

PARAMOUNT GOLD & SILVER CORP.
Form 10-Q
November 07, 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 September 30, 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: 147,546,184 shares of Common Stock, \$.001 par value as of November 2, 2012.

| | |
|--|----|
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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 September 30, 2012 and 2011

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Balance Sheets

As at September 30, 2012 and June 30, 2012

(Expressed in United States dollars, unless otherwise stated)

| | As at September 30, 2012 (Unaudited) | As at June 30, 2012 (Audited) |
|--|--|----------------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9,978,595 | \$ 12,500,708 |
| Short-term investments | 3,006,247 | 7,500,000 |
| Amounts receivable | 1,963,629 | 1,458,365 |
| Prepaid and deposits | 622,207 | 354,667 |
| Prepaid insurance, current portion (Note 10) | 245,215 | 245,215 |
| Total Current Assets | 15,815,893 | 22,058,955 |
| Non-Current Assets | | |
| Mineral properties (Note 7) | 51,939,859 | 50,479,859 |
| Property and equipment (Note 8) | 454,215 | 458,937 |
| Prepaid insurance, non current portion (Note 10) | 306,518 | 367,822 |
| Reclamation bond (Note 10) | 2,784,484 | 2,754,316 |
| Total Non-Current Assets | 55,485,076 | 54,060,934 |
| Total Assets | \$ 71,300,969 | \$ 76,119,889 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 485,580 | \$ 1,364,419 |
| Warrant liability (Note 3) | 12,278,907 | 10,746,787 |
| Total Current Liabilities | 12,764,487 | 12,111,206 |
| Non-Current Liabilities | | |
| Reclamation and environmental obligation (Note 10) | 1,240,115 | 1,198,179 |
| Total Liabilities | \$ 14,004,602 | 13,309,385 |
| Stockholders' Equity | | |
| Capital Stock, par value \$0.001 per share; authorized 200,000,000 shares, 147,546,184 issued and outstanding at September 30, 2012 and 147,412,603 shares issued and outstanding at June 30, 2012 | 147,547 | 147,413 |
| Additional paid in capital | 151,834,366 | 151,564,888 |
| Contributed surplus | 12,940,601 | 12,892,174 |
| Deficit accumulated during the exploration stage | (107,588,704) | (101,729,241) |
| Accumulated other comprehensive income (loss) | (37,443) | (64,730) |

| | | |
|---|------------|---------------|
| Total Stockholders' Equity | 57,296,367 | 62,810,504 |
| Total Liabilities and Stockholders' Equity \$ | 71,300,969 | \$ 76,119,889 |

Subsequent Events (Note 11)

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

For the Three Month Period Ended September 30, 2012 and 2011

(Expressed in United States dollars, unless otherwise stated)

| | For the Period Ended September 30, 2012 | For the Period Ended September 30, 2011 | Cumulative Since Inception to September 30, 2012 |
|--|--|--|---|
| Revenue | | | |
| Interest income | \$ 15,778 | \$ 20,642 | \$ 1,195,270 |
| Other income | 7,500 | 25,000 | 261,463 |
| Total Revenue | \$ 23,278 | \$ 45,642 | \$ 1,456,733 |
| Expenses: | | | |
| Incorporation costs | - | - | 1,773 |
| Exploration | 3,494,470 | 3,978,339 | 48,703,883 |
| Professional fees | 193,109 | 308,366 | 8,865,913 |
| Directors compensation | 143,630 | 68,489 | 2,455,059 |
| Travel & lodging | 52,795 | 45,331 | 1,539,747 |
| Corporate communications | 60,614 | 38,037 | 3,878,403 |
| Consulting fees | 129,593 | 80,100 | 14,874,290 |
| Office & administration | 123,802 | 86,285 | 3,265,197 |
| Interest & service charges | 3,604 | 2,776 | 123,737 |
| Loss on disposal of fixed assets | - | - | 44,669 |
| Insurance | 90,616 | 76,417 | 1,007,722 |
| Depreciation | 16,452 | 21,440 | 463,185 |
| Accretion | 41,936 | 38,426 | 315,524 |
| Miscellaneous | - | - | 203,097 |
| Financing & listing fees | - | - | (22,024) |
| Acquisition expenses | - | - | 1,505,334 |
| Income and other taxes | - | - | 64,747 |
| Write down of mineral property | - | - | 1,856,049 |
| Total Expenses | 4,350,621 | 4,744,006 | 89,146,305 |
| Net Loss before other items | \$ 4,327,343 | \$ 4,698,364 | \$ 87,689,572 |
| Other items | | | |
| Change in fair value of equity conversion right | - | - | 990,236 |
| Change in fair value of warrant liability | 1,532,120 | (5,572,387) | 18,742,164 |
| Loss on sale of marketable securities | - | 4,129 | 166,732 |
| Net Loss(Gain) | \$ 5,859,463 | \$ (869,894) | \$ 107,588,704 |
| Other comprehensive loss(gain) | | | |
| Foreign currency translation adjustment | (27,287) | 61,126 | 37,443 |
| Unrealized loss on available-for-sale-securities | - | 96,372 | - |
| Total Comprehensive Loss(Gain) for the Period | \$ 5,832,176 | \$ (712,396) | \$ 107,626,147 |

