

PARAMOUNT GOLD & SILVER CORP.

Form 8-K

August 25, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): August 23, 2010

PARAMOUNT GOLD AND SILVER CORP.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

0-51600  
(Commission File Number)

20-3690109  
(IRS Employer Identification No.)

665 Anderson Street  
Winnemucca, NV 89445  
(Address of Principal Executive Offices)

2600 N. Military Trail Suite 270  
Boca Raton, Florida 33431  
(Former Principal Executive Offices)

(775) 625-3600  
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## Section 2- Financial Information

### ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On August 23, 2010 (the “Closing Date”) Paramount Gold and Silver Corp. (“Paramount”) acquired all of the issued and outstanding shares of common stock of X-Cal Resources Ltd. (“X-Cal”). The transaction was structured as a statutory Plan of Arrangement under the Business Corporations Act of British Columbia, Canada. Under the terms of the Plan of Arrangement, X-Cal shareholders will receive one (1) share of Paramount common stock for every eight (8) common shares of X-Cal.

At the Closing Date, X-Cal had 176,009,978 issued and outstanding shares of common stock. Holders of these shares will receive a total of 22,001,247 shares of Paramount common stock. All options to purchase common shares of X-Cal were terminated prior to the Closing Date, and options to purchase shares of Paramount common stock were granted to those persons under Paramount’s existing stock option plans.

The requisite approval of the Plan of Arrangement by the X-Cal shareholders was obtained at an annual and special meeting of the X-Cal shareholders held August 19, 2010. On August 20, 2010 a Final Order was entered by the Supreme Court of British Columbia in connection with the Plan of Arrangement (Vancouver Registry No. S-105075). Pursuant to the Final Order, it was the Court’s determination that:

1. The Plan of Arrangement, including the terms and conditions thereof and the issuances, exchanges and/or adjustments of securities contemplated therein, is fair and reasonable to the X-Cal shareholders;
2. the Plan of Arrangement, including the terms and conditions thereof and the issuances, exchanges and/or adjustments of securities contemplated therein, was approved by the Court;
3. the effective time and date of the completion of the Plan of Arrangement shall be on or about such time and date as determined by X-Cal and Paramount; and
4. X-Cal shall be entitled to seek leave to vary the court order, to seek advice and direction as to the implementation of the order or to apply for such further order(s) as may be appropriate.

The principal asset of X-Cal is the Sleeper Gold Mine located in Humboldt County, Nevada. Paramount intends to focus on drilling mine scale exploration targets defined by current and ongoing studies. The objective of the drilling is to test the targets for Sleeper type gold deposits that warrant follow up drilling for discoveries that can be mined by open pits or underground workings.

## Section 3-Securities and Trading Markets

### ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

The issuance of the Company’s securities in the Plan of Arrangement is exempt from registration under Section 3(a)(10) of the Securities Act of 1933, as amended.

Section 3(a)(10) exempts securities issued in exchange for one or more outstanding securities from the general requirement of registration where the terms and conditions of the issuance and exchange of such securities have been approved by any court of competent jurisdiction, after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom the securities will be issued have the right to appear.

The issuance of the Paramount shares to the X-Cal shareholders were:



Offered solely in exchange for X-Cal securities;  
the Supreme Court of British Columbia (the "Court") determined that the terms and conditions of the Plan of Arrangement are fair to the X-Cal shareholders;  
the Court is an authorized government entity empowered to issue the order;  
the Court was advised that Paramount is relying on Section 3(a)(10) exemption for the issuance of securities;  
the Court held a fairness hearing on the Plan of Arrangement and the hearing was open to everyone to whom the Paramount securities were to be issued pursuant to the Plan of Arrangement; and  
Notice of the hearing was given to the X-Cal shareholders and there were no impediments to the appearance of the X-Cal shareholders at the hearing.

Item 2.01 of this Current Report on Form 8-k contains a more detailed description of the Agreement, and is incorporated into this Item 3.02 by reference.

