

PARAMOUNT GOLD & SILVER CORP.  
Form S-3  
August 20, 2008

As filed with the Securities and Exchange Commission on August 20, 2008

Registration No. \_\_\_\_\_

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM S-3**

**REGISTRATION STATEMENT**

**Under**

**THE SECURITIES ACT OF 1933**

**PARAMOUNT GOLD AND SILVER CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-3690109**

(I.R.S. Employer  
Identification No.)

**346 Waverly Street Suite 110**

**Ottawa, Ontario Canada K2P OW5**

(Address of principal executive offices)

**(613)226-9881**

(Registrant's Telephone Number, including Area Code)

**Christopher Crupi**

**Chief Executive Officer**

**346 Waverly Street Suite 110**

**Ottawa, Ontario Canada K2P OW5**

**(613)226-9881**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications, including all communications sent to the agent for service, should be sent to:

**Jeffrey G. Klein, P.A.**

**2600 North Military Trail**

**Suite 270**

**Boca Raton, Florida 33431**

**(561)997-9920**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this form is a post-effective amendment to a registration statement pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

If delivery of the prospectus is to be made pursuant to rule 434, please check the following box. "

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if smaller reporting company)

### CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee(3)
Common Stock,	20,000,000	\$2.00	\$40,000,000	\$1,572
C/SWarrants	20,000,000	\$2.00	\$40,000,000	\$1,572
Total	40,000,000	\$2.00	\$80,000,000	\$3,144

(1)

There are being registered hereunder such indeterminate number of shares of common stock, such indeterminate number of warrants to purchase common stock, and such indeterminate number of units as shall have an aggregate initial offering price not to exceed \$80 million. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder. The proposed maximum initial offering price per unit will be determined, from time to time, by the Registrant in connection with the issuance by the Registrant of the securities registered hereunder. The securities registered also include such indeterminate number of shares of common stock upon exercise

of warrants or pursuant to the antidilution provisions of any such securities. In addition, pursuant to Rule 416 under the Securities Act, the shares being registered hereunder include such indeterminate number of shares of common stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2)

The proposed maximum aggregate offering price of the Securities will be determined from time to time by the registrant in connection with the issuance by the registrant of the securities registered hereunder and is not specified as to each class of security pursuant to General Instruction I.D. of Form S-3 under the Securities Act.

(3)

Calculated pursuant to Rule 457(a) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to Completion, dated August 19, 2008**

**PARAMOUNT GOLD AND SILVER CORP.**

**\$80,000,000**

**Common Stock**

**Common Stock Purchase Warrants**

The aggregate initial offering price of the securities that we will offer will not exceed \$52,000,000. We will offer these securities in amounts, at prices and on terms to be determined at the time of the offering.

When we offer securities, we will provide you with a prospectus supplement or term sheet describing the specific terms of the specific issue of securities, including the offering price of the securities. You should carefully read this prospectus and the prospectus supplements or term sheets relating to the specific issue of securities together with additional information described under the heading "Where You Can Find More Information" beginning on page 6 of this prospectus before you decide to invest in any of these securities.

**Our common stock is quoted on both the American Stock Exchange and the Toronto Stock Exchange under the symbol PZG. On August 18, 2008 the last reported sale price for the common stock was \$1.02 per share.**

**Investing in our securities involves a high degree of risk. See "risk factors" on page 6.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**This prospectus may not be used to offer or sell securities unless it is accompanied by a prospectus supplement.**

**Prospectus dated August \_\_\_\_, 2008**

**PARAMOUNT GOLD AND SILVER CORP.**

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**ABOUT THIS PROSPECTUS**

*In this prospectus, Paramount, we, us, and our refer to Paramount Gold and Silver Corp, including unless the context otherwise requires, its subsidiaries.*

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, we may offer shares of our common stock, warrants to purchase shares of our common stock, either individually or in units in one or more offerings, with a total value of up to \$80,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type of securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the terms of that offering. We may also add, update or change in a prospectus supplement any of the information contained in this prospectus or in documents we have incorporated by reference into this prospectus. However, no prospectus supplement will fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness. This prospectus, together with the applicable prospectus supplements and the documents incorporated by reference into this prospectus, includes all material information relating to this offering.

