

PARAMOUNT GOLD & SILVER CORP.
Form 10-Q
May 09, 2012

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2012

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

For the transition period from _____ to _____

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

Delaware
(State or Other Jurisdiction
of Incorporation)

0-51600
(Commission
File Number)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

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

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13, or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date: 147,387,288 shares of Common Stock, \$.001 par value as of April 27, 2012.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 contains “forward-looking statements”. Generally, the words “believes,” “anticipates,” “may,” “will,” “should,” “expect,” “intend,” “estimate,” “continue,” and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements which include, but are not limited to, statements concerning the Company’s expectations regarding its working capital requirements, financing requirements, business prospects, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Such statements are subject to certain risks and uncertainties, including the matters set forth in this Quarterly Report or other reports or documents the Company files with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected.

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

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

OTHER PERTINENT INFORMATION

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Financial Statements

(Unaudited)

Period ended March 31, 2012 and 2011

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Balance Sheets

As at March 31, 2012 (Unaudited) and June 30, 2011 (Audited)

(Expressed in United States dollars, unless otherwise stated)

| | As at March 31, 2012 (Unaudited) | As at June 30, 2011 (Audited) |
|--|-------------------------------------|----------------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 16,142,608 | \$ 14,689,241 |
| Amounts receivable | 1,615,485 | 1,625,724 |
| Subscriptions receivable (Note 6 and 12) | 8,661,250 | - |
| Prepaid and deposits | 341,573 | 34,252 |
| Prepaid insurance, current portion (Note 11) | 245,215 | 245,215 |
| Marketable securities (Note 3) | - | 319,219 |
| Total Current Assets | 27,006,131 | 16,913,651 |
| Non-Current Assets | | |
| Mineral properties (Note 8) | 50,479,859 | 49,515,859 |
| Fixed assets (Note 9) | 464,973 | 487,740 |
| Prepaid insurance, non current portion (Note 11) | 429,124 | 613,035 |
| Reclamation bond (Note 11) | 2,811,248 | 2,765,742 |
| Total Non-Current Assets | 54,185,204 | 53,382,376 |
| Total Assets | \$ 81,191,335 | \$ 70,296,027 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 2,276,409 | \$ 769,172 |
| Warrant liability (Note 4) | 9,854,853 | 16,914,660 |
| Total Current Liabilities | 12,131,262 | 17,683,832 |
| Non-Current Liabilities | | |
| Reclamation and environmental obligation (Note 11) | 1,217,443 | 1,143,892 |
| Total Liabilities | \$ 13,348,705 | 18,827,724 |
| Shareholders' Equity | | |
| Capital stock (Note 6) | 147,363 | 136,249 |
| Additional paid in capital | 151,532,498 | 129,664,660 |
| Contributed surplus | 12,481,382 | 11,287,242 |
| Deficit accumulated during the exploration stage | (96,247,000) | (89,637,633) |
| Accumulated other comprehensive income | (71,613) | 17,785 |
| Total Shareholders' Equity | 67,842,630 | 51,468,303 |

| | | | | |
|--|----|------------|----|------------|
| Total Liabilities and Shareholders' Equity | \$ | 81,191,335 | \$ | 70,296,027 |
|--|----|------------|----|------------|

Subsequent Events (Note 12)

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

For the Nine Month Period Ended March 31, 2012 and 2011

(Expressed in United States dollars, unless otherwise stated)

| | For the Three Month Period Ended March 31, 2012 | For the Nine Month Period Ended March 31, 2012 | For the Three Month Period Ended March 31, 2011 | For the Nine Month Period Ended March 31, 2011 | Cumulative Since Inception to March 31, 2012 |
|--|---|--|---|--|--|
| Revenue | | | | | |
| Interest income | \$ 6,297 | \$ 23,237 | \$ 39,474 | \$ 85,826 | \$ 1,160,069 |
| Other income | - | 73,130 | 2,603 | 180,833 | 253,963 |
| Total Revenue | \$ 6,297 | \$ 96,367 | \$ 42,077 | \$ 266,659 | \$ 1,414,032 |
| Expenses: | | | | | |
| Incorporation costs | - | - | - | - | 1,773 |
| Exploration | 3,046,194 | 9,850,449 | 2,531,665 | 6,244,524 | 41,632,485 |
| Professional fees | 265,380 | 874,308 | 283,796 | 919,805 | 8,380,231 |
| Directors compensation | 948,312 | 1,172,080 | 551,895 | 744,677 | 2,126,459 |
| Travel & lodging | 53,997 | 162,850 | 46,214 | 164,369 | 1,425,096 |
| Corporate communications | 146,822 | 314,266 | 137,346 | 218,770 | 3,691,673 |
| Consulting fees | 116,975 | 373,605 | 119,690 | 365,315 | 14,643,215 |
| Office & administration | 121,706 | 332,103 | 59,376 | 282,207 | 3,021,726 |
| Interest & service charges | 3,062 | 7,498 | 3,467 | 9,483 | 116,984 |
| Loss on disposal of fixed assets | - | - | - | - | 44,669 |
| Insurance | 81,409 | 237,387 | 95,334 | 233,922 | 830,716 |
| Depreciation | 19,547 | 58,985 | 16,738 | 54,915 | 428,562 |
| Accretion | 38,426 | 115,278 | 35,210 | 84,674 | 235,162 |
| Miscellaneous | - | - | - | - | 203,097 |
| Financing & listing fees | - | - | - | - | (22,024) |
| Acquisition expenses | - | - | 45 | 1,081,075 | 1,505,334 |
| Income and other taxes | - | - | 13,015 | 13,015 | 64,747 |
| Write down of mineral property | 100,000 | 100,000 | - | - | 1,856,049 |
| Total Expenses | 4,941,830 | 13,598,809 | 3,893,791 | 10,416,751 | 80,185,954 |
| Net Loss before other items | \$ 4,935,533 | \$ 13,502,442 | \$ 3,851,714 | \$ 10,150,092 | \$ 78,771,922 |
| Other items | | | | | |
| Change in fair value of equity conversion right | - | - | (164,488) | 15,467 | 990,236 |
| Change in fair value of warrant liability | 228,312 | (7,059,807) | (1,085,671) | 21,233,585 | 16,318,110 |