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Loss (Gain) per Common share

| | | |
|---------|---------|------------|
| Basic | \$ 0.04 | \$ (0.01) |
| Diluted | \$ 0.04 | \$ (0.01) |

Weighted Average Number of Common

Shares Used in Per Share Calculations

| | | |
|---------|-------------|-------------|
| Basic | 147,482,297 | 136,442,854 |
| Diluted | 147,482,297 | 142,005,445 |

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

For the Three Month Period Ended September 30, 2012 and 2011

(Expressed in United States dollars, unless otherwise stated)

| | For the Period Ended September 30, 2012 | For the Period Ended September 30, 2011 | Cumulative Since Inception to September 30, 2012 |
|---|--|--|---|
| Net Gain (Loss) | \$ (5,859,463) | \$ 869,894 | \$ (107,588,704) |
| Adjustment for: | | | |
| Depreciation | 16,452 | 21,440 | 463,185 |
| Loss on disposal of assets | - | - | 44,669 |
| Stock based compensation | 266,039 | 45,690 | 19,843,162 |
| Accrued interest | - | - | (58,875) |
| Write-down of mineral properties | - | - | 1,856,049 |
| Accretion expense | 41,936 | 38,426 | 315,524 |
| Change in reclamation | (30,168) | (1,879) | 28,112 |
| Insurance expense | 61,304 | 61,302 | 488,752 |
| Other non cash transactions | - | 4,129 | 204,575 |
| Change in fair value of equity conversion right | - | - | 990,236 |
| Change in fair value of warrant liability | 1,532,120 | (5,572,387) | 18,742,164 |
| (Increase) Decrease in accounts receivable | (505,264) | 437,242 | (1,880,203) |
| (Increase) Decrease in prepaid expenses | (267,540) | (339,778) | (622,207) |
| Increase (Decrease) in accounts payable | (878,839) | 169,360 | (1,398,203) |
| Cash used in operating activities | \$ (5,623,423) | \$ (4,266,561) | \$ (68,571,764) |
| Sale (purchase) of marketable securities | - | 13,868 | 144,690 |
| Increase of reclamation bond | - | - | (82,678) |
| Sale (purchase) of GIC receivable | 4,493,753 | - | (2,947,372) |
| Notes receivable issued | - | - | 21,365 |
| Purchase of equity conversion right | - | - | (1,337,700) |
| Purchase of mineral properties | (1,460,000) | - | (8,669,870) |
| Cash acquired on acquisition of X-Cal | - | - | 843,101 |
| Purchase of equipment | (11,730) | (11,273) | (961,944) |
| Cash provided by (used in) investing activities | \$ 3,022,023 | \$ 2,595 | \$ (12,990,408) |
| Demand notes payable issued | - | - | 105,580 |
| Issuance of capital Stock | 52,000 | 131,501 | 91,517,579 |
| Cash provided by financing activities | \$ 52,000 | \$ 131,501 | \$ 91,623,159 |
| Effect of exchange rate changes on cash | 27,287 | (61,126) | (82,391) |
| Change in cash during period | (2,522,113) | (4,193,591) | 9,978,595 |
| Cash at beginning of period | 12,500,708 | 14,689,241 | - |