#### Section 5- Corporate Governance and Management

##### ITEM 5.02-DEPARTURE OF DIRECTOR OR PRINCIPAL OFFICERS, ELECTION OF DIRECTORS, APPOINTMENT OF PRINCIPAL OFFICERS.

In connection with the Plan of Arrangement, Shawn Kennedy, the chief executive officer of X-Cal, has joined the Paramount Board of Directors.

Mr. Kennedy incorporated X-Cal in 1981 as a private company under the name of X-Calibre Resources. In 1985 the company was listed on the Toronto Stock Exchange and the name changed to X-Cal. Mr. Kennedy has served as President and director of X-Cal since incorporation. His first prospector's license was issued in British Columbia in 1974.

#### Section 9 Financial Statements and Exhibits

##### ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

- (a) Financial statements of X-Cal will be filed by amendment
- (b) Pro forma financial information

#### Exhibit

99.1 Press release dated August 23, 2010, related to the acquisition of X-Cal

SIGNATURES

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

Paramount Gold and Silver Corp.

Date: August 25, 2010

By: /s/Christopher Crupi  
Christopher Crupi, CEO

(b) Pro forma financial information

Paramount Gold and Silver Corp.  
Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined financial information combines the historical consolidated financial statements of Paramount Gold and Silver Corp. (“Paramount”) and X-Cal Resources Ltd. (“X-Cal”) as adjusted for the Transaction, which is described further in the notes to unaudited pro forma condensed combined financial information. The acquisition of X-Cal by Paramount will be accounted for as a business combination under Accounting Standards Codification (“ASC”) 805, Business Combinations. For this purpose, Paramount will be deemed the accounting acquirer, and X-Cal will be deemed the accounting acquiree. The pre-acquisition combined financial statements of Paramount will be treated as the historical financial statements of the combined company.

Paramount has a fiscal year end of June 30, and X-Cal has a fiscal year end of March 31. As permitted by the U.S. Securities and Exchange Commission (“SEC”) rules and regulations, Paramount has combined the Paramount consolidated statement of operations for the year ended June 30, 2009 and the nine months ended March 31, 2010 with X-Cal’s combined statement of operations for the year ended March 31, 2009 and the nine months ended December 31, 2009, for purposes of the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2009 and the nine months ended March 31, 2010 give effect to the Transaction as if it had occurred on July 1, 2008. The unaudited pro forma condensed combined balance sheet assumes that the Transaction was consummated on March 31, 2010 and combines Paramount’s historical consolidated balance sheet as of March 31, 2010 with X-Cal’s historical consolidated balance sheet as of March 31, 2010.

The unaudited pro forma condensed balance sheet and statement of operations of Paramount as of and for the nine months ended March 31, 2010 were derived from its unaudited consolidated financial statements as of March 31, 2010 (as filed on Form 10-Q/A with the SEC on June 17, 2010). The unaudited pro forma condensed combined statement of operations of Paramount for the year ended June 30, 2009 was derived from the audited consolidated financial statements of Paramount for the year ended June 30, 2009 (as filed on Form 10-K/A with the SEC on April 19, 2010).

The unaudited pro forma condensed balance sheet of X-Cal as at March 31, 2010 was derived from the audited consolidated balance sheet as at March 31, 2010 (as filed on SEDAR on June 29, 2010). The unaudited pro forma condensed consolidated statement of operations of X-Cal for the nine months ended December 31, 2009 were derived from its unaudited consolidated financial statements for the nine months ended December 31, 2009 (as filed on SEDAR on February 12, 2010). The unaudited pro forma condensed consolidated statement of operations of X-Cal for the year ended March 31, 2009 was derived from the audited consolidated financial statements of X-Cal for the year ended March 31, 2009 (as filed on SEDAR on June 26, 2009).