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| | | | | | |
|---------------------------------------|--------------|--------------|--------------|---------------|---------------|
| Loss on sale of marketable securities | 162,603 | 166,732 | 900 | 900 | 166,732 |
| Net Loss | \$ 5,326,448 | \$ 6,609,367 | \$ 2,602,455 | \$ 31,400,044 | \$ 96,247,000 |

| | | | | | |
|---|--------------|--------------|--------------|---------------|---------------|
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | 59,217 | 120,343 | (220,765) | (492,544) | 71,613 |
| Total Comprehensive Loss for the Period | \$ 5,385,665 | \$ 6,729,710 | \$ 2,381,690 | \$ 30,907,500 | \$ 96,318,613 |

| | | | | | |
|-----------------------|---------|---------|---------|---------|--|
| Loss per Common share | | | | | |
| Basic | \$ 0.04 | \$ 0.05 | \$ 0.02 | \$ 0.24 | |
| Diluted | \$ 0.04 | \$ 0.05 | \$ 0.02 | \$ 0.24 | |

| | | | | | |
|---|-------------|-------------|-------------|-------------|--|
| Weighted Average Number of Common Shares Used in Per Share Calculations | | | | | |
| Basic | 136,962,960 | 136,799,824 | 135,096,531 | 128,841,845 | |
| Diluted | 136,970,327 | 136,809,006 | 135,096,531 | 128,841,845 | |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Cash Flows (Unaudited)

For the Nine Month Period Ended March 31, 2012 and 2011

(Expressed in United States dollars, unless otherwise stated)

| | For the Nine Month Period Ended March 31, 2012 | For the Nine Month Period Ended March 31, 2011 | Cumulative Since Inception to March 31, 2012 |
|---|--|--|---|
| Net Loss | \$ (6,609,367) | \$ (31,400,044) | \$ (96,247,000) |
| Adjustment for: | | | |
| Depreciation | 58,985 | 54,915 | 428,562 |
| Loss on disposal of assets | - | - | 44,669 |
| Stock based compensation | 1,511,822 | 1,154,415 | 19,170,222 |
| Accrued interest | - | - | (58,875) |
| Write-down of mineral properties | 100,000 | - | 1,856,049 |
| Accretion expense | 115,278 | 84,674 | 235,162 |
| Change in reclamation | (4,555) | (19,532) | 59,037 |
| Insurance expense | 183,911 | 96,648 | 366,146 |
| Other non cash transactions | 205,474 | 900 | 204,575 |
| Change in fair value of equity conversion right | - | 15,467 | 990,236 |
| Change in fair value of warrant liability | (7,059,807) | 21,233,585 | 16,318,110 |
| (Increase) Decrease in accounts receivable | 10,239 | (369,678) | (1,532,059) |
| (Increase) Decrease in prepaid expenses | (307,321) | (85,322) | (341,573) |
| Increase (Decrease) in accounts payable | 1,507,237 | (10,947) | 392,626 |
| Cash used in operating activities | \$ (10,288,104) | \$ (9,244,919) | \$ (58,114,113) |
| Sale (purchase) of marketable securities | 144,690 | - | 144,690 |
| Increase of reclamation bond | (82,678) | - | (82,678) |
| Purchase of GIC receivable | - | - | 58,875 |
| Notes receivable issued | - | 243,495 | 21,365 |
| Purchase of equity conversion right | - | - | (1,337,700) |
| Purchase of mineral properties | (100,000) | (150,000) | (7,209,870) |
| Cash acquired on acquisition of X-Cal | - | - | 843,101 |
| Purchase of equipment | (36,218) | (28,712) | (938,080) |
| Cash provided by (used in) investing activities | \$ (74,206) | \$ 64,783 | \$ (8,500,297) |
| Demand notes payable issued | - | - | 105,580 |
| Issuance of capital Stock | 11,936,020 | 3,572,052 | 82,767,999 |
| Cash provided by financing activities | \$ 11,936,020 | \$ 3,572,052 | \$ 82,873,579 |
| Effect of exchange rate changes on cash | (120,343) | 492,544 | (116,561) |
| Change in cash during period | 1,453,367 | (5,115,540) | 16,142,608 |