You should carefully read this prospectus and any supplements, together with any documents incorporated by reference into this prospectus or any prospectus supplement before you decide to invest in our securities. You should rely only on the information we have provided or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus or any prospectus supplement is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any sale of a security.



**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This prospectus contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this prospectus, and they may also be made a part of this prospectus by reference to other documents filed with the Securities and Exchange Commission, which is known as incorporation by reference.

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Forward-looking statements might include one or more of the following:

- .  
anticipated results of financing activities;
- .  
anticipated joint ventures or exploratory costs;
- .  
anticipated prices for gold and silver;
- .  
anticipated drilling results;
- .  
descriptions of plans or objectives of management for future operations,
- .  
forecasts of future economic performance; and
- .  
descriptions or assumptions underlying or relating to any of the above items.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this prospectus or in any document incorporated by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus or the date of the document incorporated by reference in this prospectus. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Registrant

or to any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

## OUR BUSINESS

The following is only a summary. We urge you to read the entire prospectus, including the more detailed consolidated financial statements, notes to the consolidated financial statements and other information included herein or incorporated by reference from our other filings with the SEC. Investing in our securities involves risks. Therefore, please carefully consider the information provided under the heading **Risk Factors** starting on page 6.

### **Background**

We are a Delaware corporation. We were incorporated on March 31, 2005 as Panelmaster, Corp. Subsequent thereto, on April 14, 2005, we amended our Certificate of Incorporation, changing our name to Paramount Gold Mining Corp. On August 23, 2007 we then further amended our certificate of incorporation changing our name to Paramount Gold and Silver Corp.

Our initial officer and director was Alex Kaplun, an individual unknown to the Company's current management. Mr. Kaplun was the Company's sole officer and director when we changed our name from PanelMaster, Corp. to Paramount Gold Mining Corp. Mr. Kaplun then resigned as an officer and director of the Company on April 18, 2005. Also, on the same date, Christopher Crupi was elected our president. At the time Mr. Crupi was appointed our president, the Company's amended certificate of incorporation had been filed with the Delaware Secretary of State changing its name to Paramount Gold Mining Corp.

### **Our Operations:**

We are an exploratory mining company with current operations in Mexico.

#### *Property Description and Location*

#### ***San Miguel Groupings.***

Our primary focus is the further exploration of our holdings within the San Miguel groupings in Chihuahua, Mexico within the Sierra Madre Occidental. We have a 70% interest in this project and we are the joint venture operator. Our joint venture partner, Tara Gold Resources Corp., is required to pay its proportionate share of all costs associated with exploration of the San Miguel project. To the extent that our joint venture partner does not make its required proportionate payment, we can pay 100% of the exploration costs and, as a result, increase our proportionate interest in the joint venture.

San Miguel is located in Chihuahua, Mexico and lies in the Temoris mining district, part of the gold-silver belt of the Sierra Madre Occidental, just a few kilometers northwest of the town of Temoris. It can be accessed by vehicle and railway and has well-developed infrastructure with a recently constructed 33,000 volt power line. The project covers approximately 800 acres with an estimated 10 kms of strike in the historic gold/silver mining district.

The Temoris mining district lies within a northwest trending belt of gold and silver deposits in the western portion of the Sierra Madre Occidental. Gold/silver mineralization in the project occurs as quartz veins and breccias within the west-northwest- and north-northwest-striking faults.

We are also evaluating and preparing for drill testing geochemical targets at the 100% owned, 86,000 Hectare Andrea project also located in Chihuahua, Mexico.

#### ***Our primary objective is to:***

Explore and develop the San Miguel and Andrea projects located in Chihuahua, Mexico within the Sierra Madre Occidental gold/silver belt. We will also work with Mexoro Minerals to develop their properties as well as the recently acquired Elyca mining concession which lies between the San Miguel and Empalme concessions.

There is no assurance that commercially viable mineral deposits exist on the San Miguel Groupings. Further exploration will be required before a final evaluation as to the economic and legal feasibility is determined.

Paramount does not expect to generate revenues from the San Miguel project in the next year. Further, it is not Paramount's objective to enter the mine management business. Rather, the Company hopes to identify a resource that will enable it to attract a larger company to partner with this company who has experience developing and managing a mine.

