

PARAMOUNT GOLD & SILVER CORP.
Form 10-K
September 09, 2014

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
T FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Or

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

For the transition period from _____ to _____

Commission file number 001-33630

PARAMOUNT GOLD AND SILVER CORP.
(Exact name of registrant as specified in its charter)

Delaware 20-3690109
(State or other jurisdiction of Incorporation or organization) (I.R.S. Employer Identification No.)

665 Anderson Street, Winnemucca, Nevada 89445
(Address of principal administrative office) (Zip code)

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

Securities registered pursuant to section 12(b) of the Act: Name of each exchange on which registered:
Common Stock, par value \$0.001 per share NYSE MKT LLC

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No T

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 o No T

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. Yes T No o

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 T No o

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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.
T

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer 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 T

Based on the last sale price on the NYSE MKT LLC of the Common Stock on December 31, 2013 \$0.93 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$145 million.

As of September 5, 2014, the registrant had 161,306,269 shares of Common Stock, par value \$0.001, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: To the extent specifically referenced in Part III, portions of the registrant's definitive Proxy Statement on Schedule 14A to be filed with the Securities and Exchange Commission in connection with the 2014 Annual Meeting of stockholders are incorporated by reference into this report. See Part III.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-K contains “forward-looking statements” within the meaning of applicable securities laws relating to Paramount Gold and Silver Corp. (“Paramount”, “we”, “us”, “our”, or the “Company”) which represent our current expectations or beliefs including, but not limited to, statements concerning our operations, performance, and financial condition. These statements by their nature involve substantial risks and uncertainties, credit losses, dependence on management and key personnel, variability of quarterly results, and our ability to continue growth. Statements in this annual report regarding planned drilling activities and any other statements about Paramount’s future expectations, beliefs, goals, plans or prospects constitute forward-looking statements. You should also see our risk factors beginning on page 12. 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. Other matters such as our growth strategy and competition 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.

Paramount is required to prepare reports under the Canadian Securities Administrators’ National Instrument 43-101 “Standards of Disclosure for Mineral Projects” (“NI 43-101”), under the Canadian securities laws because we are listed on the Toronto Stock Exchange (“TSX”) and subject to Canadian securities laws. These standards are materially different from the standards generally permitted in reports filed with the United States (“U.S.”) Securities Exchange Commission (“SEC”).

The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” used in this report are Canadian mining terms defined in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (the “CIM”) in the CIM Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as the same may be amended from time to time by the CIM. These definitions differ from the definitions of those terms in Industry Guide 7 (“Guide 7”) promulgated by the SEC. Under U.S. standards, mineralization may not be classified as a “reserve” unless a determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Under Guide 7 standards, a “Final” or “Bankable” feasibility study is required to report reserves, the three-year historical average precious metals prices are used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate government authority. One consequence of these differences is that “reserves” calculated in accordance with Canadian standards may not be “reserves” under Guide 7 standards. U.S. investors should be aware that Paramount’s properties located in the United States and Mexico do not have “reserves” as defined by Guide 7 and are cautioned not to assume that any part or all of the disclosed mineralized material will be confirmed or converted into Guide 7 compliant “reserves”.

Under NI 43-101, we report measured, indicated and inferred resources, which are measurements that are generally not permitted in filings made with the SEC. The estimation of measured resources and indicated resources involve greater uncertainty as to their existence and economic feasibility than the estimation of proven and probable reserves. U.S. investors are cautioned not to assume that any part of measured or indicated resources will ever be converted into economically mineable reserves. The estimation of inferred resources involves far greater uncertainty as to their existence and economic viability than the estimation of other categories of resources. It cannot be assumed that all or any part of inferred resources will ever be upgraded to a higher category. Therefore, U.S. investors are also cautioned

not to assume that all or any part of inferred resources exist, or that they can be mined legally or economically.

Canadian regulations permit the disclosure of resources in terms of “contained ounces” provided that the tonnes and grade for each resource are also disclosed; however, the SEC only permits issuers to report “mineralized material” in tonnage and average grade without reference to contained ounces. Under U.S. regulations, the tonnage and average grade described herein would be characterized as mineralized material. We provide such disclosure about our exploration properties to allow a means of comparing our projects to those of other companies in the mining industry, many of which are Canadian and report pursuant to NI 43-101, and to comply with applicable disclosure requirements.