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| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Cash at beginning of period | 14,689,241 | 21,380,505 | - |
| Cash at end of period | \$ 16,142,608 | \$ 16,264,965 | \$ 16,142,608 |
| Supplemental Cash Flow Disclosure | | | |
| Interest Received | \$ 23,237 | \$ 85,826 | |
| Cash | \$ 13,584,103 | \$ 4,454,979 | |
| Short-term investments | \$ 2,558,505 | \$ 11,809,986 | |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Shareholders' Equity (Unaudited)

From Inception to the Nine Month Period Ended March 31, 2012

(Expressed in United States dollars, unless otherwise stated)

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

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| | | | | | | | |
|--|-------------|------------|---------------|-----------------|---------------|--------------|---------------|
| properties | | | | | | | |
| Stock based compensation | — | — | — | — | 3,612,864 | — | 3,612,864 |
| Transition adjustment (Note 2) | — | — | — | — | 1,052,709 | — | 1,052,709 |
| Foreign currency translation | — | — | — | — | — | (267,215) | (267,215) |
| Net Income (loss) | — | — | — | (7,241,179) | — | — | (7,241,179) |
| Balance at June 30, 2009 | 83,018,219 | \$ 83,018 | \$ 52,506,278 | \$ (43,197,264) | \$ 17,969,510 | \$ (287,192) | \$ 27,074,350 |
| Capital issued for financing | 18,400,000 | 18,400 | 21,371,043 | — | — | — | 21,389,443 |
| Capital issued from stock options and warrants exercised | 8,351,360 | 8,351 | 16,361,552 | — | (3,841,264) | — | 12,528,639 |
| Capital issued for mineral properties | 300,000 | 300 | 374,700 | — | — | — | 375,000 |
| Stock based compensation | — | — | — | — | 309,840 | — | 309,840 |
| Transition adjustment (Note 2) | — | — | — | (12,637,875) | (3,612,864) | — | (16,250,739) |
| Foreign currency translation | — | — | — | — | — | (156,483) | (156,483) |
| Net Income (loss) | — | — | — | (5,351,958) | — | — | (5,351,958) |
| Balance at June 30, 2010 | 110,069,579 | \$ 110,069 | \$ 90,613,573 | \$ (61,187,098) | \$ 10,825,222 | \$ (443,675) | \$ 39,918,091 |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Shareholders' Equity (Unaudited)

From Inception to the Nine Month Period Ended March 31, 2012

(Expressed in United States dollars, unless otherwise stated)

| | | | | | | | |
|--|-------------|------------|----------------|----------------|---------------|-------------|---------------|
| Capital issued for financing | 19,395 | 19 | 23,970 | — | — | — | 23,989 |
| Capital issued from stock options and warrants exercised | 4,153,085 | 4,154 | 10,219,361 | — | (1,053,645) | — | 9,169,870 |
| Capital issued for acquisition | 22,007,453 | 22,007 | 28,807,756 | — | 314,790 | — | 29,144,553 |
| Stock based compensation | — | — | — | — | 1,200,875 | — | 1,200,875 |
| Foreign currency translation | — | — | — | — | — | 492,405 | 492,405 |
| Unrealized loss on available for sale securities | — | — | — | — | — | (30,945) | (30,945) |
| Net Income (loss) | — | — | — | (28,450,535) | — | — | (28,450,535) |
| Balance at June 30, 2011 | 136,249,512 | \$ 136,249 | \$ 129,664,660 | \$(89,637,633) | \$ 11,287,242 | \$ 17,785 | \$ 51,468,303 |
| Capital issued from stock options and warrants exercised | 137,500 | 138 | 215,260 | — | (83,897) | — | 131,501 |
| Capital issued for acquisition | 400,000 | 400 | 963,600 | — | — | — | 964,000 |
| Stock based compensation | — | — | — | — | 45,690 | — | 45,690 |
| Foreign currency translation | — | — | — | — | — | (61,126) | (61,126) |
| Unrealized loss on available for sale securities | — | — | — | — | — | (96,372) | (96,372) |
| Net Income (loss) | — | — | — | 869,894 | — | — | 869,894 |
| Balance at September 30, 2011 | 136,787,012 | \$ 136,787 | \$ 130,843,520 | \$(88,767,739) | \$ 11,249,035 | \$(139,713) | \$ 53,321,890 |
| | 100,000 | 100 | 265,569 | — | (200,669) | — | 65,000 |