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| | | | |
|-----------------------------------|--------------|---------------|--------------|
| Cash at end of period | \$ 9,978,595 | \$ 10,495,650 | \$ 9,978,595 |
| Supplemental Cash Flow Disclosure | | | |
| Cash | \$ 3,724,759 | \$ 2,102,394 | |
| Cash Equivalents | \$ 6,253,836 | \$ 8,393,256 | |

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

From Inception to the Three Month Period Ended September 30, 2012

(Expressed in United States dollars, unless otherwise stated)

| | Shares | Par Value | Additional Paid in Capital | Deficit Accumulated During Exploration Stage | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Total Stockholders Equity |
|--|---------------|-----------|----------------------------|--|---------------------|---|---------------------------|
| Balance at inception | — | \$— | \$— | \$— | \$— | \$— | \$— |
| Capital issued for financing | 121,533,078 | 121,533 | 26,105,855 | — | — | — | 26,227,388 |
| Capital issued for services | 5,342,304 | 5,342 | 10,160,732 | — | — | — | 10,166,074 |
| Capital issued from stock options and warrants exercised | 384,627 | 385 | 249,623 | — | (237,008) | — | 13,000 |
| Capital issued for mineral properties | 17,378,519 | 17,379 | 15,822,867 | — | — | — | 15,840,246 |
| Capital issued on settlement of notes payable | 39,691 | 39 | 105,541 | — | — | — | 105,580 |
| Returned to treasury | (61,660,000) | (61,660) | 61,660 | — | — | — | — |
| Fair value of warrants | — | — | — | — | 12,073,546 | — | 12,073,546 |
| Stock based compensation | — | — | — | — | 6,132,972 | — | 6,132,972 |
| Foreign currency translation | — | — | — | — | — | (287,192) | (287,192) |
| Net Income (loss) | — | — | — | (43,197,264) | — | — | (43,197,264) |
| Balance at June 30, 2009 | 83,018,219 | \$83,018 | \$52,506,278 | \$(43,197,264) | \$17,969,510 | \$(287,192) | \$27,074,350 |
| Capital issued for financing | 18,400,000 | 18,400 | 21,371,043 | — | — | — | 21,389,443 |
| Capital issued from stock options and warrants 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 | \$(61,187,097) | \$10,825,222 | \$(443,675) | \$39,918,092 |
| | 19,395 | 19 | 23,970 | — | — | — | 23,989 |

Capital issued for
financing

Capital issued from stock
options and warrants

| | | | | | | | |
|--|-------------|------------|----------------|----------------|---------------|-----------|---------------|
| exercised | 4,153,085 | 4,154 | 10,219,361 | — | (1,053,645) | — | 9,169,870 |
| Capital issued for acquisition | 22,007,453 | 22,007 | 28,807,756 | — | 314,790 | — | 29,144,553 |
| Stock based compensation | — | — | — | — | 1,200,875 | — | 1,200,875 |
| Foreign currency translation | — | — | — | — | — | 492,405 | 492,405 |
| Unrealized loss on available for sale securities | — | — | — | — | — | (30,945) | (30,945 |
| Net Income (loss) | — | — | — | (28,450,536) | — | — | (28,450,536 |
| Balance at June 30, 2011 | 136,249,512 | \$ 136,249 | \$ 129,664,660 | \$(89,637,633) | \$ 11,287,242 | \$ 17,785 | \$ 51,468,303 |

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Consolidated Statements of Shareholders' Equity

From Inception to the Three Month Period Ended September 30, 2012

(Expressed in United States dollars, unless otherwise stated)

| | Shares | Par Value | Additional Paid in Capital | Deficit Accumulated During Exploration Stage | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|--|-------------|------------|----------------------------|--|---------------------|---|----------------------------|
| Capital issued for financing | 10,417,776 | 10,418 | 20,335,755 | — | — | — | 20,344,929 |
| Capital issued from stock options and warrants exercised | 345,315 | 346 | 600,873 | — | (313,792) | — | 287,433 |
| Capital issued for mineral properties | 400,000 | 400 | 963,600 | — | — | — | 964,000 |
| Stock based compensation | — | — | — | — | 1,918,724 | — | 1,918,724 |
| Foreign currency translation | — | — | — | — | — | (113,460) | (113,460) |
| Unrealized loss on available for sale securities | — | — | — | — | — | 30,945 | 30,945 |
| Net Income (loss) | — | — | — | (12,091,608) | — | — | (12,091,608) |
| Balance at June 30, 2012 | 147,412,603 | \$ 147,413 | \$ 151,564,888 | \$(101,729,241) | \$ 12,892,174 | \$(64,730) | \$ 62,816,512 |
| Capital issued from stock options and warrants exercised | 133,581 | 134 | 269,478 | — | (217,612) | — | 52,000 |
| Stock based compensation | — | — | — | — | 266,039 | — | 266,039 |
| Foreign currency translation | — | — | — | — | — | 27,287 | 27,287 |
| Net Income (loss) | — | — | — | (5,859,463) | — | — | (5,859,463) |
| Balance at September 30, 2012 | 147,546,184 | \$ 147,547 | \$ 151,834,366 | \$(107,588,704) | \$ 12,940,601 | \$(37,443) | \$ 57,296,811 |