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We also note that drilling results are not indicative of mineralized material in other areas where we have mining interests. Furthermore, mineralized material identified on our properties does not and may never have demonstrated economic or legal viability.

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EXCHANGE RATES:

THE COMPANY'S FUNCTIONAL CURRENCY IS THE U.S DOLLAR.

METRIC CONVERSION TABLE AND ABBREVIATIONS

For ease of reference, the following conversion factors are provided:

1 acre	=0.4047 hectare	1 mile	=1.6093 kilometers
1 foot	=0.3048 meter	1 troy ounce	=31.1035 grams
1 gram per metric ton	=0.0292 troy ounce/short ton	1 square mile	=2.59 square kilometers
1 short ton (2000 pounds)	=0.9072 tonne	1 square kilometer	=100 hectares
1 tonne	=1,000 kg or 2,204.6 lbs	1 kilogram	=2.204 pounds or 32.151 troy oz
1 hectare	=10,000 square meters	1 hectare	=2.471 acres

The following abbreviations may be used herein:

Au =gold	m ² =square meter
Ag =silver	
g =gram	m ³ =cubic meter
g/t =grams per tonne	mg =milligram
Ha =hectare	mg/m ³ =milligrams per cubic meter
Km =kilometer	T or t =tonne
Km ² =square kilometers	oz =troy ounce
Kg =kilogram	ppm =parts per million
m =meter	Ma =million years

Note: All units in this report are stated in metric measurements unless otherwise noted.

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GLOSSARY OF MINING TERMS

exploration stage

An “exploration stage” prospect is one which is not in either the development or production stage.

development stage

A “development stage” project is one which is undergoing preparation of an established commercially mineable deposit for its extraction but which is not yet in production. This stage occurs after completion of a feasibility study.

mineralized material

The term “mineralized material” refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.

probable reserve

The term “probable reserve” refers to reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

production stage

A “production stage” project is actively engaged in the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product.

proven reserve

The term “proven reserve” refers to reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

reserve

The term “reserve” refers to that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study done to bankable standards that demonstrates the economic extraction. (“Bankable standards” implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing.) A reserve includes adjustments to the in-situ tons and grade to include diluting materials and allowances for losses that might occur when the material is mined.

Additional Definitions

alteration – any change in the mineral composition of a rock brought about by physical or chemical means

assay – a measure of the valuable mineral content

diamond drilling – rotary drilling using diamond-set or diamond-impregnated bits, to produce a solid continuous core of rock sample

dip – the angle that a structural surface, a bedding or fault plane, makes with the horizontal, measured perpendicular to the strike of the structure

disseminated – where minerals occur as scattered particles in the rock

fault – a surface or zone of rock fracture along which there has been displacement

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feasibility study – a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production

formation – a distinct layer of sedimentary rock of similar composition

geochemistry – the study of the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere

geophysics – the study of the mechanical, electrical and magnetic properties of the earth's crust

geophysical surveys – a survey method used primarily in the mining industry as an exploration tool, applying the methods of physics and engineering to the earth's surface

geotechnical – the study of ground stability

grade – quantity of metal per unit weight of host rock

heap leach – a mineral processing method involving the crushing and stacking of an ore on an impermeable liner upon which solutions are sprayed to dissolve metals i.e. gold, copper etc.; the solutions containing the metals are then collected and treated to recover the metals

host rock – the rock in which a mineral or an ore body may be contained

in-situ – in its natural position

lithology – the character of the rock described in terms of its structure, color, mineral composition, grain size and arrangement of its component parts, all those visible features that in the aggregate impart individuality to the rock

mapped or geological mapping – the recording of geologic information including rock units and the occurrence of structural features, attitude of bedrock, and mineral deposits on maps

mineral – a naturally occurring inorganic crystalline material having a definite chemical composition

mineralization – a natural accumulation or concentration in rocks or soil of one or more potentially economic minerals, also the process by which minerals are introduced or concentrated in a rock

outcrop – that part of a geologic formation or structure that appears at the surface of the earth

open pit or open cut – surface mining in which the ore is extracted from a pit or quarry, the geometry of the pit may vary with the characteristics of the ore body

ore – mineral bearing rock that can be mined and treated profitably under current or immediately foreseeable economic conditions

ore body – a mostly solid and fairly continuous mass of mineralization estimated to be economically mineable

ore grade – the average weight of the valuable metal or mineral contained in a specific weight of ore i.e. grams per tonne of ore

oxide – gold bearing ore which results from the oxidation of near surface sulfide ore

preliminary assessment – a study that includes an economic analysis of the potential viability of Mineral Resources taken at an early stage of the project prior to the completion of a preliminary feasibility study