| | | | | | | | |
|--|-------------|------------|----------------|----------------|---------------|-------------|---------------|
| Capital issued from stock options and warrants exercised | | | | | | | |
| Stock based compensation | — | — | — | — | 341,065 | — | 341,065 |
| Unrealized loss on available for sale securities | — | — | — | — | — | (42,679) | (42,679) |
| Net Income (loss) | — | — | — | (2,152,813) | — | — | (2,152,813) |
| Balance at December 31, 2011 | 136,887,012 | \$ 136,887 | \$ 131,109,089 | \$(90,920,552) | \$ 11,389,431 | \$(182,392) | \$ 51,532,463 |
| Capital issued for financing | 10,417,776 | 10,418 | 20,338,300 | — | — | — | 20,348,718 |
| Capital issued from stock options and warrants exercised | 57,500 | 58 | 85,109 | — | (33,117) | — | 52,050 |
| Stock based compensation | — | — | — | — | 1,125,068 | — | 1,125,068 |
| Foreign currency translation | — | — | — | — | — | (59,217) | (59,217) |
| Unrealized loss on available for sale securities | — | — | — | — | — | 169,996 | 169,996 |
| Net Income (loss) | — | — | — | (5,326,448) | — | — | (5,326,448) |
| Balance at March 31, 2012 | 147,362,288 | \$ 147,363 | \$ 151,532,498 | \$(96,247,000) | \$ 12,481,382 | \$(71,613) | \$ 67,842,630 |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated Financial Statements (Unaudited)

For the Nine Month Period Ended March 31, 2012

(Expressed in United States dollars, unless otherwise stated)

1. Summary of Significant Accounting Policies:

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

Basis of Presentation and Preparation

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

These interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States and, with the exception of new accounting pronouncements described in Note 2, follow the same accounting policies and methods of their application as the most recent annual financial statements. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Annual Report on Form 10-K of Paramount Gold and Silver Corp. for the year ended June 30, 2011.

Mineral Properties

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

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

Exploration Costs

Exploration costs, which include maintenance, development and exploration of mineral claims, are expensed as incurred. When it is determined that a mineral deposit can be economically developed as a result of establishing proven and probable reserves, the costs incurred after such determination will be capitalized and amortized over their

useful lives. To date, the Company has not established the commercial feasibility of its exploration prospects; therefore, all exploration costs are being expensed.

Derivatives

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

Warrants and options issued in prior periods with exercise prices denominated in Canadian dollars are no longer considered indexed to our stock, as their exercise price is not in the Company's functional currency of the US dollar, and therefore no longer qualify for the scope exception and must be accounted for as a derivative. These warrants and options are reclassified as liabilities under the caption "Warrant liability" and recorded at estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in the liability from period to period are recorded in the Statements of Operations under the caption "Change in fair value of warrant liability."

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated Financial Statements (Unaudited)

For the Nine Month Period Ended March 31, 2012

(Expressed in United States dollars, unless otherwise stated)

1. Summary of Significant Accounting Policies (Continued):

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

Foreign Currency Translation

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

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

2. Recent Accounting Pronouncements Adopted:

i) ASU 2011-6

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

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3. Marketable Securities and Investments:

As of December 31, 2011, the Company had investments in available-for-sale securities with a cost basis of \$332,168. The investments include certain equity securities of entities involved in the exploration of precious metals. During the three month period ended March 31, 2012, the Company sold its investment in available-for-sale securities for proceeds of \$130,822.

Also during the three month period ended March 31, 2012, the Company sold 250,000 shares of common stock of Mexoro Minerals Ltd for proceeds of \$38,743.

For the three month period ended March 31, 2012, the Company recorded a loss on sale of marketable securities of \$162,603.

4. Fair Value Measurements:

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

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

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

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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4. Fair Value Measurements (Continued):

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets | Total | Fair Value at March 31, 2012 | | | June 30, |
|-----------------------|------------|------------------------------|---------|-----------|------------|
| | | Level 1 | Level 2 | Level 3 | 2011 |
| | \$ | \$ | \$ | \$ | Total |
| Cash equivalents | 16,142,608 | 16,142,608 | - | - | 14,689,241 |
| Marketable Securities | - | - | - | - | 319,219 |
| Liabilities | | | | | |
| Warrant liability | 9,854,853 | - | - | 9,854,853 | 16,914,660 |

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 amounts receivable represent amounts due from a national government regarding refund of taxes.

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

| | March 31, 2012 |
|---------------------------------------|------------------|
| Risk free interest rate | 0.23% |
| Expected life of warrants and options | Less than 1 year |
| Expected stock price volatility | 70.1% |
| Expected dividend yield | 0% |

The changes in fair value of the warrants during the three month period ended March 31, 2012 was as follows:

| | |
|---|-------------|
| Balance at December 31, 2011 | \$9,626,541 |
| Issuance of warrants and options | - |
| Change in fair value recorded in earnings | 228,312 |
| Transferred to equity upon exercise | - |
| Balance at March 31, 2012 | \$9,854,853 |

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5. Non-Cash Transactions:

During the nine month period ended March 31, 2012 and 2011, the Company entered into certain non-cash activities as follows:

| | 2012 | 2011 |
|--|------------|---------------|
| Operating and Financing Activities | | |
| From issuance of shares for acquisitions | \$ - | \$ 28,829,763 |
| From issuance of shares for cashless exercise of options | \$ - | \$ 2,341,322 |
| From issuance of shares for mineral property | \$ 964,000 | \$ - |