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

For the Three Month Period Ended September 30, 2012

(Expressed in United States dollars, unless otherwise stated)

1. Principal Accounting Policies:

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

Basis of Presentation and Preparation

The accompanying unaudited 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 U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. In the opinion of management, all of the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future years.

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

Stock Based Compensation

The Company has adopted the provisions of FASB ASC 718, “Stock Compensation” (“ASC 718”), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the equity grant). New shares of the Company’s Common Stock will be issued for any options exercised or awards granted.

Mineral Properties

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

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

Exploration Costs

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

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated Financial Statements

For the Three Month Period Ended September 30, 2012

(Expressed in United States dollars, unless otherwise stated)

1. Principle Accounting Policies (Continued):

Derivatives

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

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

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

Net Income per Share

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

For the period ended September 30, 2012 the shares of common stock equivalents related to outstanding stock option and stock purchase warrants have not been included in the diluted per share calculation as they are anti-dilutive as the Company has recorded a net loss from continuing operations for the period.

Concentration of Credit Risk and Amounts Receivable

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

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

Foreign Currency

The parent company's functional currency is the United States dollar. The functional currencies of the Company's wholly-owned subsidiaries are the U.S. Dollar and the Canadian Dollar. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the consolidated balance sheet date. Foreign currency transaction gains and losses are included in the statement of operations and comprehensive loss. The aggregate foreign transaction gain for the three month period ended September 30, 2012 is \$251,546.

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.

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PARAMOUNT GOLD AND SILVER CORP.

(An Exploration Stage Mining Company)

Notes to Consolidated Financial Statements

For the Three Month Period Ended September 30, 2012

(Expressed in United States dollars, unless otherwise stated)

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.

ii) ASU 2011-04

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The new guidance does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within GAAP or International Financial Reporting Standards ("IFRSs"). The new guidance also changes the working used to describe many requirements in GAAP for measuring fair value and for disclosing information about fair value measurements and it clarifies the FASB's intent about the application of existing fair value measurements. The new guidance applies prospectively and is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

iii) ASU 2011-05

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The objective of this amendment is to increase the prominence of other comprehensive income in the financial statements. The amendments require entities to report components of net income and the components of other comprehensive income either in a continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, which deferred the specific requirements related to the presentation of reclassification adjustments. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We expect the adoption of this ASU will affect financial statement presentation only.

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PARAMOUNT GOLD AND SILVER CORP.
(An Exploration Stage Mining Company)
Notes to Consolidated Financial Statements
For the Three Month Period Ended September 30, 2012
(Expressed in United States dollars, unless otherwise stated)

2. Recent Accounting Pronouncements Adopted (Continued):

iv) ASU 2011-08

In September 2011, FASB issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment (ASU 2011-08), which amends the guidance in ASC 350-20. The amendments in ASU 2011-08 provide entities with the option of performing a qualitative assessment before performing the first step of the two-step impairment test. If entities determine, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, then performing the two-step impairment test would be unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. ASU 2011-08 also provides entities with the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to the first step of the two-step impairment test. ASU 2011-08 is effective for interim and annual periods beginning after December 15, 2011 but early adoption is permitted. The Company does not expect material financial statement implications relating to the adoption of this ASU.