QA/QC – Quality Assurance/Quality Control is the process of controlling and assuring data quality for assays and other exploration and mining data

quartz – a mineral composed of silicon dioxide, SiO₂ (silica)

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RC (reverse circulation) drilling – a drilling method using a tri-cone bit, during which rock cuttings are pushed from the bottom of the drill hole to the surface through an inner tube, by liquid and/or air pressure moving through an outer tube

rock – indurated naturally occurring mineral matter of various compositions

sampling and analytical variance/precision – an estimate of the total error induced by sampling, sample preparation and analysis

sediment – particles transported by water, wind, gravity or ice

sedimentary rock – rock formed at the earth's surface from solid particles, whether mineral or organic, which have been moved from their position of origin and re-deposited

strike – the direction or trend that a structural surface, e.g. a bedding or fault plane, takes as it intersects the horizontal

strip – to remove barren rock or overburden in order to expose ore

sulfide – a mineral including sulfur (S) and iron (Fe) as well as other elements; metallic sulfur-bearing mineral often associated with gold mineralization

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PART 1

Item 1. Business

Paramount is a U.S. based exploration stage mining company with projects in Nevada and northern Mexico. We were incorporated on March 31, 2005 in the state of Delaware. Our business strategy is to acquire and develop known precious metals deposits in large-scale geological environments in North America. This strategy helps eliminate discovery risks and significantly increases the efficiency of exploration programs. Our projects are located near successful operating mines. This greatly reduces the related costs for infrastructure requirements at the exploration stage and eventually for mine construction and operation.

Our Mexican project, known as the San Miguel Project (“San Miguel”), was assembled by completing multiple transactions with third parties from 2005 to 2009. From August 2005 to August 2008, we completed a series of transaction through our wholly owned subsidiary, Paramount Gold de Mexico S.A. de C.V. and acquired a group of mineral concessions known as the San Miguel Group from Tara Gold Resources Corp. In May 2008, we acquired the option rights to purchase the Guazapares Group concessions from Mexoro Minerals Ltd. and its Mexican subsidiary, Sunburst Mining de Mexico S.A. de C.V. Our Temoris Group concessions were acquired in March 2009 when we acquired all the issued and outstanding shares of Magnetic Resources Ltd. from Garibaldi Resource Corp.

Our principal Nevada interest, the Sleeper Gold Project, was acquired by way of statutory plan of arrangement in the Province of British Columbia, Canada, with X-Cal Resources Ltd. (“X-Cal”) in August 2010. The Sleeper Gold Project is located in Humboldt County, Nevada. Also through our acquisition of X-Cal, we own additional mining claims in the state of Nevada and are described fully under Item 2. Properties on Page 12.

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Inter-corporate Relationships:

We currently have three active wholly owned subsidiaries:

Paramount Gold de Mexico S.A. de C.V. operates our business in Mexico and holds our interests in the San Miguel mineral concessions and the Guazapares mineral concessions.

Magnetic Resources Ltd., which owns Minera Gama S.A. de C.V., holds interests in mineral concessions known as the Temoris Group and a royalty interest in the mineral concessions known as the Iris project, both located in Mexico.

Paramount Nevada Gold Corp., through its wholly owned subsidiaries X-Cal USA Inc., New Sleeper Gold LLC, and Sleeper Mining Co LLC, operates our mining interests in Nevada.

The Company's corporate structure is as follows:

Paramount Metals Corp. is currently inactive.

Segment Information

Our operating segments are the United States and Mexico. See note 10 to the Consolidated Financial Statements for information relating to our operating segments.

Recent Developments

On April 11, 2014, we entered into a Controlled Equity OfferingSM Sales Agreement under which we may, at our discretion, sell up to \$30.0 million of shares of our common stock from time to time through our sales agent, Cantor Fitzgerald & Co. ("Cantor"). See Liquidity and Capital Resources below for further discussion of these financing arrangements.