***Location***

The San Miguel Project is located in southwestern Chihuahua in Northern Mexico, and is approximately 400 km by road from the state capital. The project is about 20 km north of the town of Temoris, adjacent to the village of Guazapares. It is in the Guazapares mining district, which is part of the Sierra Madre Occidental gold-silver belt.

The location of the San Miguel Project is shown in Map 1. The coordinate system used for all maps and sections in this report is the Universal Transverse Mercator system, Zone 12. GPS coordinates are referenced to NAD 27 Mexico.

**MAP 1 SAN MIGUEL PROJECT LOCATION**

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

**Market for Gold and Silver:**

The demand for gold and silver has created a bull market for both metals over the past several years. While there will likely continue to be increased volatility of market prices in the short run due to seasonality or speculation, the growth of the world's economy is driving demand for raw materials that has drawn down supplies. Despite concerns for a slowing U.S. economy, a growing middle class in both China and India is driving demand for precious metals. There

also remains increased interest in holding precious metals such as gold and silver as a store of value during periods of increasing anxiety of either errant monetary policies or strained international relations.

Contributing further to the increasing price of both gold and silver is the fall in the value of the US dollar against other major foreign currencies and the deteriorating economic indicators in the United States.

Gold prices have generally trended upward during the last five years, from a low of just under \$260 per ounce in early 2001 to a high of \$1,010 per ounce in March 2008. Silver prices have experienced similar price increases from a low of approximately \$4.25 per ounce to a high of \$21.00 in March 2008. Even though the price of both gold and silver have declined since reaching their highs in March 2008, management remains encouraged with its drilling program and will continue to drill additional exploratory holes. If commercially recoverable deposits are identified, management intends to enter into an agreement with a mining partner who has experience in mining operations.

#### **Financings:**

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

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

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

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

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

In order to increase drilling opportunities in the San Miguel region, we have signed a Letter of Intent to create a strategic alliance with Mexoro Minerals Ltd., a Colorado corporation and its wholly owned Mexican subsidiary. Mexoro's mining concession are adjacent to our San Miguel grouping. The purpose of the strategic alliance will be to maximize shareholder value through:

A.

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

B.

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

C.

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

In furtherance of these objectives, Paramount has loaned Mexoro Minerals Ltd. ( Mexoro ) a total of \$1,370,000 pursuant to three secured convertible debentures. The first convertible debenture was in the amount of \$500,000. The second convertible debenture was in the amount of \$370,000 and the third convertible debenture was in the amount of \$500,000. All three convertible debentures are secured by the assets of Mexoro, including but not limited to 49,999 (out of 50,000 issued and outstanding shares of common stock) of SunBurst de Mexico S.A. de C.V., a subsidiary of Mexoro. The notes are due May 9, June 18 and July 11, 2009 respectively. The notes provide for interest at the rate of 8% per annum and may be converted into Units of Mexoro at a conversion price of \$.50 per Unit. Each unit consists of one share of Mexoro common stock and one half common stock purchase warrant. Each



whole warrant entitles the holder thereof to purchase one share of Mexoro at an exercise price of \$.75 per share. Except with respect to the due dates and the principal amount of the notes, the material terms and conditions of all three secured convertible debentures and the security agreements are identical in form and substance. If all of the convertible debentures and options were converted by Paramount into shares of common stock of Mexoro, Paramount would own approximately 13.3% of the issued and outstanding shares of common stock of Mexoro.

In addition to the funds Paramount has advanced to Mexoro, as part of the Letter of Intent with Mexoro, Paramount has the right to purchase 12 million units of Mexoro at a cost of \$.50 per unit (\$6 million in total). Paramount may complete the private placement at one time or in tranches over time as determined by Paramount in its sole discretion. Paramount was required to subscribe to the first 8 million units ( \$4million) by August 5, 2008 and the remaining 4 million Units (\$2 million) no later than November 1, 2008. Paramount has not subscribed for the required units as of August 5, 2008 and the parties are currently in negotiation with respect to this matter.

