PARAMOUNT GOLD & SILVER CORP.
Form 10-K
September 25, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-K

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

For the fiscal year ended: June 30, 2008

or

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

For the transition period from: _____ to _____

**PARAMOUNT GOLD AND SILVER CORP.**

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **01-51600** | **20-3690109** |
|---|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(Commission File Number)* | *(I.R.S. Employer Identification No.)* |

**346 Waverley Street Ottawa, Ontario, Canada K2P 0W5**

*(Address of Principal Executive Office) (Zip Code)*

**(613) 226-9881**

*(Registrant s telephone number, including area code)*

**N/A**

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

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|

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

**COMMON STOCK**
*(Title of Class)*

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

Yes ü No

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

Yes ü No

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | | Accelerated filer | |
| Non-accelerated filer | ü | Smaller reporting company | |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, or the average bid and asked price for such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter as reported by the American Stock Exchange on December 31, 2007 was approximately $74,500,000.

The number of shares of the Registrant s common stock outstanding as of August 31, 2008 was 48,620,997.

**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 by check mark the number of shares outstanding of each of the issuer s classes of Common Stock as of the latest practicable date: 48,620,997 shares of Common Stock, $.001 par value as of August 31, 2008.

**DOCUMENTS INCORPORATED BY REFERENCE**

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1)Any annual report to security holders;(2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933.

None.

This Form 10-K contains "forward-looking statements" relating to Paramount Gold and Silver Corp. ("Paramount "we", "our", or the "Company") which represent our current expectations or beliefs including, but not limited to, statements concerning our operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-K that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "anticipate", "intend", "could", "estimate", or "continue" or the negative or other comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, such as credit losses, dependence on management and key personnel, variability of quarterly results, and our ability to continue our growth strategy and competition, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

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

**PART I**

**Item 1.**

**Description of Business**.

**Overview and History:**

We are a Delaware corporation. We were incorporated on March 29, 2005. Our principal offices are located at Suite 110, 346 Waverley Street, Ottawa, Canada K2P 0W5. We also have a field office located in Temoris, Mexico. We are an exploration stage mining company which has as its core business, precious metals exploration. Our primary objective is to explore and develop the San Miguel project. Through our wholly owned Mexican subsidiary, Paramount Gold De Mexico S.A. de C.V.,we currently hold a 70% interest in the San Miguel Property and are the joint venture manager. We also own additional mining concessions in the state of Chihuahua, Mexico. We will continue to explore additional opportunities through other joint ventures and acquisitions. Previously, we entered into agreements to explore properties in Argentina, Chile and Peru. Preliminary drilling results were not favorable and we have for now discontinued drilling operations in these countries. We do not expect to generate revenues from these projects nor is it our objective to enter the mine management business. Rather we hope to identify a resource that will enable us to attract a larger company to partner with who has experience developing and managing a mine.

We have been dependent upon private financings to operate our business. Our operations to date have been funded by equity investment. Most of our equity funding has come from a private placement of our securities which we closed on March 30, 2007 in the amount of $21,836,841. The financing consisted of the sale of 10,398,496 units (the Units ) at a price of $2.10 per Unit (the Issue Price ). Each unit was comprised of one share of Common Stock and one-half of one common stock purchase warrant of the Company. Each whole Warrant shall entitle the holder thereof to acquire one share of common stock in the capital of the Company (a Warrant Share ) at an exercise price of $2.90 for 24 months following the closing date of the offering.

On November 6, 2007, the Company completed a private placement financing in the amount of $2.4 million. The Company sold 1,000,000 units of its securities in this financing, each unit consisting of one share of common stock and one common stock purchase warrant. Each common stock purchase warrant entitles the holder thereof to purchase one share of common stock at an exercise price of $3.25 per share for a period of two years.

Most recently, on July 23, 2008 we completed two private placements totaling $1,489,000 ($1.5 million Canadian) whereby we sold a total of one million units at a cost per unit of $1.39. Each unit consisted of one share of common stock and one half common stock purchase warrant. The warrants are for a term of one year at an exercise price of $2.10 or for two years at a price of $2.50 (Canadian) per share.

The Company will require additional working capital to continue its exploratory activities.

**Inter-corporate Relationships:**

We currently have three wholly owned subsidiaries.

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Paramount Gold de Mexico S.A. CV operates our interest in Mexico

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Compania Minera Paramount SAC used to operate and hold our mining interests in Peru.

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We have also in August 2008 formed a Delaware corporation, Paramount Metals Corp. whose focus is base metal exploration.

**MARKET DESCRIPTION**

**Gold and Silver**:

We are a precious metals exploration and development company. The gold and silver markets have been strong since 2001, where gold has increased from $268 per ounce to a high of over $1,000 per ounce to its current price of approximately $800 per ounce. Silver has increased from $4.58 per ounce to a high of $21.00 per ounce to its current price of approximately $13.85 per ounce (as of September 5, 2008). Management believes that both the gold and silver markets will remain strong for the foreseeable future. Management believes that for so long as gold remains above $300 per ounce, the San Miguel Groupings in Mexico, can be commercially exploited.

**Mexico**:

Mexico is currently one of the world s largest mineral producers. It is an ideal country for mining companies to operate given its stable government and inclusion in NAFTA. There are several world-class mines within a close proximity of the San Miguel property, including the Glamis Gold El Sauzal gold mine. Gammon Lake Resource's Ocampo Gold-Silver Project is approx. 40 miles to the North. Recently acquired Palmarejo, (TSXV:PJO) is developing the nearby Palmarejo mine and has acquired all the ground surrounding San Miguel. Palmarejo has the old Palmarejo mine that has an inferred resource of 3.1 million ounce gold equivalent. Palmarejo's property around San Miguel is currently in an early exploration phase.