3. Fair Value Measurements:

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

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

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

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

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

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

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3. 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 September 30, 2012 | | | June 30, 2012 Total |
|---------------------------|--------------|----------------------------------|---------|------------|------------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$9,978,595 | 9,978,595 | - | - | 12,500,708 |
| Short-term investments | 3,006,247 | 3,006,247 | - | - | 7,500,000 |
| Liabilities | | | | | |
| Warrant liability | \$12,278,907 | - | - | 12,278,907 | 10,746,787 |

The Company's cash and cash equivalents and short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash and cash equivalents that are valued based on quoted market prices in active markets are primarily comprised of commercial paper, short-term certificates of deposit and U.S. Treasury securities.

The 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:

| | September 30, 2012 | |
|---------------------------------------|--------------------|---|
| Risk free interest rate | 0.26 | % |
| Expected life of warrants and options | Less than 6 months | |
| Expected stock price volatility | 53 | % |
| Expected dividend yield | 0 | % |

The changes in fair value of the warrants during the period ended September 30, 2012 were as follows:

| | |
|---|--------------|
| Balance at July 1, 2012 | \$10,746,787 |
| Issuance of warrants and options | - |
| Change in fair value recorded in earnings | 1,532,120 |
| Transferred to equity upon exercise | - |
| Balance at September 30, 2012 | \$12,278,907 |

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4. Non-Cash Transactions:

During the period ended September 30, 2012 and 2011, the Company entered into certain non-cash activities as follows:

| | 2012 | 2011 |
|--|----------|-----------|
| Operating and Financing Activities | | |
| From issuance of shares for cashless exercise of options | \$34,828 | \$- |
| From issuance of shares for mineral properties | \$- | \$964,000 |

5. Capital Stock:

a) Share issuances:

Authorized capital stock consists of 200,000,000 common shares with par value of \$0.001 per share. At September 30, 2012 there were 147,546,184 shares issued and outstanding and 147,412,603 shares issued and outstanding at June 30, 2012.

During the three month period ended September 30, 2012 and 2011, the Company issued the following shares:

| | Common Shares | |
|--------------------------------------|---------------|---------|
| | 2012 | 2011 |
| Acquisition of mineral properties | - | 400,000 |
| For exercise of warrants and options | 133,581 | 137,500 |
| | 133,581 | 537,500 |

For the period ended September 30, 2012, the Company issued 133,581 shares for the exercise of options and received cash in the amount of \$52,000. The exercise price of these options was \$0.65.

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5. Capital Stock (Continued):

b) Warrants:

The following share purchase warrants were outstanding at September 30, 2012:

| | Exercise price in CAD | Exercise price in USD at September 30, 2012 | Number of warrants | Remaining contractual life (years) |
|--|-----------------------------|--|-----------------------|---|
| Warrants * | \$ 1.05 | \$ 1.07 | 7,700,000 | 0.47 |
| Outstanding and exercisable at June 30, 2012 | | | 7,700,000 | |

* Strike price of warrant contract in Canadian dollars. At September 30, 2012 \$1.00 CAD = \$1.016 USD.

| | September 30, 2012 | | September 30, 2011 | |
|---------------------------------|-----------------------|---|-----------------------|---|
| Risk free interest rate | 0.26 | % | 0.11 | % |
| Expected life of warrants | .32 year | | 1 year | |
| Expected stock price volatility | 53 | % | 75 | % |
| 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:

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| | September 30, 2012 | | September 30, 2011* |
|------------------------------------|-----------------------|---|------------------------|
| WA Risk free interest rate | 0.18 | % | N/A |
| WA Expected dividend yield | 0 | % | N/A |
| WA Expected stock price volatility | 69 | % | N/A |
| WA Expected life of options | 2 years | | N/A |

*The Company did not issue any stock options for the three month period ended September 30, 2011.

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5. Capital Stock (Continued):

Changes in the Company's stock options for the period ended September 30, 2012 are summarized below:

| Options | Number | Weighted Avg. Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|------------|------------------------------|---|---------------------------|
| Outstanding at June 30, 2012 | 3,129,120 | \$ 2.16 | 2.41 | \$ 1,166,543 |
| Issued | 20,000 | 2.48 | | |
| Cancelled / Expired | - | - | | |
| Exercised | (155,000) | 0.65 | | \$ 217,612 |
| Outstanding at September 30, 2012 | 2,994,120 | \$ 2.24 | 2.27 | \$ 1,344,814 |
| Exercisable at September 30, 2012 | 2,289,121 | \$ 2.10 | 1.84 | \$ 1,344,814 |

At September 30, 2012, there were 2,994,120 options outstanding. Options outstanding above that have not been vested at period end are 704,999 which have a maximum service term of 1- 4 years. The vesting of these options is dependent on market conditions which have yet to be met. As of September 30, 2012, there was \$232,204 (2011 - \$339,542) of unrecognized compensation cost related to non-vested stock options to be recognized over a weighted average period of 2.6 years.

