

Paramount Gold and Silver Corp.:

Another "Allied Nevada" in the Making?



Share price: \$1.72 CAD

Shares Outstanding:

Basic: 132.1 million

Fully Diluted: 144.7 million

Market Cap: \$227.2 million

Website: www.paramountgold.com

Projects: San Miguel Project
Sleeper Mine Project

Cash: ~ \$21 million CAD

Risk: Medium

OVERVIEW

Allied Nevada (TSX: ANV) has evolved into a successful, low-cost producer of gold and silver. ANV's world-class, Hycroft Mine in Nevada is well known for its staggering amount of gold and silver mineralization. In 2008, ANV traded at less than \$5 per share and now trades upwards of \$23. There are some obvious differences between Allied Nevada and Paramount Gold and Silver Corp. (TSX: PZG) which make this a "David and Goliath" comparison. However, the focus of this report is such that, despite these differences, Paramount Gold may have growth potential similar to ANV.

DR. RICHARD SILLITOE

Connecting ANV with PZG's growth potential was an idea given voice by Dr. Richard Sillitoe based on his study of the mineralization potential at the Sleeper Gold Mine Project in Humboldt County, Nevada. Dr. Sillitoe is an internationally-recognized, independent geologic consultant. He described the northern region of Nevada as one best known for its low-sulfidation epithermal gold mineralization of bonanza-grade vein type [with shallow exposure characteristics] such as those found at Sleeper, Midas, IvanhoeHycroft, Goldbanks and elsewhere. "Bearing in mind the recent positive results announced by Allied Nevada at Hycroft," Sillitoe advised X-Cal Resources, "it would be advisable to carry out [certain] tests as soon as reasonable

(p.9, 2009).” Clearly, Sillitoe saw a geological parallel between the two properties. PZG acquired the Sleeper Mine as well as other Nevada properties from X-Cal Resources through a business combination in 2010.

PZG PROJECTS

Paramount Gold’s Sleeper Mine Project in Nevada is near ANV’s Hycroft Mine in an area known for historical production of 30 million oz. of gold. In its day, the open-pit, Sleeper Mine produced 1.7 million oz. of gold and 2.3 million oz. of silver at an average cash cost of \$158/ounce Au. The 2009 NI 43-101 reported that property still hosts an indicated and inferred resource of 1.8 million oz. of gold and almost 12 million oz. of silver. This includes 700,000 oz. of above-ground gold Paramount Gold identified in tailings and heaps found on the Sleeper Mine property. Paramount Gold is currently testing the viability of production options with these tailings and heaps.

Paramount Gold also owns 186,000 hectares of property in Northern Mexico in a district known for historical production of 40 million oz. of gold production and 2 billion oz. of silver. PZG is one of several companies with ongoing activity in this area. Coeur d’Alene is developing a 3 million oz. project on property contiguous to PZG’s property which itself contains 2.6 million oz. of inferred gold equivalent eq. mineralization. Nearby are several other multi-million ounce projects in various stages of development by companies such as Gammon Gold, Alamos, Minefinders, and Goldcorp. Much of these deposits remain open and under-explored suggesting any of these companies could develop a resource not dissimilar in size from ANV.

THE PRESENT COMPARABLE

	ANV	PZG
Market Capitalization	\$ 2,037 M	\$ 227 M
Total Reported Resource	11M oz. of Au and 400M oz. of Ag	4.4M oz. of Au Eq. and 12Moz. of Ag
<i>Assuming the 50:1 gold to silver ratio used by PZG to calculate its gold equivalent:</i>		
Total Reported Resource (Au Eq.)	19 M oz. of Au Eq.	4.6 M oz. of Au Eq.
Market Capitalization/Ounce	\$107.21	\$49.34

PZG’S RECENT ACTIVITIES

In Nevada, PZG recently announced a \$3 million exploration program designed to expand and upgrade resources at its 100% owned Sleeper Gold Mine Project in Nevada. The first drill arrived on site the week of October 25, 2010 and drilling began

that same week. The exploration program has three main objectives: [1] definition drilling to up-grade resources at the West Wood deposit and prepare it for a Preliminary Assessment [`PA`] of its economic potential; [2] delineation drilling to expand and evaluate potential resources at the Facilities deposit for possible inclusion in the PA; and [3] drill evaluation of up to six new priority targets on the property identified by Paramount's geological team[[See Interactive Property Map for targets](#)]. CEO, Chris Crupi noted, "The exploration program will focus on expanding and upgrading in-situ resources on two known gold deposits using core and reverse circulation drilling. We will also begin the process of evaluating the wealth of less explored targets where new deposits could be found. This program has been greatly facilitated by the professional work and the high quality data base contributed by X-Cal management." This first phase of exploration is expected to run until March 2011. Results from this program are expected to lead to definition of up to six targets for developing additional resources on the project.

In northern Mexico, PZG is committed to definition drilling on the bulk-mineable gold deposits in the San Francisco area of its San Miguel Project. Earlier drilling, focused on the South and North San Francisco zones has expanded steadily as reported in news releases dated January 7, March 8 and June 17, 2010. Recent drilling has discovered a further Central zone announced on October 6, 2010. Although the San Francisco area remains open, a geological model is in preparation to evaluate results and generate an initial resource estimate while exploration continues. Christopher Crupi, said "the San Francisco target area is opening up into a much larger system than we originally anticipated. We now see the potential for a much larger, shallow bulk-mineable gold resource with associated silver grades. Preliminary metallurgical tests from this area are also encouraging."

SUMMARY

By its nature, exploring and mining is a risky business and there is no guarantee that current exploration programs will result in profitable and accident-free mining operations. PZG's continued existence is dependent upon the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Not all junior companies can navigate these waters successfully. ANV did so. We believe PZG will do so as well. PZG minimized these risks by exploring in "elephant country." It focused its efforts near or contiguous with properties at different stages of exploration and development, with common geological structures and in areas with significant historical production. PZG has established itself as a successful exploration company

identifying large-scale gold and silver mineralization in each of its two properties totalling almost 4.6 million ounces of gold equivalent.

Like ANV was in its early days, PZG has no resource properties in production and, consequently, has no current operating income or cash flow from its mineral property exploration and development operations at this time. The Company expects to continue to record losses until such time as an economic resource is identified, developed and brought into profitable commercial operation on one or more of the Company's properties or otherwise disposed of at a profit. It remains dependent on equity capital and financing for working capital and exploration and development of its properties. Like ANV, PZG management has demonstrated an ability to attract and maintain supportive institutional investors. With the backing received from founders, and insiders such as Rudi Fronk (Seabridge Gold) and Albert Friedberg (FCMI Financial), in addition to the \$21 million it has in its treasury, there is no doubt in my mind that PZG can complete its exploration and development plans. Given time, it may be able to confirm the geological parallel between it and ANV to which Sillitoe referred. Shareholders can also take comfort from the fact PZG manages diverse and extensive landholdings in Nevada and Mexico. On a market cap per ounce basis, ANV has 9 times the market cap of PZG with only 4 times the resource size.

Mark Weaver is an independent analyst working in association with Jay Taylor of Taylor Hard Money Advisors. Mr. Weaver does not own shares in PZG. Further analysis of PZG can be found at MoneyinMetals.com.