6. Capital Stock:

a) Share issuances:

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

During the nine month period ended March 31, 2012, the Company issued a total of 11,112,776 (2011 – 26,113,035) common shares which are summarized as follows:

| | 2012 | 2011 |
|--------------------------------------|------------|------------|
| Financing | 10,417,776 | - |
| Acquisition of mineral properties | 400,000 | - |
| For exercise of warrants and options | 295,000 | 4,105,582 |
| For acquisition of companies | - | 22,007,453 |
| | 11,112,776 | 26,113,035 |

During the three month period ended March 31, 2012, the Company closed a private placement offering pursuant to which the Company sold 10,417,776 shares of its common stock for gross proceeds of \$21,356,441, at an offering price of \$2.05 per share. At March 31, 2012, the Company recorded a receivable of \$8,661,250 for 4,225,000 shares it issued pursuant to the financing in which it received funds in April 2012 (Note 12). The shares were held in escrow until the funds were received.

During the nine month period ended March 31, 2012, the Company entered into an agreement to purchase mining claims in northwestern Nevada in exchange for 400,000 shares of its common stock. The seller of the mineral claims retains a net smelter royalty of 1.5% on the portion of claims not subject to other royalties and a net smelter royalty of 0.5% on the portion already subject to a 2.0% royalty held by a third party.

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6. Capital Stock (Continued):

b) Warrants:

The following share purchase warrants were outstanding at March 31, 2012:

| | Exercise price in CAD | Exercise price in USD at March 31, 2012 | Number of warrants | Remaining contractual life (years) |
|------------|-----------------------------|---|-----------------------|---|
| Warrants * | \$ 1.05 | \$ 1.05 | 7,700,000 | 0.96 |

* Strike price of warrant contract in Canadian dollars. At March 31, 2012 \$1.00 USD = \$1.000 CAD.

| | March 31, 2012 | March 31, 2011 |
|---------------------------------|------------------|----------------|
| Risk free interest rate | .23% | .29% |
| Expected life of warrants | Less than 1 year | 1 year |
| Expected stock price volatility | 70.1% | 70.9% |
| Expected dividend yield | 0% | 0% |

c) Stock options:

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

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

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

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:

| | March 31, 2012 | March 31, 2011 |
|-------------------------|----------------|----------------|
| Risk free interest rate | 0.10%-0.39% | 0.43% |

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| | | |
|---------------------------------|--------------|--------------|
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 72% to 84% | 62%-87% |
| Expected life of options | 1 to 4 years | 1 to 2 years |

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6. Capital Stock (Continued):

Changes in the Company's stock options for the nine month period ended March 31, 2012 are summarized below:

| Options | Number | Weighted Avg. Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-------------------------------|------------|---------------------------------------|--|---------------------------------|
| Balance at June 30, 2011 | 2,161,120 | 1.74 | 2.08 | 3,280,911 |
| Issued | 1,492,500 | 2.52 | | |
| Cancelled / Expired | (275,500) | 2.66 | | |
| Exercised | (295,000) | 1.40 | | |
| Outstanding at March 31, 2012 | 3,083,120 | 2.27 | 2.63 | 1,060,121 |
| Exercisable at March 31, 2012 | 2,328,121 | 1.96 | 2.11 | 1,060,121 |

At March 31, 2012, there were 3,083,120 options outstanding. Options outstanding above that have not been vested at period end are 754,999 which have a maximum service term of 1- 5 years. The vesting of these options is dependent on market conditions or service requirements, which have yet to be met.

For the three and nine month period ended March 31, 2012 the Company recognized stock based compensation expense in the amount of \$1,125,068 and \$1,511,822 respectively (2011 - \$848,104 and \$1,154,415) .

7. Related Party Transactions:

During the nine month period ended March 31, 2012, directors received cash payments in the amount of \$147,500 (2011 -\$162,500) for their services as directors or members of committees of the Company's Board. During the three month period ended March 31, 2012, the Company also recorded a non-cash transaction to recognize stock based compensation for directors in the amount of \$903,312 (2011- \$582,177)

During the three month period ended March 31, 2012 the Company made payments of \$24,041 (2011 - \$23,228) pursuant to a premises lease agreement to a corporation in which an officer is a shareholder.

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

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8. Mineral Properties:

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

| | March 31, 2012 | June 30, 2011 |
|--------------------|----------------|---------------|
| Iris Royalty | 50,000 | 50,000 |
| Morelos | – | 100,000 |
| San Miguel Project | 21,992,263 | 21,992,263 |
| Sleeper | 25,891,490 | 24,827,490 |
| Mill Creek | 2,096,616 | 2,096,616 |
| Spring Valley | 385,429 | 385,429 |
| Reese River | 64,061 | 64,061 |
| | \$ 50,479,859 | \$ 49,515,859 |

During the three month period ended March 31, 2012, the Company decided it would not make the required bi-annual mineral concession payments to the Mexican Government for its interest in the Morelos property. As a result, the value the Company has recorded for its interest in the Morelos property has been written off a loss of \$100,000 has been recorded the statement of operations.