**Regulatory Compliance**

We have obtained drill permits for the San Miguel Groupings.

The Company is not currently subject to direct federal, state or local regulation, other than regulations applicable to businesses generally in the Company s field of endeavors. However, there can be no assurances that the Company will not be subject to such regulation in the future.

**Employees**

As of August 31, 2008, the Company had 42 employees and consultants, of which 29 are located in Mexico and 13 which are located in Canada and the United States.

**Facilities**

Our corporate office is located at Suite 110, 346 Waverly Street, Ottawa, Ontario K2P 0W5. We rent approximately 2,700 square feet of office space at a cost of approximately US $ 7,325 ($6,987 per month Canadian). We also have an office in Temoris, Mexico. All of our office leases are in good standing.

**San Miguel Groupings.**

Our exploratory activities are concentrated within the San Miguel Groupings.

*Property Description and Location*

Location

The San Miguel Project is located southwestern Chihuahua in Northern Mexico, and is approximately 400 km by road from the state capital. The project is about 20 km north of the town of Temoris, adjacent to the village of Guazapares. It is in the Guazapares mining district, which is part of the Sierra Madre Occidental gold-silver belt. The location of the San Miguel Project is shown in Map 1. The coordinate system used for all maps and sections in this report is the Universal Transverse Mercator system, Zone 12. GPS coordinates are referenced to NAD 27 Mexico.

Land Area

The San Miguel project consists of 18 concessions totaling approximately 422.17 hectares clustered along approximately 8 kilometers of vein system strike length near the village of Guazapares and a subparallel vein structure

approximately 3 kilometers to the west, near the village of Batosegachi. Exploration efforts to date have been focused on this group and are set forth in Table one.

In addition to the San Miguel concessions, we have the Andrea, Gissel and Isabel concessions totaling over 84,000 hectares that form the Andrea Project east of the San Miguel Project.

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

PROPERTY LOCATION MAP

**Figure 1: Property Location Map**

The following table outlines our concessions within the Sam Miguel project:

**Table 1**

**San Miguel Project Concessions**

**San Miguel Project Concession Data**

| Group | Concession Name | Title # | Area (ha) | Owner |
|---|---|---|---|---|
| San Miguel | San Miguel | 166401 | 12.9458 | PGM (70%) / Amermin (30%) (1) |
| | San Juan | 166402 | 3.00 | PGM (70%) / Amermin (30%) |
| | San Luis | 166422 | 4.00 | PGM (70%) / Amermin (30%) |
| | Empalme | 166423 | 6.00 | PGM (70%) / Amermin (30%) |
| | Sangre de Cristo | 166424 | 41.00 | PGM (70%) / Amermin (30%) |
| | Santa Clara | 166425 | 15.00 | PGM (70%) / Amermin (30%) |
| | El Carmen | 166426 | 59.0864 | PGM (70%) / Amermin (30%) |
| | Las Tres BBB | 166427 | 23.001 | PGM (70%) / Amermin (30%) |
| | Swanwick | 166428 | 70.1316 | PGM (70%) / Amermin (30%) |
| | Las Tres SSS | 166429 | 19.1908 | PGM (70%) / Amermin (30%) |
| | El Rosario | 166430 | 14.00 | PGM (70%) / Amermin (30%) |
| | Guadalupe de los Reyes | 172225 | 8.00 | PGM (70%) / Amermin (30%) |
| La Blanca | Montecristo | 213579 | 38.0560 | Victor Manuel Gomez Fregoso |
| | Montecristo Fraccion | 213580 | 0.2813 | Victor Manuel Gomez Fregoso |
| | Montecristo II | 226590 | 27.1426 | Victor Manuel Gomez Fregoso |
| | Constituyentes 1917 | 199402 | 66.2403 | Victor Garcia Jimenez |
| | Santa Cruz | 186960 | 10.00 | Luis Alberto Rascon Herrera |
| | Elyca | 179842 | 10.0924 | Paramount Gold de Mexico S.A. de C.V. |

(1)

PGM refers to Paramount Gold de Mexico S.A. de C.V. and Amermin refers to Corporacion Amermin S.A. de C.V.

**Environmental Reports and Liabilities:**

With the assistance of a Mexican environmental permitting consultant, Paramount has satisfied the requirements regarding permitting for the ongoing exploration program with the office of SEMARNAT in Chihuahua City.

Disturbance associated with exploration work completed by Paramount to date is limited to construction of drill access roads, drill pads and trenches. No direct mining related activities have been carried out.

Except for some mining activities in the early 1900 s, there has been no mining activity on the San Miguel Groupings since the early 1900 s. In the 1990 s a very small and unsuccessful attempt was made to heap leach oxidized silver ores near the north end of the La Union area. It is possible that Paramount may be held responsible for the cleanup of these areas, should a mine be placed into production nearby. Management believes that any environmental cleanup would be minor and relatively inexpensive.

**Climate:**

The Temoris area has a temperate climate. Undisturbed slopes are covered by juniper-pine-oak forests. Rainfall is largely in the summer months, with an annual average of about 8 cm. Maximum temperatures rarely exceed 35 degrees centigrade, and minimum temperatures are rarely less than 5 degrees. The average elevation in the vicinity of Guazapares is 1600 meters. While there can occasionally be snow or heavy rains, it is anticipated that exploration work or mining can continue throughout the year.

**Physiography:**

Paramount s San Miguel Project is near the center of the Sierra Madre Occidental range. This range is actually a relatively structurally undisturbed plateau composed of nearly flat-lying Tertiary volcanic rocks. It has been deeply incised by westward-flowing streams that have formed a series of steep walled canyons, or barrancas, separated by narrow plateau remnants.