A summary of the non-vested options as of September 30, 2012 and 2011 and changes during the period ended September 30, 2012 and 2011 is as follows:

| Non-vested Options | Number | Weighted Avg. Grant-Date Fair Value |
|----------------------------------|-----------|-------------------------------------|
| Non-vested at June 30, 2012 | 704,999 | \$ 1.84 |
| Issued | 20,000 | 0.93 |
| Vested | (20,000) | 0.93 |
| Forfeited | - | - |
| Non-vested at September 30, 2012 | 704,999 | \$ 1.84 |

For the three period ended September 30, 2012, the Company recognized a stock based compensation expense in the amount of \$266,039 (2011 - \$45,690) .

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6. Related Party Transactions:

During the period ended September 30, 2012, directors received cash payments in the amount of \$45,000 (2011 -\$52,500) for their services as directors or members of committees of the Company's Board. During the period ended September 30, 2012, the Company also recorded a non-cash transaction to recognize stock based compensation for directors in the amount of \$98,630 (2011 -\$15,989)

During the period ended September 30, 2012 the Company made payments of \$23,224 (2011 - \$24,055) 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.

7. Mineral Properties:

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

| | September 30, 2012 | June 30, 2012 |
|--------------------|--------------------|---------------|
| Iris Royalty | 50,000 | 50,000 |
| San Miguel Project | 23,452,263 | 21,992,263 |
| Sleeper | 25,891,490 | 25,891,490 |
| Mill Creek | 2,096,616 | 2,096,616 |
| Spring Valley | 385,429 | 385,429 |
| Reese River | 64,061 | 64,061 |
| | \$ 51,939,859 | \$ 50,479,859 |

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

8. Property and Equipment:

| | Cost | Accumulated Amortization | Net Book Value | |
|------------------------|-----------|-----------------------------|-----------------------|---------------|
| | | | September 30, 2012 | June 30, 2012 |
| Property and Equipment | \$868,014 | \$413,799 | \$454,215 | \$458,937 |

During the period ended September 30, 2012, net additions to property, and equipment were \$11,730 (2011- \$11,273). During the period ended September 30, 2012 the Company recorded depreciation of \$16,452 (2011-\$21,440).

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9. Segmented Information:

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

Loss for the period by geographical segment for the period ended September 30, 2012:

| | United States | Mexico | Total |
|---|------------------|--------------|--------------|
| Interest income | \$ 15,744 | \$ 34 | \$ 15,778 |
| Other income | 7,500 | - | 7,500 |
| Total income | \$ 23,244 | \$ 34 | \$ 23,278 |
| Expenses: | | | |
| Exploration | 1,653,597 | 1,840,873 | 3,494,470 |
| Professional fees | 193,109 | - | 193,109 |
| Directors compensation | 143,630 | - | 143,630 |
| Travel and lodging | 52,795 | - | 52,795 |
| Corporate communications | 60,614 | - | 60,614 |
| Consulting fees | 129,593 | - | 129,593 |
| Office and administration | 86,260 | 37,542 | 123,802 |
| Interest and service charges | 2,581 | 1,023 | 3,604 |
| Insurance | 90,616 | - | 90,616 |
| Amortization | 8,556 | 7,896 | 16,452 |
| Accretion | 41,936 | - | 41,936 |
| Total Expenses | 2,463,287 | 1,887,334 | 4,350,621 |
| Net loss before other items | \$ 2,440,043 | \$ 1,887,300 | \$ 4,327,343 |
| Other items | | | |
| Change in fair value of warrant liability | 1,532,120 | - | 1,532,120 |
| Loss on sale of marketable securities | - | - | - |
| Net Loss | \$ 3,972,163 | \$ 1,887,300 | \$ 5,859,463 |
| Other comprehensive loss(gain) | | | |
| Foreign currency translation adjustment | (27,287) | - | (27,287) |
| Total Comprehensive Loss for the Period | \$ 3,944,876 | \$ 1,887,300 | \$ 5,832,176 |