During the nine month period ended March 31, 2012, the Company purchased mineral claims that are related to the Sleeper Gold Project for shares in the Company's common stock. The fair value of the shares issued were \$964,000.

During the nine month period ended March 31, 2012, the Company made a payment for \$100,000 towards a previously purchased mineral claim that is part of the Sleeper Gold Project.

9. Fixed Assets:

| | Cost | Accumulated Amortization | Net Book Value | |
|------------------------|-----------|-----------------------------|-------------------|-----------------|
| | | | March 31, 2012 | June 30,2011 |
| Property and Equipment | \$844,151 | \$379,178 | \$464,973 | \$487,740 |

During the nine month period ended March 31, 2012, total additions to property, plant and equipment were \$36,218 (2011- \$45,712) and total disposals of property, plant and equipment were \$nil (2011- \$16,800). During the nine month period ended March 31, 2012 the Company recorded depreciation of \$58,985 (2011-\$53,147).

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10. Segmented Information:

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

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

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

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10. Segmented Information (Continued):

Loss by geographical segment for the nine month period ended March 31, 2011:

| | United States | Mexico / Latin America | Total |
|---|---------------|---------------------------|---------------|
| Interest income | \$ 65,652 | \$ 20,174 | \$ 85,826 |
| Other income | \$ 178,230 | \$ 2,603 | \$ 180,833 |
| Total income | \$ 243,882 | \$ 22,777 | \$ 266,659 |
| Expenses: | | | |
| Exploration | 2,683,214 | 3,561,310 | 6,244,524 |
| Professional fees | 919,805 | - | 919,805 |
| Directors compensation | 744,677 | - | 744,677 |
| Travel and lodging | 164,369 | - | 164,369 |
| Corporate communications | 218,770 | - | 218,770 |
| Consulting fees | 365,315 | - | 365,315 |
| Office and administration | 246,407 | 35,800 | 282,207 |
| Interest and service charges | 7,190 | 2,293 | 9,483 |
| Insurance | 233,922 | - | 233,922 |
| Amortization | 13,414 | 41,501 | 54,915 |
| Accretion | 84,674 | - | 84,674 |
| Acquisition expenses | 1,081,075 | - | 1,081,075 |
| Income and other taxes | 13,015 | - | 13,015 |
| Total Expenses | 6,775,847 | 3,640,904 | 10,416,751 |
| Net loss before other items | \$ 6,531,965 | \$ 3,618,127 | \$ 10,150,092 |
| Other item | | | |
| Change in fair value of equity conversion right | 15,467 | - | 15,467 |
| Change in fair value of warrant liability | 21,233,585 | - | 21,233,585 |
| Other income & expenses | 900 | - | 900 |
| Net Loss | \$ 27,781,917 | \$ 3,618,127 | \$ 31,400,044 |
| Other comprehensive loss | | | |
| Foreign currency translation adjustment | (492,544) | - | (492,544) |
| Total Comprehensive Loss for the Period | \$ 27,289,373 | \$ 3,618,127 | \$ 30,907,500 |

Assets by geographical segment:

| | United States | Mexico | Total |
|--------------------|---------------|---------------|---------------|
| March 31, 2012 | | | |
| Mineral properties | \$ 28,337,596 | \$ 22,142,263 | \$ 50,479,859 |
| Equipment | 106,973 | 358,000 | 464,973 |

June 30, 2011

| | | | |
|--------------------|------------|------------|------------|
| Mineral properties | 27,373,596 | 22,142,263 | 49,515,859 |
| Equipment | \$ 131,683 | \$ 356,057 | \$ 487,740 |

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11. Reclamation and Environmental:

The Company holds an insurance policy related to its Sleeper Gold Project that covers reclamation costs in the event the Company defaults on payments of its reclamation costs up to an aggregate of \$25 million. The insurance premium is being amortized over ten years and the current and non-current prepaid insurance balance at March 31, 2012 is \$674,339.

As a part of the policy, the Company has funds in a commutation account which is used to reimburse reclamation costs and indemnity claims. During the nine month period ended March 31, 2012, the Company and the Bureau of Land Management of Nevada reviewed the previous reclamation cost estimates for the exploration activities of the Company and determined an increase in those estimates was required. As a result, the Company provided additional bonding to the Bureau of Land Management and increased the balance of the commutation account by \$82,678. The balance of the commutation account at March 31, 2012 is \$2,811,248.

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

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

| | |
|------------------------------|--------------|
| Balance at December 31, 2011 | \$ 1,198,205 |
| Accretion expense | 38,426 |
| Payments | (19,188) |
| Balance, at March 31, 2012 | \$ 1,217,443 |

12. Subsequent Events:

The Company received \$8,661,250 for shares it issued pursuant to the private placement offering it closed on March 30, 2012. As a result, the Company released 4,225,000 shares it held in escrow at March 31, 2012.