The San Miguel project area terrain varies from hilly to steeply mountainous. Relief in the immediate project are is 375 meters with elevations varying from approximately 1,400 meters in valley floors to 1,775 meters on hilltops.

Undisturbed slopes in the area are covered by pine-oak forests. Areas with gentler slopes are used for small vegetable, corn plots and cattle pastures.

**Local Resources, Infrastructure:**

The Temoris area has reasonably good local infrastructure and a workforce familiar with mining operations. Temoris and Chinipas have populations of approximately 1500 to 2000 people each. Guazapares, situated approximately 11 kilometers (13 km and 25 minutes drive via road) north of Temoris and one kilometer from the San Miguel project, is a village of approximately 200 people. Several smaller villages are in the general area including Batosegachi in the San Miguel concession area and San Jose in the San Luis concession area. Basic supplies are available locally in Temoris but travel to Chihuahua is necessary for acquisition of most mining equipment and supplies.

A 33,000 volt power line stretches from Temoris northwest to Chinipas and a branch line was installed to Guazapares, becoming operational in December 2006. The power line to Guazapares is adequate for domestic use but is insufficient for mineral processing. Any future feasibility studies of potential mineral production and processing must consider either upgrading the power line or generating power on site.

Water is available at the project area from local streams and groundwater. Any future feasibility studies of potential mineral production and processing will need to consider the adequacy of available water supplies. Historically, water availability was adequate for underground mining at San Luis by the Alaska-Juneau Company in 1960; excessive water was a problem in the deeper workings. During the year we drilled several water exploration holes under the guidance of a hydrogeologist.

**Current Agreements with respect to mining concessions:**

**San Miguel Group Agreement**

The San Miguel Grouping forms the initial core of the property. It includes the concessions San Miguel, San Juan, San Luis, Empalme, Sangre de Cristo, Santa Clara, El Carmen, Las Tres BBB, Swanwick, Las Tres SSS, El Rosario, and Guadalupe de Los Reyes as listed in Table 1, a total of 275.3556 hectares. The San Miguel Groupings were acquired by Corporacion Amermin S.A., a subsidiary of Tara Gold Resource Corp. Paramount earned its 70% interest in the group by way of an option agreement with Corporacion Amermin S.A. dated August 03, 2005. Under the terms of the joint venture agreement, Paramount has earned its interest in the San Miguel property by making $450,000 in payments, issuing 700,000 restricted shares of Paramount common stock, and making $2.5 million in exploration expenditures. Paramount is also the Manager of the Joint Venture agreement effective February 7, 2007. If Corporacion Amermin chooses not to participate financially in the Joint Venture, its interest may be diluted to a 2% NSR, which may be decreased to 1% by a payment of $500,000 from Paramount to Amermin.

**La Blanca Concession:**

The La Blanca agreement includes the Montecristo, Montecristo II, Monecristo Fraccion, and Constituyentes 1917 concessions as listed in Table 1, a total of 131.7202 hectares. Paramount has invested the required $500,000 in exploration costs on the concessions and otherwise met its agreements with respect to these concessions. Additional payments will be due the concession owner based upon reserves. As a result of the foregoing, Paramount owns a 90% interest in this concession. Additional payments are linked to the definition of reserves. The sum of $1.00 is to be paid by August 31, 2007 for each gold-equivalent ounce of mineable reserves defined by December 31, 2006; the sum of $1.00 is to be paid by February 29, 2008 for

each gold-equivalent ounce of mineable reserves defined by December 31, 2007 and; the sum of $1.00 is to be paid by August 31, 2008 for each gold-equivalent ounce of mineable reserves defined by December 31, 2008.

No mineable reserves have been defined to date and no payments have been made.

**Santa Cruz Concession:**

The Santa Cruz concession, totaling 10.00 hectares (Table 1) is subject to a purchase agreement for a price of $50,000. The full purchase price has been paid. The concession forms part of the Joint Venture area and such there is a 70%/30% Paramount/Amermin equity interest therein.

**Elyca Concession:**

The Elyca concession, totaling 10.0924 hectares (Table 1), was purchased from Minera Rio Tinto, S.A. de C.V. for cash and stock and was registered with the Public Registry of Mining. Paramount owns a 90% joint venture interest in this concession

**Letter of Intent with Mexoro Minerals Ltd.**

In order to increase exploration and drilling opportunities in the San Miguel region, we have signed a Letter of Intent to create a strategic alliance with Mexoro Minerals Ltd ., a Colorado corporation and its wholly owned Mexican subsidiary. Mexoro s mining concession are adjacent to our San Miguel grouping. Both companies operate projects in the Guazapares district and the Sierra Madre gold-silver belt. The companies intend to form a joint exploration and development management committee with the responsibility of reviewing and planning the exploration programs of both companies. With respect to the San Miguel property, the agreement would see Paramount s San Miguel, Elyca and Empalme concessions which host the San Miguel vein Clavo 99 area, combined with Mexoro s Encino Gordo project for a land package in excess of 1,000 hectares.

The purpose of the strategic alliance will be to maximize shareholder value through:

A.

Collaboration of exploration and development work. Mexoro and Paramount expect to form a Joint Exploration and Development Management Committee, consisting of three representatives from each of Paramount and Mexoro . We expect the Committee will be responsible for reviewing and planning for exploration work and will meet on a regular basis and then report back to their respective boards;

B.

Consolidation of offices. In particular, the Mexoro head office will be relocated to Paramount s corporate headquarters in Ottawa, Canada and the Mexican offices of both parties will be consolidated post closing; and

C.

