,474 to \$60,181. With fewer exploration projects to track, we were able to reduce our office staff and significantly reduce office and administrative expenses.

Professional fees for the three months ended September 30, 2009 as compared to 2008 remained relatively unchanged at \$239,932 as compared to \$234,976. Professional fees are related to our dual listings on the American Stock Exchange, Toronto Stock Exchange as well as regulatory compliance and fees related to the public offering of securities.

We also incurred \$364,458 in acquisition expenses (Klondex) for the three months ended September 30, 2009.

Net Income (loss)

Our net gain for the three months ended September 30, 2009 was \$2,045,492 as compared to a net loss of \$3,061,378 in 2008. Due to foreign currency translation adjustments, our total comprehensive gain for the three months ended September 30, 2009 was \$1,053,458 as compared to a total comprehensive loss of \$3,093,672. Total comprehensive loss since inception totaled \$55,068,873. Until such time as we are able to identify mineral deposits which we believe can be extracted in a commercially reasonable manner, of which there can be no assurance, we will continue to incur ongoing losses.

Liquidity and Capital Resources

Assets and Liabilities

September 30, 2009 as compared to June 30, 2009

At September 30, 2009, we had cash and cash equivalents totaling \$1,851,389 as compared to \$7,040,999 at June 30, 2009. This decline of approximately \$5.2 million is primarily attributable to the \$3,701,751 acquisition costs (Mexoro) associated with several mining concessions as well as our ongoing drilling and exploration program. The \$3.7 million to fund the purchase from Mexoro was paid into escrow just prior to quarter end thereby lowering our cash position accordingly.

Amounts receivable totaled \$368,611 as compared to \$221,267 and represent primarily value added tax and refunds receivable from the Mexican government. There was little change in our accounts receivables, notes receivable or prepaid expenses and deposits

Total current assets were \$3,526,905 as compared to \$8,499,986.

Our long term assets at September 30, 2009 totaled \$22,647,977 as compared to \$18,957,809. Long term assets consist primarily of our mineral properties located within the Sierra Madre gold district in Mexico which we valued at \$22,138,703 as compared to \$18,436,951 as of June 30, 2009. The Company has capitalized the acquisition costs of these properties. We also have fixed assets consisting of property and equipment totaling \$509,274 as compared to \$520,858 net of depreciation.

Total assets at September 30, 2009 were \$26,174,882 as compared to \$27,457,795.

Our current liabilities as of September 30, 2009 totaled \$14,135,839 as compared to \$383,445 at June 30, 2009. The increase in current liabilities is largely attributable to the addition this year of a warrant liability of \$13,162,453 due to warrants with exercise prices in Canadian dollars. 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 became 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 at September 30, 2009 (current assets less current liabilities) of \$2,553,519 as compared to a working capital surplus of \$8,116,541 at June 30, 2009, representing a decline of approximately 70%. Subsequent to September 30, 2009, we completed a financing totaling \$21.7 million. As a result, we anticipate that we will be able to meet our currently existing ongoing contractual commitments for any property or mineral rights and have sufficient financial resources to finance necessary exploration and geological endeavors.

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, capital expenditures or capital resources.

ITEM QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

3.

Not applicable.

ITEM CONTROLS AND PROCEDURES

4.

(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.

ITEM THE INFORMATION REQUIRED BY ITEM 4T IS CONTAINED IN ITEM 4.

4T.

PART II. – OTHER INFORMATION

ITEM LEGAL PROCEEDINGS

1.

We have filed a statement of claim against Klondex Minerals Ltd. alleging that Klondex acted in bad faith, breached its contract with us, spread malicious falsehoods and defamed our good name and reputation.

We are not a party to any other legal proceedings.

ITEM RISK FACTORS

1A.

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, 2009.

ITEM UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2.

During the quarter ended September 30, 2009, we issued 5,429 shares of our common stock pursuant to the exercise of outstanding stock options.

ITEM DEFAULTS UPON SENIOR SECURITIES

3.

Not Applicable.

ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

4.

None.

ITEM OTHER INFORMATION

5.

None.

ITEMEXHIBITS

6.

| 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 |
| 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 |
| <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) |

*

Filed Herewith

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: November 5, 2010

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

Date: November 5, 2010

By: /s/ CARLO BUFFONE
Carlo Buffone
Chief Financial Officer