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

The following information should be read in conjunction with (i) our accompanying interim consolidated financial statements and related notes (included elsewhere in this report) and (ii) our consolidated financial statements, related notes and management's discussion and analysis of financial condition and results of operations included in our June 30, 2011 annual report filed on Form 10-K with the Securities and Exchange Commission on September 12, 2011.

We are an exploratory stage mining company that currently has mining concessions in Mexico and mineral claims in Nevada, USA. We have no proven reserves at our San Miguel project in Mexico or at our Sleeper Gold project in Nevada but are currently exploring both projects. The following discussion updates our planned operations for this fiscal year. It also analyzes our financial condition and summarizes the results of operations for the three and nine months period ended March 31, 2012 and compares those results to the three and nine months ended March 31, 2011.

Plan of Operation:

Exploration

Our total company exploration budget for the 2012 calendar year has been set to \$12.6 million. We plan to allocate \$6.3 million to our Sleeper Gold Project in Nevada and an equal amount to our San Miguel Project in Mexico.

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

Nevada

The Sleeper Gold Project will continue to be the Company's main focus in Nevada. The Company has engaged Scott E. Wilson Consulting, Inc., a mining consulting firm based in Denver, Colorado to prepare preliminary economic assessment ("PEA") of the Sleeper Gold Project. The completion of this report is expected by June 2012. The PEA will evaluate both the technical and financial aspects of various production scenarios at the Sleeper Gold Project. After completion of the PEA, the Company expects to engage an independent mining consulting firm to prepare a pre-feasibility study. As a result, the Company has planned to complete over 21,000 feet of core drilling, multiple metallurgical testing programs and geotechnical studies for the 2012 calendar year. We anticipate completion of the pre-feasibility study at the end of 2012. Exploration drilling will also continue and will focus on main targets identified by the Company's technical team.

During the nine month period ended March 31, 2012, the Company acquired 606 unpatented lode mining claims (the "Dunes Project") in northwestern Nevada from ICN Resources Ltd ("ICN"). The Dunes Project lies 11 miles south of our Sleeper Gold Project and can be accessed by a paved highway. In consideration, Paramount issued 400,000 shares of its common stock to ICN. ICN retains a net smelter royalty of 0.5% on the portion already subject to a 2.0% royalty held by a third party. The Dunes Project is exploratory in nature and contains no known reserves.

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Mexico

We plan, at our San Miguel Project, to complete a PEA by the end of 2012. The Company is currently evaluating proposals from leading consulting firms to commence this work. To advance the project in 2012, the Company has planned over 54,000 feet of core drilling and metallurgical testing required for the PEA report. The Company also expects to conduct sampling and geochemistry tests that are designed to assess areas in between known zones of mineralization.

Liquidity and Capital Resources

At March 31, 2012, we had a cash balance of \$16,142,608 compared to \$14,689,241 as at June 30, 2011. The cash used to fund our exploration programs and corporate overhead was offset by the financing we completed at March 30, 2012.

At March 31, 2012, we had a net working capital, excluding the non-cash warrant liability, of \$24,759,722. We anticipate our cash expenditures to fund exploration programs and general corporate expenses to be approximately \$1.25 million per month for three month period ending June 30, 2012. We also anticipate making \$1.6 million in option payments for previously purchased mineral concessions in the next 6 months. Anticipated cash outlays will be funded by our available cash reserves and future issuances of shares of our common stock

During the nine month period ended March 31, 2012, the company received \$248,550 pursuant to the exercise of stock options.

At March 31, 2012, the Company had 7,700,000 "in-the-money" purchase warrants outstanding. All the warrants are held by the Company's largest shareholder FCMI Financial Corporation. If all the issued outstanding warrants are exercised, the Company's cash balances will increase by approximately \$8.1 million. These warrants expire March 2013.

At March 31, 2012, the amounts receivable amount of \$1,615,485 primarily consisted of value added tax due from the Mexican government. During the three and nine month period ended March 31, 2012, the Company has collected \$136,805 and 737,277 respectively in value added tax.

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

Comparison of Operating Results for the nine month period ended March 31, 2012 as to the nine month period ended March 31, 2011.

Net Loss

Our net loss before other items for the nine month period ended March 31, 2012 was \$13,472,442 compared to a loss of \$10,150,092 in the comparable period in the prior year. The increase in net loss of \$3,322,350 or 33% reflects our expanded exploration programs at both the Sleeper Gold Project and the San Miguel Project. We will continue to incur losses for the foreseeable future as we continue with our planned explorations programs at both projects.

Expenses

Our exploration expenses for the nine month period ended March 31, 2012 compared to the comparable prior period increased by 58%. The increase is mainly driven by the increased number of holes and total cumulative length of feet drilled by the Company in both Nevada and Mexico.