In July 2013, we sold 6 million common shares of Valor Gold Corporation in a private transaction and received net proceeds of \$450,000. In August 2013, we made an investment in Pershing Gold Corporation in the amount of \$499,950.

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The San Miguel Project (Mexico)

On August 22, 2014, in a subsequent event to the year end of June 30, 2014, the Company announced the results of an updated Preliminary Economic Assessment (“San Miguel PEA”). The report was authored by Metal Mining Consultants Inc. (“MMC”) and incorporated a resource estimate which was prepared by Mine Development Associates. In their analysis, MMC proposed a 4,000 tonnes per day mill with a heap leaching facility fed by open pits and underground mines, resulting in a projected 17 year operation with a total metal production of 933,000 ounces of gold and 47.1 million ounces of silver.

In May 2014, the Company reported the results of metallurgical testing by McClelland Laboratories which confirmed the potential for an economic recovery process at two of San Miguel’s open pit targets using inexpensive heap leach technologies could be feasible. The heap leach mining method will be evaluated in an updated Preliminary Economic Assessment expected in August 2014.

In the 3rd quarter, the Company reported numerous assays results at its Don Ese zone which lies within the Company’s San Miguel Project. Data from 16 new core holes totaling 26,335 feet of drilling at Don Ese zone were incorporated in a new material estimate which was released July 8, 2014.

At our San Miguel project in Mexico, our geologists identified two new mineralized zones called San Isidro and Sota del Oro from surface mapping, rock sampling and alteration analysis, which were confirmed with initial positive assay results. The San Isidro structure runs parallel to and west of Paramount’s previously identified Guazapares Megastructure and the Sota del Oro structure runs north west and obliquely to the main Guazapares Megastructure before joining the La Union area.

For additional information on our San Miguel Project, please see Item 2. Properties.

The Sleeper Gold Project (Nevada)

In April 2014, the company reported assays from a re-logging program from 19 core holes drilled by previous owners of the Sleeper Gold Project. These uncut and unassayed intervals were typically entered into the material estimate model database with an assumed grade of zero.

In January 2014, the Company reported favorable gold recoveries from bio-oxidation metallurgical testing on the sulfide material at the West Wood Zone at the Sleeper Gold Project. The mineralized material at the West Wood Zone was not included in the Sleeper Preliminary Economic Assessment (“Sleeper PEA”) completed in September 2012 due to poor recoveries from the heap leach mining method proposed in the Sleeper PEA. Since the beginning of 2014, the Company has been conducting metallurgical biooxidation column tests to prove initial small scale positive recovery results for the West wood sulfide material, results are expected in late 2014.

We commissioned SRK Consulting to update the Sleeper Gold Project’s material estimate which will incorporate the data from 44 new drill holes totaling over 49,000 ft. completed since the resource estimation used in last year’s PEA. The report from SRK Consulting is expected in September 2014.

For additional information on our Sleeper Gold Project, please see Item 2. Properties.

Competitive Business Conditions

The mining and mineral exploration industry has numerous competitors, with substantially more financial, technical and human resources, who can vie for the limited supply of geologically attractive mineral properties available for claim staking, lease or purchase. This competition also extends to our ability to recruit and retain key personnel and to

raise capital to fund our operations.

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General Government Regulations:

The Company's activities are subject to numerous federal, state and local laws in both Mexico and the United States. Compliance with laws that govern prospecting, exploration, protection of the environment, reclamation, labor standards and other issues are considerable and possible future legislation and regulations could cause additional expenses or delays in the continued development of the Company's properties.

Mexican Regulations

Mineral Concession Rights: The Mexican mining concessions obtained by the Company grant both exploration and exploitation rights to the land where the San Miguel Project is located for a period of 50 years. These rights can be extended if the property is being worked. The concessions are for mineral rights only and the Company must reach agreements with the landowners for access to the property and any disturbance of land. A minimum annual assessment work is required to hold a concession and is based on the number of years and the land size of the concession. Mining fees have to be paid semi-annually and are based on the area of the concession.

Surface Rights: Paramount has surface agreements with the local ejido or surface-owner councils for the mining concessions it is currently exploring. The agreements typically last five years and require the Company to make financial payments for access and surface disturbances.