### **Garibaldi Joint Venture:**

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

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

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

## **RISK FACTORS**

*Investors should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business could be materially adversely affected. In such case, the Company may not be able to proceed with its planned operations and your investment may be lost entirely. The Securities offered hereby should only be purchased by persons who can afford to lose their entire investment without adversely affecting their standard of living or financial security.*

### **Business Risks**

#### ***Possible Loss of Entire Investment***

Prospective investors should be aware that if the Company is not successful in its endeavors, their entire investment in the Company could become worthless. Even if the Company is successful, there can be no assurances that investors will derive a profit from their investment.

*We have a history of losses. Losses will likely continue in the future.*

We have incurred significant losses in the past and will likely continue to incur losses unless our exploratory drilling program proves successful. 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 or generate sufficient revenues to operate profitably.

***We will require additional financing to continue drilling operations.***

We require significant working to continue or current drilling program. There can be no assurance that we will be able to secure additional funding to meet our objectives or if we are able to identify funding sources, that the funding will be available on terms acceptable to the Company. Should this occur, we will have to significantly reduce or drilling programs which will limit our ability to secure additional equity participation in various joint ventures.

***There are no confirmed mineral deposits on any properties 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 history as a mining company.***

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 construction and operating 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.

***No ongoing mining operations.***

We are not a mining company and have no ongoing mining operations of any kind. We have interests in mining concessions which may or may not lead to production.

***There may be insufficient mineral reserves to develop the property 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 gold 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 gold 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 face fluctuating gold and mineral prices and currency volatility.***

The price of gold and silver as well as other precious base metals has experienced volatile and significant price movements over short periods of time and is affected by numerous factors beyond our control, including international economic and political trends, expectations of inflation, currency exchange fluctuations (including, the US 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.

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

Mining operations are by their nature subject to a variety of risks, such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences may delay development or production, increase production costs or result in a liability. We may not be able to insure fully or at

all against such risks, due to political or other reasons, or we may decide not to take out insurance against such risks as a result of high premiums or other reasons. We intend to conduct our business in a way that safeguards public health and the environment and in compliance with applicable laws and regulations. Environmental hazards may exist on properties in which we hold an interest which are unknown to us and may have been caused by prior owners. Changes to mining laws and regulations could require additional capital expenditures and increase operating and/or reclamation costs. Although we are unable to predict what additional legislation, if any, might be proposed or enacted, additional regulatory requirements could render certain mining operations uneconomic.

### ***Requirement for Permits and Licenses***

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 economically justifiable costs.

### ***Currency Fluctuations***

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.

### ***Political Stability***

We intend to conduct operations in democratic and stable countries. However, with Mexico, like other developing companies, there is a greater likelihood of political unrest and changing rules and regulations regarding foreign investment. Political unrest would likely destabilize the country. This would in all likelihood adversely impact our proposed operations in any foreign jurisdiction.

### ***Title Matters***

While we intend to conduct our own due diligence prior to committing significant funds to any project, mining properties may be subject to prior unregistered agreements, transfers or claims and title may be affected by undetected defects. Should this occur, we face significant delays, costs and the possible loss of any investments or commitment of capital.

***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 either 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 gold.

***The precious metals markets are volatile markets. This will have a direct impact on the Company's revenues and profits( if any) and will probably affect whether the Company will be able to succeed.***

The price of both gold and silver has increased over the past few years. This has contributed to the renewed interest in gold and silver mining and companies engaged in that business, including the exploration for both gold and silver. However, in the event that the price of these metals fall, the interest in the gold and silver mining industry may decline and the value of the Company's business could be adversely affected. Further, although it is anticipated that mining

costs outside of the United States and Canada will be appreciably lower, no assurances can be given that the situation will remain, or that gold or silver will remain at a price that will make mining operations profitable. Finally, in recent decades, there have been periods of both overproduction and underproduction of both gold and silver resources. Such conditions have resulted in period of excess supply of and reduced demand on a worldwide basis and on a domestic basis. These periods have been followed by periods of short supply of and increased demand for both gold and silver. The excess or short supply of gold has placed pressure on prices and has resulted in dramatic price fluctuations even during relatively short periods of seasonal market demand. We cannot predict what the market for gold or silver will be in the future.