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The following table summarizes our drilling activities at both projects for the nine month period ended March 31, 2012 and 2011:

| | Nine month period ended March 31, 2012 | | Nine month period ended March 31, 2011 | |
|----------------------------|--|---------------------------|--|---------------------------|
| | Holes | Cumulative Length in Feet | Holes | Cumulative Length in Feet |
| San Miguel Project, Mexico | 113 | 104,023 | 63 | 55,808 |
| Sleeper Gold Project, USA | 77 | 18,517 | 11 | 10,704 |
| Total | 190 | 122,540 | 74 | 66,512 |

Our general corporate expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$1,894,282 for the nine month period ended March 31, 2012. This is a 6% increase over the comparable nine month period in the 2011. The increase in expenses was primarily due to an increase in legal fees and tax consulting fees during the three month period ended September 30, 2011. Management believes the legal expenses were one time in nature and does not expect similar expenses in future periods.

During the nine month period ended March 31, 2012, the Company's warrant liability decreased by \$7,059,807. The decrease was recorded as a gain on the Consolidated Statement of Operations. The decrease in warrant liability is primarily due to a decrease in the Company's share price from \$3.26 at June 30, 2011 to \$2.26 at March 31, 2012.

Comparison of Operating Results for the three month period ended March 31, 2012 as to the three month period ended March 31, 2011

Net Loss

Our net loss before other items for the three month period ended March 31, 2012 was \$4,905,533 compared to a loss of \$3,851,714 in the comparable period in the prior year. The increase in net loss of \$1,053,819 or 26% reflects our expanded exploration programs at both the Sleeper Gold Project and the San Miguel Project. We will continue to incur losses for the foreseeable future as we continue with our planned explorations programs at both projects.

Expenses

Our exploration expenses for the three month period ended March 31, 2012 compared to comparable prior year period increased by 20%. The increase is mainly due to the Company's exploration activity at its San Miguel project in Mexico. The following table summarizes our drilling activities at both projects for the three month period ended March 31, 2012 and 2011:

| | Three month period ended March 31, 2012 | | Three month period ended March 31, 2011 | |
|----------------------------|---|---------------------------|---|---------------------------|
| | Holes | Cumulative Length in Feet | Holes | Cumulative Length in Feet |
| San Miguel Project, Mexico | 48 | 43,636 | 14 | 11,641 |
| Sleeper Gold Project, USA | 5 | 485 | - | - |
| Total | 53 | 44,121 | 14 | 11,641 |

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Our general corporate expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$650,883 for the three month period ended March 31, 2012. This is an 8.4% increase over the comparable three month period in the 2011 is primarily a result of additional expenses incurred at our San Miguel project in Mexico.

During the three month period ended March 31, 2012, the Company's warrant liability increased by \$228,312. The increase was recorded as a loss on the Consolidated Statement of Operations. The increase in warrant liability is primarily due to an increase in the Company's share price from \$2.14 at December 31, 2011 to \$2.26 at March 31, 2012.

Critical Accounting Policies

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

Estimates

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

Mineral property acquisition costs

The Company capitalizes the cost of acquiring mineral properties and will amortize these costs over the useful life of a property following the commencement of production or expense if it is determined that the mineral property has no future economic value or the properties are sold or abandoned. Costs include cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts of the specific mineral property at the time the payments are made.

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

Exploration expenses

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

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Derivatives

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

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

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

Foreign Currency Translation

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

Reclassification

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed significantly from its year ended June 30, 2011.

Foreign Currency Exchange Rate Risk

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

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

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Interest Rate Risk

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the period ended June 30, 2011.

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

On March 30, 2012, the Company closed a private placement offering pursuant to which the Company sold to various institutional and accredited investors and non-U.S. persons 10,417,776 shares of its common stock for gross proceeds of \$21,356,441, at an offering price of \$2.05 per Share.

None of these transactions involved any underwriters or any public offerings, and we believe that they were exempt from the registration requirements pursuant to Section 4(2) of the Securities Act of 1933. With respect to each transaction described above, the certificate for the shares of common stock contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption there from.

Item 6. Exhibits

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Certificate of Incorporation, effective March 31, 2005, incorporated by reference to Exhibit 3.1 to Form 10-SB filed November 2, 2005 |
| 3.2 | Certificate of Amendment to Certificate of Incorporation, effective August 23, 2007, incorporated by reference to Exhibit 3 to Form 8-K filed August 28, 2007 |
| 3.2(b) | Certificate of Amendment to Certificate of Incorporation, effective March 3, 2009, incorporated by reference to Exhibit 3.1 to Form 8-K filed February 26, 2009 |
| 3.3 | Restated Bylaws, effective April 18, 2005 |
| 4.1 | Registration Rights Agreement, dated March 30, 2007, incorporated by reference to Exhibit 10.2 to Form 8-K filed April 6, 2007 |
| 4.2 | Form of Investor Warrant, incorporated by reference to Exhibit 10.3 to Form 8-K filed April 6, 2007 |
| <u>31.1</u> * | Certificate of the Chief Executive Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| <u>31.2</u> * | Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| <u>32.1</u> * | Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| <u>32.2</u> * | Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |

* Filed Herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARAMOUNT GOLD AND SILVER CORP.

Date: May 9, 2012

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

Date: May 9, 2012

/s/ CARLO BUFFONE
Carlo Buffone
Chief Financial Officer