Approaching the market in a combined and unified manner. This will enable both Paramount and Mexoro to maximize values with respect to the sale of either Paramount, Mexoro or the concessions/projects of the San Miguel and greater Guazapares areas.

In furtherance of these objectives, Paramount has loaned Mexoro Minerals Ltd. ( Mexoro ) a total of $1,370,000 pursuant to three secured convertible debentures. The first convertible debenture was in the amount of $500,000. The second convertible debenture was in the amount of $370,000 and the third convertible debenture was in the amount of $500,000. All three convertible debentures are secured by the assets of Mexoro, including but not limited to 49,999 (out of 50,000 issued and outstanding shares of common stock) of SunBurst de Mexico S.A. de C.V., a subsidiary of Mexoro. The notes are due May 9, June 18 and July 11, 2009 respectively. The notes provide for interest at the rate of 8% per annum and may be converted into Units of Mexoro at a conversion price of $.50 per Unit. Each unit consists of one share of Mexoro common stock and one half common stock purchase warrant. Each whole warrant entitles the holder thereof to purchase one share of Mexoro at an exercise price of $.75 per share. Except with respect to the due dates and the principal amount of the notes, the material terms and conditions of all three secured convertible debentures and the security agreements are identical in form and substance. If all of the convertible debentures and options were converted by Paramount into shares of common stock of Mexoro, Paramount would own approximately 13.3% of the issued and outstanding shares of common stock of Mexoro.

In addition to the funds Paramount has advanced to Mexoro, as part of the Letter of Intent with Mexoro, Paramount has the right to purchase 12 million units of Mexoro at a cost of $.50 per unit ($6 million in total). Paramount may complete the private placement at one time or in tranches over time as determined by Paramount in its sole discretion. Paramount was required to subscribe to the first 8 million units ( $4million) by August 5, 2008 and the remaining 4 million Units ($2 million) no later than November 1, 2008. As of the date of this filing Paramount has not subscribed for the option units and the option has now expired. Paramount has deferred interest payments on the notes receivable until October 10, 2008.

**Figure 2: Location of Paramount s San Miguel concessions and Mexoro s Guazapares concessions east of Paramount s San Miguel-Elyca-Empalme concessions**

**Figure 3: Location of Paramount s San Miguel-Elyca-Empalme concessions and Mexoro s Encino Gordo project**

**Garibaldi Joint Venture:**

Paramount has entered into a joint venture agreement with Garibaldi Resources Inc. and acquired an interest in 17,208 hectares of property. The new agreement will cover approximately 6,657 hectares previously optioned in 2006 and adds several new parcels totaling 10,543 hectares under the umbrella of a joint venture. The property borders Paramount s San Miguel property and brings a total of over 100,000 hectares of contiguous land holdings in the Guazapares mining district. .

As part of the transaction, Garibaldi will provide Paramount with its geologic data, including the results of its recent regional hyperspectral airborne survey. Paramount will be the exploration manager under the joint venture. As part of the joint venture with Garibaldi, Paramount has made an initial payment to Garibaldi in the amount of $100,000 to be credited against exploration expenditures. Paramount will earn a 50% interest by making an additional payment of $400,000, issuing 600,000 restricted shares of its common stock, and spending a total of $700,000 in exploration costs. Paramount has the opportunity to increase its interest to 70% by spending an additional $1 million in exploration expenditures within 30 months, making an additional payment of $500,000, and issuing an additional 400,000 restricted shares of Paramount common stock.

Upon earning a 70% joint venture interest, Paramount may increase its interest to 80% within 30 months of the signing of the Joint Venture Agreement, exclusively and limited to the approximately 6,657 hectares referred to in the October 6, 2006, agreement.

**Other Agreements**

Paramount staked the Andrea, Gissel and Isabel concessions that form the Andrea Project east of the San Miguel Project totaling over 84,000 hectares. As these were denounced (equivalent of staked), there are no associated agreements and Paramount has a 100% interest in these claims.

**Geology:**

Mineralization at the San Miguel project consists of multi-phase epithermal, low to intermediate sulphidation, silver-gold-(lead-zinc) bearing quartz vein and hydrothermal silicified breccia deposits that occur in north-northwest trending, steeply dipping complex fault zones. Quartz veins, silicified breccias, and quartz veinlet stockworks are distributed in an en echelon fashion along eight kilometers of strike length in the Guazapares Fault structure and within the parallel Batosegachic Fault structure approximately 3 km to the west. This type of mineralization is typical of the Sierra Madre Occidental silver-gold metallogenic province and has been exploited in the region since early Spanish colonial times.

Mineralization at the San Miguel Project is hosted by early Tertiary age Lower Volcanic Complex rocks - propylitically altered andesites and lesser rhyodacitic volcanic tuffs and related hypabyssal intrusions.

We have completed 69 trenches totaling 3,899 meters in various exploration areas along the Guazapares Fault structure. The trenches have been mapped and sampled and have guided diamond drilling. Channel sampling of surface outcrops and roadcuts were also completed at the San Miguel vein in the Batosegachic Fault structure approximately 3 km west of the Guazapares Fault.

We initiated diamond core drilling in April 2006. As of April 30th, 2008, 176 HQ size diamond drill holes (2.5 inch core) have been completed totaling 34,926 meters. 132 of the holes have been drilled in mineralized areas along the Guazapares Fault structure and 44 holes have targeted the San Miguel vein in the Batosegachic Fault. Drill core from all holes has been photographed, logged, split, sampled, and analyzed by ALS-Chemex Laboratory for silver, gold, lead and zinc, as well as a variety of trace elements. The diamond drill program will be ongoing, subject to sufficient working capital and additional financing.