Environmental and Reclamation Law: To conduct exploration activities, the Company must submit applications to the Mexican government environmental agency SEMARNAT along with environmental impact studies. If the application permit is granted it allows the Company to legally disturb a defined area within its mineral concessions and the Company will be required to pay a reclamation fee to Fondo Forestal Mexicano as part of the application permit. Failure to obtain a permit can adversely affect the planned exploration activities of the Company. Currently the Company has all the required permits for its current and planned exploration programs.

United States Regulations

Mining Claims: Exploration activities on our properties in Nevada are conducted upon federally-owned unpatented mining claims. Most federally-owned land is administered by the Bureau of Land Management ("BLM"). On existing claims, we are required to make an annual claim maintenance fees of \$140 per claim on or before September 1st at the State Office of the BLM. In addition, in Nevada, we are required to pay the county recorder of the county in which the claim is situated an annual fee of \$10.50 per claim. On certain claims, we are required to pay a fee for each 20 acres of an association placer. For any new claims we acquire by staking, we must file a certificate of location with the State Office of the BLM within 90 days of making the claim along with a fee equal to the amount of the annual claim maintenance fee.

Mining Exploration: BLM regulations require, and the Company has obtained, permits for surface disturbances to conduct its exploration activities. There are also numerous permits in place that are maintained from the previous mine operations. These are maintained by the Company for ease in updating should a decision be made to reinitiate production at the Sleeper Gold mine. Maintenance of these permits includes monthly, quarterly and annual monitoring and reporting to various government agencies and departments.

Environmental and Reclamation: Our Sleeper Gold Project is currently operated as an advanced exploration project and is subject to various permit requirements. The Company is required to submit a plan of operation, obtain permitting and post bonds that guarantee that reclamation is performed on lands associated with exploration.

The Company is also responsible for managing the reclamation requirements from the previous mine operations and has a bond posted with the BLM to guarantee that reclamation is performed on the associated mine facilities and

activities. The Company believes the existing bond amount is adequate and that the annual reclamation expenses are not material.

Employees

As of August 31, 2014, we had approximately 20 employees and consultants located in Canada, Mexico and the United States.

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Facilities

Our head office is located at 665 Anderson Street, 89445, Winnemucca, Nevada, USA. We also have a field office in Temoris, Chihuahua Mexico.

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Item 1A. Risk Factors

Investing in our common stock involves risks. Our business is influenced by many factors that are difficult to predict and beyond our control and that involve uncertainties that may materially affect our results of operations, financial condition or cash flows, or the value of our securities. The risks described below are not the only ones facing us or otherwise associated with an investment in our stock. Additional risks not presently known to us or which we currently consider immaterial may also adversely affect our business. We have attempted to identify the major factors that could cause differences between actual and planned or expected results. If any of the following risks actually happen, our business, financial condition and operating results could be materially adversely affected. In this case, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to our Business Operations

It is possible investors may lose their entire investment in Paramount.

Prospective investors should be aware that if we are not successful in our endeavors, your entire investment in the Company could become worthless. Even if we are successful in identifying mineral reserves that can be commercially developed, there can be no assurances that we will generate any revenues and therefore our losses will continue.

We have not generated any revenues from operations. We have a history of losses and losses are likely to continue in the future.

We have not generated any revenues from operations. Our net loss for the fiscal year ended June 30, 2014 totaled \$11,062,025. Cumulative losses since inception totaled \$126,279,546 as of June 30, 2014. We have incurred significant losses in the past and we will likely continue to incur losses in the future. Even if our drilling program identifies gold, silver or other mineral reserves, there can be no assurance that we will be able to commercially exploit these resources, generate any revenues or generate sufficient revenues to operate profitably.

We will require significant additional capital to continue our exploration activities, and, if warranted, to develop mining operations.

Substantial expenditures will be required to determine if proven and probable mineral reserves exist at any of our properties, to develop metallurgical processes to extract metal, to develop the mining and processing facilities and infrastructure at any of our properties or mine sites and, in certain circumstances, to acquire additional property rights. We have spent and will be required to continue to expend significant amounts of capital for drilling, geological and geochemical analysis, assaying, and, when warranted, feasibility studies with regard to the results of our exploration. We may not benefit from these investments if we are unable to identify commercially exploitable mineralized material. If we decide to put one or more of our properties into production, we will require significant amounts of capital to develop and construct the mining and processing facilities and infrastructure required for mining operations. Our ability to obtain necessary funding for these purposes, in turn, depends upon a number of factors, including the status of the national and worldwide economy and the price of gold, silver and other precious metals. We may not be successful in obtaining the required financing, or if we can obtain such financing, such financing may not be on terms that are favorable to us. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration or development and the possible, partial or total loss of our potential interest in certain properties. Any such delay could have a material adverse effect on our results of operations or financial condition.