The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that Paramount believes are reasonable and are described in the accompanying notes to the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information does not take into account (i) any synergies or cost savings that may or are expected to occur as a result of the Transaction or (ii) any non-recurring cash or non-cash charges that Paramount may incur in connection with the Transaction, the level and timing of which cannot yet be determined. The unaudited pro forma condensed combined financial statements have been prepared in accordance with SEC rules and regulations.

The unaudited pro forma condensed combined financial information assumes that the acquisition would be accounted for using the acquisition method of accounting in accordance with ASC 805. The total purchase price has been

preliminarily allocated based on available information and preliminary estimates and assumptions that management believes are reasonable. However, the allocation of purchase price has not been finalized and the actual adjustments to our financial statements upon closing of the acquisition transaction will depend on a number of factors, including additional information available and the net assets on the closing date of the Transaction. Accordingly, there can be no assurance that the final allocation of purchase price will not materially differ from the preliminary allocations reflected in the unaudited pro forma condensed combined financial information.



Paramount Gold and Silver Corp.  
Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information is provided for informational purposes only, is subject to a number of uncertainties and assumptions and does not purport to represent what the combined company's actual performance or financial position would have been if the Transaction had occurred on the dates indicated and does not purport to indicate financial position or results of operations as of any future date or for any future date.

Please refer to the following information in conjunction with this unaudited pro forma condensed combined financial information: the accompanying notes to these unaudited pro forma condensed combined financial statements, Paramount's and X-Cal's historical financial statements and the accompanying notes thereto, "Management's Discussion and Analysis" filed on SEDAR for X-Cal's years ended March 31, 2009 and 2008 and for the nine months ended December 31, 2009 and 2008, from Paramount's Annual Report on Form 10-K for the year ended June 30, 2009 and from Paramount's Quarterly Report on Form 10-Q as of and for the nine months ended March 31, 2010.

Paramount Gold and Silver Corp.  
 Unaudited Pro Forma Condensed Combined Balance Sheet  
 (Stated in U.S. Dollars)  
 As of March 31, 2010

	Paramount As at March 31, 2010	X-Cal As at March 31, 2010	Pro Forma Adjustments (Note 5)	Pro Forma Combined
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents	\$20,318,898	\$176,672	\$-	\$20,495,570
Amounts receivable	1,364,915	66,517	-	1,431,432
Marketable securities	-	2,700	-	2,700
Prepaid and deposits	39,411	-	-	39,411
Term deposit	1,053,811	-	-	1,053,811
	22,777,035	245,889	-	23,022,924
Prepaid insurance	-	1,179,596	-	1,179,596
Reclamation bond	-	2,872,443	-	2,872,443
Mineral property interests	22,111,203	30,554,892	(30,544,892)(a)	49,885,780
			27,764,577 (b)	
Fixed assets	502,188	34,722	-	536,910
	45,390,426	34,887,542	(2,780,315 )	77,497,653
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable	196,338	150,208	-	346,546
				-
Reclamation and environmental obligation	-	1,085,429	-	1,085,429
	196,338	1,235,637	-	1,431,975
<b>Stockholders' Equity</b>				
Common stock	106,472	50,121,777	(50,121,777)(b)	127,415
			20,943 (b)	
Additional paid-in capital	79,886,497	-	30,850,647 (b)	110,737,144
Contributed surplus	17,437,148	3,620,715	(3,620,715 )(b)	17,437,148
Deficit accumulated during the exploration stage	(51,841,219)	(20,090,587)	(30,544,892)(a)	(51,841,219 )
			50,635,479 (b)	
Cumulative translation adjustment	(394,810 )	-	-	(394,810 )
	45,194,088	33,651,905	-	76,065,678

\$45,390,426    \$34,887,542    \$(2,780,315 )    \$77,497,653

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements. The pro forma adjustments are explained in Note 5 – Pro Forma Adjustments.