Ground magnetic and IP geophysical surveys were conducted over the Project area from September 2007 to March 2008. We have integrated the geophysical data with surface geologic mapping, drilling and trenching data into a Vulcan-based model. It is anticipated that the integration and interpretation of the multi-disciplinary data will generate additional drill targets.

At the end of April 2008, we initiated preliminary metallurgical testing of selected mineralized drill core material. Our exploration to date has identified silver and gold mineralization with accompanying lead and zinc. We have outlined a zone of higher-grade mineralization at the San Miguel vein structure referred to as Clavo 99 . Preliminary drilling to date has shown that Clavo 99 persists for nearly 400 meters below the surface and has a strike length of at least 650 meters at this depth. Clavo 99 mineralization remains open to the southeast and at depth, and its northwest limit is not well defined.

The San Miguel vein structure continues to be our current exploration focus at the San Miguel project. Our drilling program for the remainder of the year will be subject to our securing additional financing. We had previously budgeted a total of approximately 17,510 meters diamond drilling and 7,110 meters of RC drilling. Additional drilling is also budgeted for the Santa Clara, Guadalupe de los Reyes and San Juan-Rosario concession areas.

**REGIONAL GEOLOGY**

The Guazapares district and the San Miguel project are located in the western part of the Sierra Madre Occidental (SMO) physiographic province. The SMO is characterized by a northwest trending plateau with an average elevation exceeding 2000 m asl, and covers an area approximately 1200 km long and 200 400 km wide, extending southeast from the border with the United States to the Trans-Mexican Volcanic Belt.

The term Sierra Madre Occidental is also used to describe the Tertiary volcanic province characterized by large volumes of silicic ignimbrites. Within this context, the Sierra Madre Occidental extends beyond the boundaries of the physiographic province and includes the Mesa Central and part of eastern Chihuahua. The Sierra Madre Occidental volcanic province is one of the largest silicic igneous provinces on Earth, covering an area of approximately 300,000 $km^2$ (Ferrari et al., 2007).

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

mineralization, including all of the mineralized rock in the San Miguel Claim group, is developed in the Lower Volcanic Complex rocks.

The San Miguel project is composed of a series of concessions that overlie a NNW district-scale fault zone. For descriptive and presentation purposes, we have broken them into geographical areas, using the names of the principal historic silver mines in each area. The main Guazapares structure has a strike length of approximately 8 kilometers and hosts the Santa Clara, La Union, San Jose, San Luis, San Antonio, El Carmen, La Veronica and Montecristo exploration areas. In echelon quartz veins, quartz-pyrite veinlet stockworks and silicified hydrothermal breccia bodies, most of which host significant gold, silver, lead and zinc mineralization, are developed within this structural zone. The zone is broken into segments by small-displacement NE trending faults. The San Miguel exploration area lies on a parallel structure approximately 3 km west of the La Veronica area. This structure referred to as the Batosegachic Fault and it hosts the San Miguel Vein.

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

**SAN MIGUEL PROJECT PRINCIPAL CONCESSIONS AND DRILLING AREAS**

Local Geology

Montecristo- Geology

**Area Geology**

The Montecristo area is near the northern end of the Guazapares structural zone. Here there are four vein-structures, three of which strike N45E (Montecristo I and II), quite different from the rest of the Guazapares zone. The fourth, Sangre de Cristo strikes N30 to 45 W, was the principal working in the area and the remains an old pan amalgamation mill are nearby. This mineralization is associated with a dacite intrusive body, probably domal in shape. A newly identified structure, called the Montecristo breccia, is a hydrothermal breccia developed along a N30W fault zone along this contact and can be followed for a kilometer. It is from 150 to 200 meters wide. Mineralization is largely gold and silver.

This target is different from those to the southeast in that the lithologies are a dacite intrusive body and dacitic tuff-breccias. Also there are multiple phases of brecciation and breccia fragments are generally relatively small. Because of the steep terrain, only three holes were drilled to test this mineralization in the first round of exploration.

La Union  San Luis Area Geology

The two-kilometer area stretching from La Union in the south to San Luis in the center of the Guazapares district. Very little work has been done by Paramount to date in the Santa Clara area and it will not be discussed here.

There are three principal geologic units mapped at La Union  San Luis. On the east is an andesitic basement composed of andesitic flows and volcaniclastic rocks with a few dacitic to rhyolitic tuff horizons. Bedding strikes to the north and dips to the west. Total thickness is unknown. These are interpreted to be part of the lower andesite sequence. A package of lithic to quartzo- feldspathic tuffs is exposed on the west side. It discordantly overlies the andesite unit and displays a pseudo-stratification with dips of 15 to 40 degrees to the northwest. A dacitic dike outcrops intermittently along the contact between these two units with an approximate strike of N30W and a dip of 50 to 70 degrees to the east. The eastern limit of the fault zone separating the andesites and the lithic tuffs is often rather sharp. West of the principal fault, the structure can be quite complex with fault splits, and mineralized fracture zones over 200 meters wide, particularly in the San Jose area.

Propylitic alteration is in a widespread envelope. Within this envelope are irregular zones of sulfide-bearing breccias, quartz veins and quartz vein stockworks. Here the rocks are commonly argillically altered, with locally intense silicification and associated adularia. Judging from earlier reports and the dimensions of stopes at the surface, the higher-grade veins mined were generally perhaps 1 to 4 meters wide. The principal sulfide minerals were pyrite, galena and sphalerite, and argentite. These altered poly-phase breccia bodies are cut by and surrounded by stockworks of fine quartz-sulfide veinlets. In the La Union area, the stockwork zone is as much as 100 meters wide. This wider stockwork zone north of the La Union mine occupies a segment of the fault zone that curves gently to the east.