We may acquire additional exploration stage properties and we may face negative reactions if reserves are not located on acquired properties.

We may acquire additional exploration stage properties. There can be no assurance that we will be able to identify and complete the acquisition of such properties at reasonable prices or on favorable terms and that reserves will be identified on any properties that we acquire. We may also experience negative reactions from the financial markets if we are unable to successfully complete acquisitions of additional properties or if reserves are not located on acquired properties. These factors may adversely affect the trading price of our common stock or our financial condition or results of operations.

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Our industry is highly competitive, attractive mineral lands are scarce, and we may not be able to obtain quality properties.

We compete with many companies in the mining industry, including large, established mining companies with substantial capabilities, personnel and financial resources. There is a limited supply of desirable mineral lands available for claim staking, lease or acquisition in the United States (“U.S.”), Mexico, and other areas where we may conduct exploration activities. We may be at a competitive disadvantage in acquiring mineral properties, since we compete with these individuals and companies, many of which have greater financial resources and larger technical staffs.

Title to mineral properties can be uncertain, and we are at risk of loss of ownership of one or more of our properties. Our ability to explore and operate our properties depends on the validity of our title to that property. Our U.S. mineral properties consist of leases of unpatented mining claims, which we control directly. Unpatented mining claims provide only possessory title and their validity is often subject to contest by third parties or the federal government, which makes the validity of unpatented mining claims uncertain and generally more risky. These uncertainties relate to such things as the sufficiency of mineral discovery, proper posting and marking of boundaries, assessment work and possible conflicts with other claims not determinable from public record. Since a substantial portion of all mineral exploration, development and mining in the United States now occurs on unpatented mining claims, this uncertainty is inherent in the mining industry. We have not obtained title opinions covering our entire property, with the attendant risk that title to some claims, particularly title to undeveloped property, may be defective. There may be valid challenges to the title to our property which, if successful, could impair development and/or operations.

There are no confirmed mineral deposits on any properties from which we may derive any financial benefit.

Neither the Company nor any independent geologist has confirmed commercially mineable ore deposits. In order to carry out additional exploration programs of any potential ore body and to place it into commercial production, we will require substantial additional funding.

We have no mining operations and no history as a mining company.

We are an exploration stage mining company and have no ongoing mining operations of any kind. We have interests in mineral concessions and mining claims which may or may not lead to production.

We have no history of earnings or cash flow from mining operations. If we are able to proceed to production, commercial viability will be affected by factors that are beyond our control such as the particular attributes of the deposit, the fluctuation in metal prices, the cost of constructing and the operation of a mine, prices and refining facilities, the availability of economic sources for energy, government regulations including regulations relating to prices, royalties, restrictions on production, quotas on exploration of minerals, as well as the costs of protection of the environment.

If our exploration costs are higher than anticipated, then our profitability will be adversely affected.

We are currently proceeding with exploration of our mineral properties on the basis of estimated exploration costs. This exploration program includes drilling programs at various locations within Mexico and the United States. If our exploration costs are greater than anticipated, then we will have less funds for other expenses or projects. If higher exploration costs reduce the amount of funds available for the extraction of gold or silver through mining and development activities, then our ability to generate revenues will be adversely affected. Factors that could cause exploration costs to increase are: adverse weather conditions, difficult terrain, increased government regulation and shortages of qualified personnel.

During the next twelve months, and assuming no adverse developments outside of the ordinary course of business, we have budgeted approximately \$10.5 million for exploratory activities of which \$8.0 million will be allocated to our Mexican operations and \$2.5 million will be allocated to our exploration in Nevada. Exploration will be funded by our available cash reserves and future issuances of common stock, warrants or units. Our drilling program may vary significantly from what we have budgeted depending upon drilling results. Even if we identify mineral reserves which have the potential to be commercially developed, we will not generate revenues until such time as we undertake mining operations. Mining operations will involve a significant capital infusion. Mining costs are speculative and dependent on a number of factors including mining depth, terrain and necessary equipment. We do not believe that we will have sufficient funds to implement mining operations without a joint venture partner, of which there can be no assurance.