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9. Segmented Information (Continued):

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

| | United States | Mexico | Total |
|--|------------------|-------------|-------------|
| Interest income | \$17,768 | \$2,874 | \$20,642 |
| Other income | 25,000 | - | 25,000 |
| Total income | \$42,768 | \$2,874 | \$45,642 |
| Expenses: | | | |
| Exploration | 1,913,971 | 2,064,368 | 3,978,339 |
| Professional fees | 308,366 | - | 308,366 |
| Directors compensation | 68,489 | - | 68,489 |
| Travel and lodging | 45,331 | - | 45,331 |
| Corporate communications | 38,037 | - | 38,037 |
| Consulting fees | 80,100 | - | 80,100 |
| Office and administration | 84,780 | 1,505 | 86,285 |
| Interest and service charges | 1,924 | 852 | 2,776 |
| Insurance | 76,417 | - | 76,417 |
| Amortization | 11,655 | 9,785 | 21,440 |
| Accretion | 38,426 | - | 38,426 |
| Total Expenses | 2,667,496 | 2,076,510 | 4,744,006 |
| Net loss before other items | \$2,624,728 | \$2,073,636 | \$4,698,364 |
| Other item | | | |
| Change in fair value of warrant liability | (5,572,387) | - | (5,572,387) |
| Loss on sale of Marketable Securities | 4,129 | - | 4,129 |
| Net Loss(Gain) | \$(2,943,530) | \$2,073,636 | \$(869,894) |
| Other comprehensive loss | | | |
| Foreign Currency Translation Adjustment | 61,126 | - | 61,126 |
| Unrealized loss on available for sale securities | 96,372 | - | 96,372 |
| Total Comprehensive Loss(Gain) for the Period | \$(2,786,032) | \$2,073,636 | \$(712,396) |

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9. Segmented Information (Continued):

Assets by geographical segment:

| | United States | Mexico | Total |
|------------------------|---------------|---------------|---------------|
| September 30, 2012 | | | |
| Mineral properties | \$ 28,337,596 | \$ 23,602,263 | \$ 51,939,859 |
| Property and equipment | 91,130 | 363,085 | 454,215 |
| June 30, 2012 | | | |
| Mineral properties | 28,337,596 | \$ 22,142,263 | 50,479,859 |
| Property and equipment | \$ 99,686 | 359,251 | \$ 458,937 |

10. 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 September 30, 2012 is \$551,733.

As a part of the policy, the Company has funds in a commutation account which is used to reimburse reclamation costs and indemnity claims. For the period ended September 30, 2012, The Bureau of Land Management of Nevada issued an exploration permit to the Company and as a result, the Company was required to post a bond to cover any future reclamation costs for the exploration activities performed by the Company associated with the permit in the amount of \$30,168. The bond amount was added to commutation account and at September 30, 2012 the balance of the account was \$2,784,484.

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:

| | September 30, 2012 | June 30, 2012 |
|--------------------------------|--------------------|---------------|
| Balance at beginning of period | \$ 1,198,179 | \$ 1,143,892 |
| Accretion expense | 41,936 | 153,704 |
| Payments | - | (99,417) |
| Balance at end of period | \$ 1,240,115 | \$ 1,198,179 |

11. Subsequent Events:

On November 5, 2012, the Company sold its Reese River mineral claims to Valor Gold Corp. for \$21,000 in cash and 6 million restricted shares of Valor Gold Corp. with a market value of \$7,630,000. (See Note 7 for capitalized cost)

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

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

We are an exploratory stage mining company that currently has mining concessions in Mexico and mining claims in Nevada, USA. We have no proven reserves at our San Miguel project in Mexico or at our Sleeper Gold project in Nevada but are currently exploring both projects. The following discussion updates our planned operations for this fiscal year. It also analyzes our financial condition and summarizes the results of operations for the three month period ended September 30, 2012 and compares those results to the three month period ended September 30, 2011.

Plan of Operation:

Exploration

Our total company exploration budget for the current fiscal year has been set to \$14.0 million. We plan to allocate \$6.2 million to our Sleeper Gold Project in Nevada and \$7.8 million to our San Miguel Project in Mexico.