***Government regulation, or changes in such regulation may adversely affect the Company's business.***

The Company has and will, in the future, engage experts to assist it with respect to its operations. The Company is beginning to deal with the various regulatory and governmental agencies, and the rules and regulations of such agencies. No assurances can be given that it will be successful in its efforts. Further, in order for the Company to operate and grow its business, it needs to continually conform to the laws, rules and regulations of such jurisdiction. It is possible that the legal and regulatory environment pertaining to the exploration and development of gold mining properties will change. Uncertainty and new regulations and rules could increase the Company's cost of doing business or prevent it from conducting its business.

***We are in competition with companies that are larger, more established and better capitalized than we are.***

Many of our potential competitors have:

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greater financial and technical resources;

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longer operating histories and greater experience in mining;

.

greater awareness of the political, economic and governmental risks in operating in Mexico.

***It is unlikely that we will be able to sustain profitability in the future.***

We have incurred significant losses since inception and there can be no assurance that we will be able to reverse this trend. Even if we are able to successfully identify commercially exploitable mining reserves, there can be no assurance that we will have sufficient financing to exploit these reserves or find a willing buyer for the properties.

***We have no proven reserves, no mining operations, and no operating income.***

We currently have no revenues from operations, no mining operations, and no proven reserves. Reserves, by definition, contain mineral deposits in a quantity and in a form from which the target minerals may be economically and legally extracted or produced. We have not established that precious minerals exist in any quantity in the property which is the focus of our exploration efforts, and unless or until we do so we will not have any income from operations.

***Exploration for economic deposits of minerals is speculative.***

The business of mineral exploration is very speculative, since there is generally no way to recover any of the funds expended on exploration unless the existence of mineable reserves can be established and the Company can exploit those reserves by either commencing mining operations, selling or leasing its interest in the property, or entering into a joint venture with a larger resource company that can further develop the property to the production stage. Unless we can establish and exploit reserves before our funds are exhausted, we will have to discontinue operations, which could make our stock valueless.

***The mining industry is highly competitive and the success and future growth of our business depend upon our ability to remain competitive in identifying and developing mining properties with sufficient reserves for economic***

*exploitation.*

The mining industry is highly competitive and fragmented with limited barriers to entry, especially at the exploratory stages. We compete in national, regional and local markets with large multi-national corporations and against start-up operators hoping to identify a mining reserve. Some of our competitors have significantly greater financial resources than we do. This puts us at a competitive disadvantage if we choose to further exploit mining opportunities. As we expand into new geographic markets, our success will depend in part on our ability to locate and exploit mineral reserves.

*The loss of key members of our senior management team could adversely affect the execution of our business strategy and our financial results.*

We believe that the successful execution of our business strategy and our ability to move beyond the exploratory stages depends on the continued employment of key members of our senior management team. If any



members of our senior management team become unable or unwilling to continue in their present positions, our financial results and our business could be materially adversely affected.

***We operate in a regulated industry and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce our revenues and profitability.***

Our organization is subject to extensive and complex foreign, federal and state laws and regulations. If we fail to comply with the laws and regulations that are directly applicable to our business, we could suffer civil and/or criminal penalties or be subject to injunctions or cease and desist orders. While we believe that we are currently compliant with applicable rules and regulations, if there are changes in the future, there can be no assurance that we will be able to comply in the future, or that future compliance will not significantly adversely impact our operations.

***We will require additional financing to continue our exploration activities.***

Our drilling programs require significant capital. Without additional financing, of which there can be no assurance, we may be forced to halt or reduce our planned exploratory program. Should this happen, it is likely that we will not be able to demonstrate that there are significant gold or silver reserves in sufficient quantities to interest a mining company.

### **Risks Related to Our Common Stock**

***Our stock price may be volatile.***

The market price of our common stock has been volatile. We believe investors should expect continued volatility in our stock price. Such volatility may make it difficult or impossible for you to obtain a favorable selling price for our shares.

***We have a large number of authorized but unissued shares of our common stock.***

We have a large number of authorized but unissued shares of common stock, which our management may issue without further stockholder approval, thereby causing dilution of your holdings of our common stock. Our management will continue to have broad discretion to issue shares of our common stock in a range of transactions, including capital-raising transactions, mergers, acquisitions and in other transactions, without obtaining stockholder approval, unless stockholder approval is required. If our management determines to issue shares of our common stock from the large pool of authorized but unissued shares for any purpose in the future, your ownership position would be diluted without your further ability to vote on that transaction. For example, we may issue a large number of shares of our common stock to acquire the remaining 30% interest in our joint venture with Tara Gold.