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Our continuing reclamation obligations at the Sleeper Gold Project could require significant additional expenditures.

We are responsible for the reclamation obligations related to disturbances located on all of our properties, including the Sleeper Gold Project. We have posted a bond in the amount of the estimated reclamation obligation at the Sleeper Gold Project. Every three years, we are required to submit a mine closure plan to the Bureau of Land Management (“BLM”) for the Sleeper Gold Project. Based on a review by the BLM of our mine closure that we submitted in June 2013, the BLM determined that our existing bond was sufficient. There is a risk that any cash bond, even if increased based on the analysis and work performed to update the reclamation obligations, could be inadequate to cover the actual costs of reclamation when carried out. The satisfaction of bonding requirements and continuing reclamation obligations will require a significant amount of capital. There is a risk that we will be unable to fund these additional bonding requirements, and further, that the regulatory authorities may increase reclamation and bonding requirements to such a degree that it would not be commercially reasonable to continue exploration activities, which may adversely affect our results of operations, financial performance and cash flows.

Mining operations are hazardous, raise environmental concerns and raise insurance risks.

The development and operation of a mine or mineral property involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, among other things, ground fall, flooding, environmental hazards and the discharge of toxic chemicals, explosions and other accidents. Such occurrences may result in work stoppages, delays in production, increased production costs, damage to or destruction of mines and other producing facilities, injury or loss of life, damage to property, environmental damage and possible legal liability for such damages as well. Although the Company maintains liability coverage in an amount which it considers adequate for its operations, such occurrences, against which the Company may not be able, or may elect not to insure, may result in a material adverse change in the Company’s financial position. The nature of these risks is such that liabilities may exceed policy limits, in which event the Company would incur substantial uninsured losses.

There may be insufficient mineral reserves to develop any of our properties and our estimates may be inaccurate.

There is no certainty that any expenditures made in the exploration of any properties will result in discoveries of commercially recoverable quantities of ore. Most exploration projects do not result in the discovery of commercially mineable deposits of ore and no assurance can be given that any particular level of recovery of precious metals from discovered mineralization will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable ore body which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results.

Short term factors relating to reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that precious metals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site production conditions. Material changes in estimated reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

We have no proven reserves.

All of our properties are in the exploration stages only and are without known bodies of commercial ore. Development of these properties will follow only upon obtaining satisfactory exploration results. The long-term profitability of the Company’s operations will be in part directly related to the cost and success of its exploration and development programs. Mineral exploration and development are highly speculative businesses, involving a high degree of risk.

Few properties which are explored are ultimately developed into producing mines. There is no assurance that our mineral exploration and development activities will result in any discoveries of commercial quantities of ore. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. Discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, many of which are beyond the Company's control, such as the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection.

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In the course of exploration, development, and mining of mineral properties, certain unanticipated conditions may arise or unexpected or unusual events may occur, including rock bursts, cave-ins, fires, floods, or earthquakes. It is not always possible to fully insure against such risks and we may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they may reduce or eliminate any future profitability and may result in a decline in the value of the securities of the Company.

We face fluctuating gold and mineral prices and currency volatility.

The price of gold and silver as well as other precious and base metals have experienced volatile and significant price movements over short periods of time and are affected by numerous factors beyond our control, including international economic and political trends, expectations of inflation, currency exchange fluctuations (including, the U.S. dollar relative to other currencies) interest rates, global or regional consumption patterns, speculative activities and increases in production due to improved mining and production methods. The supply of and demand for gold, other precious and base metals are affected by various factors, including political events, economic conditions and production costs in major mineral producing regions.

Our estimates of resources are subject to uncertainty.