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Paramount Gold and Silver Corp.  
 Unaudited Pro Forma Condensed Combined Statement of Operations  
 (Stated in U.S. Dollars)  
 For the Nine Months Ended March 31, 2010

	Paramount Nine Months Ended March 31, 2010	X-Cal Nine Months Ended December 31 2009	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Interest Income	\$80,755	\$11,150	\$-	\$91,905
<b>Expenses</b>				
Exploration	5,320,444	-	643,020 (a)	5,963,464
Professional fees	691,893	110,088	-	801,981
Directors compensation	94,468	-	-	94,468
Travel and lodging	158,072	32,503	-	190,575
Corporate communications	322,219	56,105	-	378,324
Consulting fees	348,127	125,259	-	473,386
Office and administration	265,723	41,588	-	307,311
Interest and service charges	54,640	-	-	54,640
Insurance	36,596	204,315	-	240,911
Depreciation	46,965	7,871	-	54,836
Miscellaneous	7,281	-	-	7,281
Acquisition expenses	1,060,180	-	-	1,060,180
Income and other taxes	43,101	-	-	43,101
Write down of mineral property	275,000	-	-	275,000
Accretion expense	-	101,659	-	101,659
Foreign exchange loss	-	383,410	-	383,410
				-
Total expenses	8,724,709	1,062,798	-	10,430,527
				-
Loss for the period	(8,643,954 )	(1,051,649 )	-	(10,338,623 )
				-
<b>Comprehensive income (loss)</b>				
Foreign currency translation adjustment	(107,618 )	-	-	(107,618 )
Loss and comprehensive loss for the period	\$(8,751,572 )	\$(1,051,649 )	\$-	\$(10,446,241 )
<b>Weighted average common shares outstanding</b>				
Basic	91,771,247	165,829,096	20,943,555 (d)	112,714,802
Diluted	95,771,247	165,829,096	20,943,555 (d)	116,714,802
<b>Pro forma loss per share</b>				
Basic	(0.10 )	(0.01 )		(0.09 )
Diluted	(0.09 )	(0.01 )		(0.09 )

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements. The pro forma adjustments are explained in Note 5 – Pro Forma Adjustments.

Paramount Gold and Silver Corp.  
 Unaudited Pro Forma Condensed Combined Statement of Operations  
 (Stated in U.S. Dollars)  
 For the Twelve Months Ended June 30, 2009

	Paramount Year ended June 30, 2009	X-Cal Year ended March 31, 2009	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Interest Income	\$249,082	\$78,281	\$-	\$327,363
<b>Expenses</b>				
Exploration	1,548,330	-	944,414 (a)	2,492,744
Professional fees	1,244,792	148,875	-	1,393,667
Geologist fees and expenses	824,291	-	-	824,291
Travel and lodging	228,920	33,556	-	262,476
Corporate communications	260,907	63,624	-	324,531
Consulting fees	1,561,084	163,977	-	1,725,061
Office and administration	881,726	36,451	-	918,177
Interest and service charges	18,987	-	-	18,987
Insurance	76,705	277,548	-	354,253
Depreciation	99,010	18,771	-	117,781
Miscellaneous	91,592	(4,773 )	-	86,819
Rent	78,974	-	-	78,974
Financing	(12,005 )	-	-	(12,005 )
Marketing	542,279	-	-	542,279
Loss on disposition of fixed assets	44,669	-	-	44,669
Accretion expense	-	132,227	-	132,227
Foreign exchange loss	-	(418,904 )	-	(418,904 )
				-
Total expenses	7,490,261	451,352	-	8,886,027
				-
Loss for the period	(7,241,179 )	(373,071 )	-	(8,558,664 )
				-
Comprehensive income (loss)				-
Foreign currency translation adjustment	(267,215 )	-	-	(267,215 )
Loss and comprehensive loss for the period	\$(7,508,394 )	\$(373,071 )	\$-	\$(8,825,879 )
<b>Weighted average common shares outstanding</b>				
Basic	62,941,467	135,959,729	20,943,555 (d)	83,885,022
Diluted	65,433,659	135,959,729	20,943,555 (d)	86,377,214
<b>Pr forma loss per share</b>				
Basic	(0.12 )	(0.00 )		(0.11 )
Diluted	(0.11 )	(0.00 )		(0.10 )

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements. The pro forma adjustments are explained in Note 5 – Pro Forma Adjustments.