The La Union segment is separated from the San Jose area by a small east-west valley which most likely represents a fault of small displacement, as evidenced by an abrupt break in the geologic pattern. North of this break, in the San Jose area the main area of workings is in a similar stockwork and breccia zone less than 50 meters wide. Relatively extensive shallow underground workings were developed here to exploit the higher-grade veins and breccias. However, additional stockwork zones persist well to the west, making the overall mineralized stockwork zone as much as 300 meters wide, as evidenced by numerous small old workings.

Across another east-west structural break is the San Luis area. At San Luis the rock units are the same. Mineralization is somewhat different here, in that grades were higher overall and gold content was much higher than elsewhere in Guazapares. The ore shoot was apparently controlled by the intersection of N30W and N5W striking structures, or by N30W and N60E. This ore shoot was exploited by the Alaska-Juneau Company between 1959 and 1968. Paramount cut a channel sample across a pillar between the two structures on the 300 level across 25.8 meters, grading 11.3 g/t Au and 87 g/t Ag. On the surface, the vein has a strike length of approximately 400 meters, but it appears that only a small portion of that was mined. The 300 foot level is just above the water table and some sulfides are showing in the drift walls. We believe that there is exploration potential in the undeveloped areas.

San Antonia  El Carmen Area Geology

The geology at San Antonio and El Carmen changes somewhat in detail, but not in a general sense. The andesites can be divided into four lithologic varieties, but at this stage that is not very significant. In addition the tuffaceous units have changed to a softer more granular sandy texture and do not crop out well. Outcrops are very sparse, but it appears that the dacite dikes so common at La Union and San Jose are rare here.

As at the La Union and San Jose areas, the structural setting remains similar. The general strike of the principal veins and breccia bodies is N30W, with some north-trending step-over veins connecting them. A stockwork zone of varying intensity generally occupies the areas among the major veins. While the veins continue to dip steeply (60 to 75 degrees) to the northeast at San Antonio, the west side of the main vein system dips 60 to 75 degrees to the southwest. Larger veins are also more common with four substantial en echelon veins and several smaller ones in 700 meters of strike length. In the El Carmen area the vein system has rolled over and the principal veins dip steeply to the southwest, 70 to 80 degrees.

Our geologists believe that the San Antonio  El Carmen area is somewhat higher in the system than other areas. This is based on the observation that gold is more abundant, silver grades seem a bit better, and silicified breccias and stockworks are more widespread.

***Deposit Types***

At the San Miguel project, mineralization consists of epithermal, low sulfidation, gold/silver vein and breccia deposits which occur in north-northwest trending, steeply dipping structures. This type of mineralization is typical of the Sierra Madre Occidental gold-silver metallogenic province. It is this type of mineralization that has been exploited in the region since early Spanish colonial times.

These are multi-phase deposits which produced several phases of cross-cutting breccias and related hydrothermal alteration. Alteration ranges from peripheral propylitization to argillic alteration to strong to intense silicification, often with adularia development. This mineralization is physically expressed as sheeted quartz veins, silicified hydrothermal breccias, and vuggy, quartz- filled expansion breccias. Amethystine quartz is locally present. At many such deposits, such as those nearby at Palmarejo, there are at least two stages of gold-silver mineralization. The first is characterized by pyrite, sphalerite, galena and argentite in structurally controlled quartz vein breccias. There is often a later fine- grained higher-grade gold-silver, base metal-deficient phase cross-cutting the first.

## MINERALIZATION

Paramount s exploration efforts to date have concentrated on segments of the Guazapares Fault structure, over a seven-kilometer strike-length between the Santa Clara and Montecristo areas and most recently on the San Miguel Vein hosted by the sub-parallel Batosegachi Fault structure approximately 3 km west of the Guazapares structure. This section deals primarily with mineralization associated with those segments of the structures.

The major structures that host the mineralized veins, stockworks and breccias at the Project generally occur in the Lower Volcanic Complex at or near the contact between andesitic and felsic sequences or within the more competent and brittle felsic sequences that allowed for development of through-going fractures. Interpreted dilational portions of the fault zones, such as flexures, link veins in fault jogs, or stockwork tension veins, appear at least locally to preferentially accommodate the development of higher grade mineralised shoots or clavos.

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

### SANTA CLARA AREA MINERALIZATION

The Santa Clara area is the southernmost portion of the main Guazapares concession group, south of the La Union area. The area contains numerous small old workings and was a minor silver producer during the 1880 s.

At Santa Clara, a 2.0 meter to 6.1 meter wide mineralized structure has been traced for a strike length of over 400 meters. It is a relatively narrow, simple structure, composed mostly of numerous anastomosing oxidized quartz-sulfide veinlets and resembles vein exposures at La Union to the north. The vein system strikes from N-S to N20W, and dips steeply to the east. Silicification is locally strong and narrow lenticular hydrothermal breccias are occasionally developed.

Ten trenches (ZSC-01 to ZSC-10) totaling 310 meters have been excavated, mapped and sampled. Highlights of the trench assay intercepts are: 6.1m @ 0.2 g/t Au, 224 g/t Ag; 4.3m @ 1.2 g/t Au, 282 g/t Ag; 5.7m @ 1.24 g/t Au, 101 g/t Ag. Santa Clara is a lower priority target area, as the vein structure is narrower and less complex than at other target areas.