Estimates of resources are subject to considerable uncertainty. Such estimates are arrived at using standard acceptable geological techniques, and are based on the interpretations of geological data obtained from drill holes and other sampling techniques. Engineers use feasibility studies to derive estimates of cash operating costs based on anticipated tonnage and grades of ore to be mined and processed, the predicted configuration of the ore bodies, expected recovery rates of metal from ore, comparable facility and operating costs and other factors. Actual cash operating costs and economic returns on projects may differ significantly from the original estimates, primarily due to fluctuations in the current prices of metal commodities extracted from the deposits, changes in fuel costs, labor rates, changes in permit requirements, and unforeseen variations in the characteristics of the ore body. Due to the presence of these factors, there is no assurance that any geological reports will accurately reflect actual quantities of gold, silver or other metals that can be economically processed and mined by us.

If we are unable to obtain all of our required governmental permits, our operations could be negatively impacted.

Our future operations, including exploration and development activities, required permits from various governmental authorities. Such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There can be no assurance that we will be able to acquire all required licenses or permits or to maintain continued operations at our properties.

We are subject to numerous environmental and other regulatory requirements.

All phases of mining and exploration operations are subject to governmental regulation including environmental regulation. Environmental legislation is becoming stricter, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened responsibility for companies and their officers, directors and employees. There can be no assurance that possible future changes in environmental regulation will not adversely affect our operations. As well, environmental hazards may exist on a property in which we hold an interest that was caused by previous or existing owners or operators of the properties and of which the Company is not aware at present.

Government approvals and permits are required to be maintained in connection with our mining and exploration activities. Although we currently have all required permits for our operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the

existing operations or additional permits for any possible future changes to the Company's operations, including any proposed capital improvement programs. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, may have a material adverse impact on the Company resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays in development of properties.

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There is no assurance that there will not be title or boundary disputes.

Although we have investigated the right to explore and exploit our properties and obtained records from government offices with respect to all of the mineral claims comprising our properties, this should not be construed as a guarantee of title. Other parties may dispute the title to any of our properties or any property may be subject to prior unregistered agreements and transfers or land claims by aboriginal, native, or indigenous peoples. The title may be affected by undetected encumbrances or defects or governmental actions.

Local infrastructure may impact our exploration activities and results of operations.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power and water supplies are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage or government or other interference in the maintenance or provision of such infrastructure could adversely affect the activities and profitability of the Company.

Our financial position and results are subject to fluctuations in foreign currency values.

Any mining operations we undertake outside of the United States will be subject to currency fluctuations. Fluctuations in the exchange rate between the U.S. dollar and any foreign currency may adversely impact our operations. We do not anticipate that we will enter into any type of hedging transactions to offset this risk. In addition, with respect to commercial operations in Mexico or other countries, it is possible that material transactions incurred in local currency, such as engagement of local contractors for major projects, will be settled at a U.S. dollar value that is different from the U.S. dollar value of the transaction at the time it was incurred. This could have the effect of undermining revenues from operations in that country.

Our property interests in Mexico are subject to risks from instability in that country.

We have property interests in Mexico which may be affected by risks associated with political or economic instability in that country. The risks with respect to Mexico or other developing countries include, but are not limited to: fluctuations in currency exchange rates, criminal activity, lack of personal safety or ability to safeguard property, labor instability or militancy, mineral title irregularities and high rates of inflation. In addition, changes in mining or investment policies or shifts in political attitude in Mexico or the United States may adversely affect our business. We may be affected in varying degrees by government regulation with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The effect of these factors cannot be accurately predicted but may adversely impact our proposed operations in any foreign jurisdiction.

Increasing violence between the Mexican government and drug cartels may result in additional costs of doing business in Mexico.

To date, we have not incurred additional costs as a result of increasing violence between the Mexican government and drug cartels. The state of Chihuahua where the San Miguel property is located has experienced over 2,500 deaths attributable to the drug wars. To date, this violence has had no impact on our business operations. Management remains cognizant that the drug cartels may expand their operations or violence in areas in close proximity to our operations. Should this occur, we will be required to hire additional security personnel. We have not budgeted for increased security. However, if drug violence becomes a problem or any other violence impacts our operations, the costs to protect our personnel and property will adversely impact our operations.

Because of the speculative nature of exploration for gold and silver properties, there is substantial risk that our business will fail.

The search for precious metals as a business is extremely risky. We cannot provide any assurances that the gold or silver mining interests that we acquired will contain commercially exploitable reserves of gold or silver. Exploration for minerals is a speculative venture necessarily involving substantial risk. Any expenditure that we make may not result in the discovery of commercially exploitable reserves of precious metals.

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