Paramount Gold and Silver Corp.  
Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 - Description of the Transaction

On June 22, 2010, Paramount entered into an Arrangement Agreement (the "Agreement") with X-Cal Resources Ltd. The Agreement provides that, upon the terms and subject to the conditions set forth in the Agreement, X-Cal will become a wholly owned subsidiary of Paramount.

Subject to the terms and conditions of the Agreement, which are subject to approval by the shareholders of X-Cal, at the effective time of the Agreement, (i) each common share of X-Cal issued and outstanding immediately prior to the effective time, will be exchanged for a common share of Paramount, on the basis of 8 common shares of X-Cal for 1 common share of Paramount (the "Exchange Ratio"), (ii) each warrant to purchase a common share of X-Cal outstanding immediately prior to the effective time ("X-Cal Warrant"), will be exchanged for 0.125 common stock purchase warrants of Paramount ("Paramount Warrant"), with each such Paramount Warrant having an exercise price equal to the quotient of (a) the exercise price per X-Cal Share subject to such X-Cal Warrant divided by (b) the Exchange Ratio, expiring at the end of the term of the relevant X-Cal warrant, and otherwise having the same terms and conditions as such X-Cal Warrant, (iii) each option to purchase a common share of X-Cal outstanding immediately prior to the effective time ("X-Cal Option"), will be terminated and in substitution therefor, 0.125 stock options of Paramount ("Paramount Option") will be issued under Paramount's stock option plan to the persons who held X-Cal options prior to the effective time, per X-Cal option held, with each such Paramount Option having an exercise price equal to the quotient of (a) the exercise price per X-Cal Share subject to such X-Cal Option divided by (b) the Exchange Ratio, expiring at the end of the term of the relevant X-Cal Option (the "Transaction").

Concurrently with the date of the Agreement, Paramount and X-Cal entered into an agreement providing for a loan in the amount of \$1,100,000 to be made to X-Cal by Paramount in monthly advances (the "Loan"). The Loan shall be unsecured, and for so long as any amount remains outstanding under the Loan, X-Cal shall agree to not sell or encumber any of its interest in X-Cal's mineral property interests, except as required for the repayment of the Loan.

In the event that the Agreement is terminated:

- (i) because X-Cal accepts, and enters into an agreement in respect of, a Superior Proposal (as defined in the Agreement) to the Agreement, the loan shall be repayable within ten business days, bearing interest from the date of the advance at a rate of 8% per annum;
- (ii) as a result of X-Cal shareholders failing to approve the Transaction, the loan shall be repayable within forty five days of the meeting of X-Cal shareholders; or
- (iii) for any reason other than as set out in (i) and (ii) above, the Loan shall be repayable on or before December 31, 2010, bearing interest from the date of the advance at a rate of 8% per annum.

In the event that the Loan is not repaid when due, the interest rate in default shall thereafter increase to an effective rate of 24% per annum.

Note 2 - Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared based on the historical financial information of Paramount and X-Cal giving effect to the Transaction and related adjustments described in these notes. Certain note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted as permitted by SEC rules and regulations.



X-Cal presents its financial statements in its functional currency of the Canadian Dollar. Paramount presents its financial statements in its functional currency of the U.S. Dollar. The historical financial statements of X-Cal, from which the unaudited consolidated combined pro forma financial statements have been derived, have been translated from the Canadian Dollar to the U.S. Dollar utilizing exchange rates follows:



Net loss based on U.S. GAAP	\$(1,694,669)	\$(1,317,485)
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Paramount Gold and Silver Corp.  
Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 4 - Acquisition Accounting

The acquisition of X-Cal by Paramount has been accounted for using the acquisition method of accounting in accordance with ASC 805. Further, under the acquisition method, the purchase price is allocated to assets acquired and liabilities assumed based on their estimated fair values, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill.