### LA UNION AREA MINERALIZATION

An area of historic shallow workings is centered approximately 400 meters south of the La Union mine workings. We excavated three trenches totaling 85 meters in this area and six core holes were drilled for a total of 770 meters. Trenching and drilling intersected modest intervals of moderate silver and gold grades. The most significant trench intercept in this area (ZLU-7) was 22.6 meters of 0.40 g/t Au and 89 g/t Ag. Hole LU-09 was drilled beneath this trench and returned the most significant intercept for this area: 34.9 meters of 0.13 g/t Au and 60 g/t Ag. Most of the trench and drill intercepts in the southern area had significantly higher zinc and lead values (approximately 1 2% zinc) than elsewhere on the San Miguel project, including a 13.5 meter interval in hole LU-11 grading 2.38 % lead and

7.07% zinc.

A 20 to 50 meter wide vein and quartz stockwork zone extends approximately 300 meters northward from the historic La Union mine area. The zone trends N20W in the south, curving to slightly east of north at its north end and dips northeast to east at 50 to 60 degrees. The mineralization is exposed by several shallow historic inclined shafts and short drifts. Paramount excavated 5 trenches totaling 303 meters, and completed 8 diamond drill holes totalling 1039 meters. Mineralization is typical of the district with locally intense multiphase brecciation and silicification, grading laterally into quartz veinlet stockwork zones. Most of the old workings followed only the sheared veinlet stockwork veins and intensely silicified breccias. Outcrops are sparse where silicification is less intense. However, trenching shows that stockwork veining and argillic alteration to persist into these covered areas. Trenching intersected wide mineralised zones including 1.29 g/t Au and 221 g/t Ag over 21 meters; 0.55 g/t Au and 103 g/t Ag over 29 meters; and 0.03 g/t Au and 105 g/t Ag over 66 meters.

Drilling to date at La Union has been relatively wide-spaced and shallow. However it has demonstrated a reasonable continuity of mineralization.

**SAN JOSE AREA MINERALIZATION**

The San Jose area has volumetrically more extensive historic workings than the La Union area and appears to have had a larger tonnage of material extracted. It is separated from La Union to the south and San Luis to the north by topographic breaks related to small northeast trending displacement faults. The principal zone of quartz veinlets, breccias and related stockworks is relatively narrow, associated with a fault structure at the andesite-felsic tuff contact. The larger historic workings at San Jose exploited higher-grade mineralization close to the main fault. Quartz-cemented breccias are exposed along the main fault, particularly near the north end where workings are more abundant.

A second area of precious metal-bearing stockworks and breccia zones extends up to 120 meters west of the main zone in the San Jose area. Surface sampling in this broad mineralized zone indicates the presence of silver values greater than 100 g/t over an area of at least 250 by 100 meters. We believe that the surface samplings may indicate a shallow silver resource at San Jose.

Paramount has completed an initial phase of eleven diamond drill holes at the San Jose area. Almost all holes intersected intervals of several meters containing greater than 100 g/t Ag, many with significant lower-grade gold, lead and zinc credits. Most of the significant mineralized intercepts were down dip from the larger historic surface workings, along the principal vein. Several significant intercepts however, were intersected east of the down-dip projection of the main vein-breccia zone (eg. SJ-06 - 354 g/t Ag over 6.6m) and appear to correlate with a band of +200 g/t silver values delineated by surface sampling east of the main workings. This may represent a previously untested vein split east of the principal workings.

Drilling to date at San Jose has been relatively wide-spaced and shallow. However it has demonstrated a reasonable continuity of mineralization.

**SAN LUIS AREA MINERALIZATION**

The San Luis area is centered on the San Luis mine, which was operated by the Alaska-Juneau Company in the 1960 s. Before their arrival in 1959, mining had only reached the 400-foot level (approximately 120 meters vertically below the surface). The inclined shaft reportedly ultimately reached the 800-foot (240 meter) level. The high grade ore shoot mined had a strike length of approximately 30 meters and was localized by the intersection of the main N30W vein structure with a crossing fault, variously stated in old reports as trending N10W or N40E. This ore shoot is distinctive in the San Miguel district in that the bulk of its ore value was in gold rather than silver. In addition, lead (galena), zinc (sphalerite) and sometimes copper (chalcopyrite) were often abundant.

Away from the high-grade shoot, the main San Luis vein mineralization appears very similar to that of the rest of the district. We completed eight diamond drill holes in the San Luis area for a total of 1,185 meters. Due to relatively steep terrain, the holes were collared downhill to the east and cut the structure below the 300-foot level. Upper oxidized portions of the vein system are largely untested. Drill hole intercepts in drill holes SL-04 and SL-08 included 253 g/t Ag and 0.12 g/t Au over 2m and 85 g/t Ag and 0.04 g/t Au over 8.5m, respectively. Some of our intercepts had very high lead and zinc grades, such as 2.54% Pb and 10.04% Zn over 1.35m in SL-01, which was drilled close to the previously mined high-grade mineralized shoot.

Targets at San Luis are both mineralization along strike similar to that of the rest of the district and also higher grade material similar to that mined by Alaska-Juneau.

**SAN ANTONIO AREA MINERALIZATION**

The San Antonio area is separated from the San Luis area to the south by a topographic low that represents a small displacement, northeast trending fault. The San Antonio area has been separated into a San Antonio South area and a San Antonio North area based on a reversal of dip direction of the main mineralized structures.

The San Antonio area is structurally different from the other explored areas to the south in that rather than one main vein zone, there are at least eight sub-parallel, en echelon vein zones which trend approximately N30W. Smaller step-over veins are commonly present between the principal ones. Individual principal veins have strike lengths of 250 to 400 meters. Quartz veinlet stockworks of varying intensity often separate the main veins.