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

Nevada

Our plan for the next twelve months in Nevada is to primarily focus on our Sleeper Gold Project. Our budget for this period is approximately \$6.2 million. We will assess the results and recommendations of the Preliminary Economic Assessment prepared by SEWC and determine the next steps for the Sleeper Gold Project. We will continue drilling to follow up on open zones with gold anomalies or hidden geophysical targets. Additionally, a drill program is planned to test several targets within the recently staked Mimi claim block south of the original Sleeper Gold Mine claim block.

Mexico

At our San Miguel Project we continue to conduct exploration drilling by testing new areas or expanding resources on known zones such as La Bavisa, Don Ese Sur and el Ojito, which are part of the Temoris group of concessions. Additionally, we plan to conduct geological reconnaissance to identify new targets areas and drill them on geological merit. The Company expects to complete a Preliminary Economic Assessment on San Miguel project by calendar year end 2012. This will be based on our updated material estimate prepared by Mine Development Associates, and metallurgical testing by McClelland Laboratories, both of Reno, Nevada USA. Our budget for the program is approximately \$7.8 million.

During the three-month period ended September 30, 2012, the Company exercised two options to acquire 11 mining concessions located in Mexico and related to its San Miguel project. In consideration for the mining concessions, the Company made cash payments totaling \$1,693,000. Included in the payment is a refundable value added tax amount of \$233,000 from the Mexican Government which the Company has recorded as an amounts receivable on its Balance Sheet at September 30, 2012.

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Liquidity and Capital Resources

At September 30, 2012, we had cash and cash equivalents and short-term investments balances of \$12,984,842 compared to \$20,000,708 as at June 30, 2012. The decrease of \$7,015,866 was the result of the funding of our exploration programs and corporate overhead and to make option payments for previously purchased mineral concessions.

At September 30, 2012, we had a net working capital, excluding the non-cash warrant liability, of \$15,330,313. 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 December 31, 2012. Anticipated cash outlays will be funded by our available cash reserves and future issuances of shares of our common stock.

During the three month period ended September 30, 2012, the company received \$52,000 pursuant to the exercise of stock options.

At September 30, 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 \$8.2 million. These warrants expire March 2013.

At September 30, 2012, the amounts receivable amount of \$1,963,629 primarily consisted of value added tax due from the Mexican government.

Historically, we have funded our exploration and development activities through equity financing arrangements. We continue to assess our needs for additional capital to ensure sufficient financial resources are available to fund our exploration and working capital needs. We believe that our 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 three month period ended September 30, 2012 to the three month period ended September 30, 2011.

Net Loss

Our net loss before other items for the three month period ended September 30, 2012 was \$4,327,343 compared to a loss of \$4,698,364 in the comparable period in the prior year. The decrease in net loss of \$371,021 or 8% mainly reflects lower exploration expenditures 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 September 30, 2012 compared to the comparable prior period decreased by 12% or by \$483,869. The decrease is mainly driven by the reduced number of holes and total cumulative length of feet drilled by the Company in both Nevada and Mexico from the prior year comparable period.

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The following table summarizes our drilling activities at both projects for the three month period ended September 30, 2012 and 2011:

| | Three month period ended September 30, 2012 | | Three month period ended September 30, 2011 | |
|----------------------------|---|------------------------------|---|------------------------------|
| | Holes | Cumulative Length in Feet | Holes | Cumulative Length in Feet |
| San Miguel Project, Mexico | 17 | 19,414 | 22 | 24,898 |
| Sleeper Gold Project, USA | 14 | 16,357 | 12 | 10,802 |
| Total | 31 | 35,771 | 34 | 35,700 |

Our general corporate expenses which include professional fees, corporate communications, consulting fees and office and administration totaled \$507,118 for the three month period ended September 30, 2012. This is a 1% decrease over the comparable three month period in the 2012.

During the three month period ended September 30, 2012, the Company's warrant liability increased by \$1,532,120. The increase was recorded as a gain on the Consolidated Statement of Operations. The increase in warrant liability is primarily due to an increase in the Company's share price from \$2.40 at June 30, 2012 to \$2.66 at September 30, 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.

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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.

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, 2012.

Foreign Currency Exchange Rate Risk

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

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

Interest Rate Risk

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

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

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Item 1A. Risk Factors

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

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

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) |

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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: November 7, 2012

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

Date: November 7, 2012

/s/ CARLO BUFFONE
Carlo Buffone
Chief Financial Officer