The cost of the acquisition and related purchase price allocation included in the accompanying unaudited pro forma condensed combined financial statements is based on a preliminary evaluation of the fair value of the assets and liabilities assumed of X-Cal and may change when the final valuation of acquired assets and working capital is determined. Given a complete change in the accounting basis of X-Cal, the cost of acquisition represents the total fair value of X-Cal at the date of acquisition. The total fair value of X-Cal was calculated by the outstanding common shares of X-Cal and the closing share price of Paramount on June 22, 2010, plus the estimated fair value of options and warrants of Paramount issued pursuant to the Agreement. The ultimate purchase price will change based on movements in Paramount's share price until the final closing date.

The following represents the preliminary allocation of the cost of acquisition:

Shares eligible for conversion	167,548,439
Common stock exchange ratio per share	0.125
Equivalent new shares issued (par value \$0.01)	20,943,555
Paramount common stock price on June 22, 2010	\$ 1.43
Total preliminary purchase price (common stock)	29,949,283
Estimated fair value of warrants issued (Note 5e)	699,875
Estimated fair value of options issued (Note 5f)	222,432
Total preliminary purchase price	\$ 30,871,590

The purchase price will be computed using the value of Paramount common stock on the closing date, therefore the actual purchase price will fluctuate with the market price of Paramount common stock until the Transaction is closed. As a result, the final purchase price could differ significantly from the current estimate, which could materially impact the pro forma financial statements.

The following table provides sensitivities to changes in purchase price due to changes in the per share price of Paramount common stock:

	Price of Paramount Common Stock	Exchange Ratio	Calculated per Share Value of X-Cal Common Stock	Total Purchase Price
As of June 22, 2010	\$ 1.43	0.125	\$ 0.17875	\$ 29,949,283
Decrease of 10%	\$ 1.29	0.125	\$ 0.16087	\$ 26,954,355
Increase of 10%	\$ 1.57	0.125	\$ 0.19662	\$ 32,944,212



Paramount Gold and Silver Corp.  
Notes to Unaudited Pro Forma Condensed Combined Financial Statements

The following represents the allocation of the total purchase price based on management's preliminary valuation:

Total preliminary purchase consideration	\$30,871,590
Less historical X-Cal net assets acquired:	
Cash and cash equivalents	176,672
Prepaid insurance	1,179,596
Reclamation bond	2,872,443
Fixed assets	34,722
Mineral property interests	30,554,892
Other assets	69,217
Accounts payable	(150,208 )
Reclamation and environmental obligations	(1,085,429 )
Total historical X-Cal net assets acquired	33,651,905
Deficiency of purchase price over historical net assets acquired	(2,780,315 )
Adjustment to mineral properties for U.S. GAAP (Note 3)	14,790,303
Pro forma adjustment to mineral property acquisition costs	\$ 12,009,988

Net tangible assets were valued at their respective carrying amounts as management believes that these amounts approximate their current fair values.

Note 5 – Pro Forma Adjustments

- (a) To adjust mineral property exploration costs that were capitalized under Canadian GAAP, but would have been expensed under U.S. GAAP (see Note 3). The effect of this adjustment at March 31, 2010 is to reduce the carrying value of mineral property interest by \$14,790,303 and increase deficit by \$14,790,303. The effect of this adjustment for the nine months ended March 31, 2010 is to increase exploration expense by \$643,020. The effect of this adjustment for the year ended June 30, 2009 is to increase exploration expense by \$944,414.
- (b) To record the issuance of: (a) 20,943,555 common shares of Paramount with par value of \$0.01 in exchange for all of the issued and outstanding common shares of X-Cal pursuant to the Agreement; (b) 1,057,692 Paramount Warrants in exchange for all of the issued and outstanding warrants of X-Cal; and (c) 1,276,875 Paramount Options for all of the issued and outstanding options of X-Cal, recorded at fair value of \$30,871,590 (see Note 4), and to eliminate the common stock, contributed surplus and deficit of X-Cal prior to acquisition.
- (c) In connection with the acquisition of X-Cal, Paramount expects to incur approximately \$1,100,000 of cash expenses related to a loan to X-Cal to finance X-Cal's operating activities and deal related costs (Note 1).
- (d) Pro forma loss per share, basic and diluted, includes the addition of 20,943,555 shares of common stock which will be issued in conjunction with the closing of the Agreement (Note 4). The following adjustments represent the changes to basic and diluted weighted average shares outstanding:

Historical	Share	Pro Forma
Weighted	Issuance	Weighted
Average		Average
Shares –		Shares - basic

	basic		
Year ended June 30, 2009	62,941,467	20,943,555	83,885,022
Nine months ended March 31, 2010	91,771,247	20,943,555	112,714,802

Paramount Gold and Silver Corp.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

	Historical Weighted Average Shares – diluted	Share Issuance	Pro Forma Weighted Average Shares - diluted
Year ended June 30, 2009	65,433,659	20,943,555	86,377,214
Nine months ended March 31, 2010	95,771,247	20,943,555	116,714,802

(e) Pursuant to the Agreement, each warrant to purchase a common share of X-Cal outstanding immediately prior to closing of the Transaction will be exchanged for 0.125 common stock purchase warrants of Paramount, with each such Paramount Warrant having an exercise price equal to the quotient of (a) the exercise price per X-Cal Share subject to such X-Cal Warrant divided by (b) the Exchange Ratio, expiring at the end of the term of the relevant X-Cal warrant, and otherwise having the same terms and conditions as such X-Cal Warrant. At the date of the Agreement, 8,461,539 X-Cal Warrants were outstanding. Paramount Warrants to be issued are as follows:

X-Cal Warrants Outstanding	Exchange Ratio	Paramount Warrants to be Issued	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
8,461,539	0.125	1,057,692	\$ 0.80	0.77 years

The fair value of these warrants has been estimated as \$699,875 using the Black-Scholes option valuation model. For purposes of the calculation, it was assumed: (a) risk free interest rate of 0.4%, (b) expected dividend yield of 0%, (c) Expected stock price volatility of 55.8%, and (d) expected life of warrant of 0.77 years.

(f) Pursuant to the Agreement, X-Cal options will be terminated at the close of the Agreement and Paramount will issue new options under Paramount's existing option plan in exchange. Each option to purchase a common share of X-Cal outstanding immediately prior to the closing of the Transaction, will be exchanged for 0.125 stock options of Paramount, with each such Paramount Option having an exercise price equal to the quotient of (a) the exercise price per X-Cal Share subject to such X-Cal Option divided by (b) the Exchange Ratio, expiring at the end of the term of the relevant X-Cal Option. At the date of the Agreement, 10,215,000 X-Cal Options were outstanding. Paramount Options to be issued are as follows:

X-Cal Options Outstanding	Exchange Ratio	Paramount Options to be Issued	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
10,215,000	0.125	1,276,875	\$ 1.92	1 year

The fair value of these options has been estimated as \$222,432 using the Black-Scholes option valuation model. For purposes of the calculation, it was assumed: (a) risk free interest rate of 0.4%, (b) expected dividend yield of 0%, (c) Expected stock price volatility of 55.8%, and (d) expected life of option of 1 year.



- (g) Paramount has not provided for any income tax benefit related to the operating losses of X-Cal due to insufficient evidence to indicate on a more likely than not basis such benefits could be realized.
- (h) To reflect, under the terms of employment agreements, (a) payment to the CEO of X-Cal upon termination or change in control of X-Cal of \$472,627 (\$480,000 CDN) based upon an amount equal to 3 years' salary plus \$150,000 , and (b) payment to the CFO of X-Cal upon termination or change in control of X-Cal of \$129,972 (CDN \$132,000) based upon an amount equal to 2 years' salary.