Mineralization is hosted by a series of andesitic and dacitic tuffaceous rocks. Outcrops are sparse, but dacitic dikes are locally present parallel to some of the many veins, although to a lesser extent than at the San Jose area. The veins themselves vary from quartz-pyrite (oxidized) veinlet stockwork zones to steeply dipping tabular breccia bodies, to local very siliceous hydrothermal breccias. Late stage grey-brown chalcedonic veinlets are often present. Gold, lead and zinc grades encountered in drill core are generally quite low and generally do not increase with higher silver values.

In the southern part of the San Antonio South area, a strong vein structure is present, nearly parallel to and northwest along strike from the San Luis vein and is referred to as the San Luis NW Extension. Trench ZSA-02 cut the vein and returned an intercept of 20 meters grading 76 g/t Ag. Core hole SA-06 was drilled across the vein structure 10 meters to the north of the trench and intersected 13. 8m grading 213 g/t Ag. This vein has at least 200 meters of strike length.

The main San Antonio South vein structure has a N30W trend and is steeply dipping to the east. This vein-breccia body and stockwork system swells from 2 meters in the south and north to nearly 30 meters in the center. Three trenches that intersected it all returned strong silver values: ZSA-04 cut 8m @ 196 g/t Ag and 10.6m @ 200g/t Ag; ZSA-05 cut 10m @ 87 g/t Ag and 17.1m @ 170 g/t Ag; ZSA-06 cut 5.6m @ 597 g/t Ag. Other sub-parallel smaller vein structures are also somewhat mineralized. Core holes were drilled to intercept the vein beneath each of these trenches. DDH holes SA-01, 03, 12 and 13 were drilled into the zone). Hole SA-03, drilled beneath trench ZSA 04, cut 3.5m grading 135 g/t Ag. Hole SA-01, drilled beneath trench ZSA 05, intersected 25.8m grading 194 g/t Ag and two 1- meter intercepts of 643 and 346 g/t Ag. Hole SA-13, drilled beneath trench ZSA 06, intersected 10.7m grading 296 g/t Ag. SA-12 had an intercept of 16.15 meters @ 201 g/t Ag and three other shorter high-grade intercepts.

The San Antonio North (El Carmen) area has the same alteration, vein and breccia appearance and style of mineralization as the San Antonio South area. However, the San Antonio North veins dip to the west-southwest at 65 to 80 degrees. Smaller NNE dipping veins are occasionally seen; these appear to be hanging wall splits off the principal veins. There are at least 5 substantial en echelon veins structures at San Antonio North, and several smaller subparallel and cross-over vein splits. The main vein structures have strike lengths of 250 to 400 meters and are better described as multiphase sheared and brecciated quartz veinlet stockwork zones, rather than as massive quartz veins. Broad, more open quartz veinlet stockwork zones are often developed between the larger veins.

Selected significant drill core intercepts in the San Antonio area presented below.

**Selected Significant Drill Core Intercepts**

| Drill hole | From Meters | To Meters | Width Meters | Gold g/t | Silver g/t | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|
| SA - 01 | 47.65 | 73.45 | 25.8 | 0 | 194 | 0.05 | 0.11 |
| SA - 05 | 19.8 | 33.6 | 13.8 | 0.01 | 213 | 0.09 | 0.20 |
| SA - 08 | 14 | 16.5 | 2.5 | 0 | 212 | 0.34 | 0.44 |
| | 66.5 | 79.3 | 12.8 | 0 | 84 | 0.38 | 0.78 |
| | 91.2 | 96.3 | 5.1 | 0 | 107 | 0.35 | 0.90 |
| SA - 09 | 21.6 | 27.7 | 6.1 | 0 | 149 | 0.20 | 0.28 |
| | 93.2 | 98.9 | 5.7 | 0 | 152 | 0.32 | 0.69 |
| SA - 10 | 11.3 | 28 | 16.7 | 0 | 129 | 0.20 | 0.27 |
| | 44.6 | 53 | 8.4 | 0 | 137 | 0.54 | 0.65 |
| | 107.3 | 115.55 | 8.25 | 0 | 683 | 0.78 | 0.97 |
| SA - 11 | 35.4 | 40.8 | 5.4 | 0 | 217 | 0.02 | 0.14 |
| | 55.5 | 59 | 3.5 | 0 | 122 | 0.09 | 0.22 |
| SA - 12 | 40.8 | 75.3 | 34.5 | 0 | 134 | 0.13 | 0.15 |
| SA - 13 | 53 | 63.7 | 10.7 | 0 | 296 | 0.05 | 0.10 |
| SA - 16 | 49.6 | 62.5 | 12.9 | 0 | 172 | 0.03 | 0.12 |
| SA - 17 | 45 | 64 | 19 | 0 | 156 | 0.13 | 0.20 |
| SA - 19 | 25 | 86.9 | 61.9 | 0 | 184 | 0.16 | 0.25 |
| SA - 20 | 0 | 36.1 | 36.1 | 0 | 113 | 0.06 | 0.14 |
| | 85 | 88.5 | 3.5 | 0 | 229 | 0.06 | 0.19 |
| | 101 | 102.65 | 1.65 | 0 | 149 | 0.06 | 0.13 |
| SA - 21 | 0 | 5.85 | 5.85 | 0 | 98 | 0.15 | 0.22 |
| | 39.4 | 41 | 1.6 | 0 | 488 | 0.18 | 0.24 |
| | 53.2 | 56.5 | 3.3 | 0 | 254 | 0.76 | 0.53 |
| SA - 23 | 79.9 | 81.2 | 1.3 | 0 | 1025 | 0.08 | 0.30 |
| | 147 | 175.2 | 28.2 | 0 | 117 | 0.33 | 0.62 |
| | 212.9 | | | | | | |