***The exercise of our outstanding options and warrants and vesting of restricted stock awards may depress our stock price.***

The exercise of outstanding options and warrants, and the subsequent sale of the underlying common stock in the public market, or the perception that future sales of these shares could occur, could have the effect of lowering the market price of our common stock below current levels and make it more difficult for us and our stockholders to sell our equity securities in the future.

Sale or the availability for sale of shares of common stock by stockholders could cause the market price of our common stock to decline and could impair our ability to raise capital through an offering of additional equity securities.

***Regulatory actions by the Securities and Exchange Commission, any Exchange on which our securities are traded, or companies providing stock clearance or transfer functions, may adversely affect the price of our common stock, the ability of shareholders to sell their shares and our ability to secure additional funding.***

Any actions by the Commission, an Exchange or company which facilitates the clearance or transfer of our securities will in all likelihood impact the trading price of the Company's common stock and cash reserves. Should any regulatory matters arise, resolution of these matters with any entity will likely result in significant legal fees and related expenses that would otherwise be devoted to our mining efforts. If you are a shareholder, you may not be able to sell your securities and shares of our common stock will become highly illiquid which may result in the loss of your entire investment.

In addition, should we become subject to any of the events identified above, our ability to secure additional financing will be adversely affected.

***We face possible litigation claims from shareholder.***

The securities industry and the offer and sale of securities is highly regulated. Any improper actions, whether intentional or unintentional could subject the Company to litigation and potential monetary damages.

***We may be required to initiate litigation against parties who were engaged in improper or negligent activities with respect to our common stock .***

Any litigation that we undertake with respect to our common stock or other matters will involve the expenditure of significant financial resources and divert management's focus from their primary responsibilities. Moreover, even if management is successful with the prosecution, there can be no assurance that the Company will be able to recover monetary damages against the culpable parties.

FOR ALL OF THE AFORESAID REASONS, AND OTHERS SET FORTH HEREIN, THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK. ANY PERSON CONSIDERING AN INVESTMENT IN THE SECURITIES OFFERED HEREBY SHOULD BE AWARE OF THESE AND OTHER FACTORS SET FORTH IN THIS MEMORANDUM. THESE SECURITIES SHOULD ONLY BE PURCHASED BY PERSONS WHO CAN AFFORD A TOTAL LOSS OF THEIR INVESTMENT IN THE COMPANY AND HAVE NO IMMEDIATE NEED FOR A RETURN ON THEIR INVESTMENT.

### **USE OF PROCEEDS**

Except as otherwise provided in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities offered by this prospectus for general corporate purposes, which may include working capital, capital expenditures, mining, geological fees, regulatory affairs expenditures, mineral testing, acquisitions of new properties or mining concessions. We also intend to use the proceeds of any offering to complete our investment in Mexoro Minerals Ltd. And to earn our interest in our joint venture with Garibaldi resources, including cash payments and exploration expenditures. Additional information on the use of net proceeds from the sale of securities offered by this prospectus may be set forth in the prospectus supplement relating to that offering.

### **DESCRIPTION OF CAPITAL STOCK**

The following is a summary of the material terms and provisions of our capital stock and is qualified in its entirety by the provisions of our certificate of incorporation and all amendments thereto.

We are authorized to issue up to 100 million shares of our \$.001 par value common stock of which 48,595,997 are issued and outstanding as of August 1, 2008.

Holders of the Company's Common Stock are entitled to one vote per share on each matter submitted to vote at any meeting of shareholders. Shares of Common Stock do not carry cumulative voting rights. The Company's board of directors has authority, without action by the Company's shareholders, to issue all or any portion of the authorized but un-issued shares of Common Stock, which would reduce the percentage ownership of the Company of its shareholders and which would dilute the book value of the Common Stock.

Shareholders of the Company have no preemptive rights to acquire additional shares of Common Stock. The Common Stock is not subject to redemption and carries no subscription or conversion rights. In the event of liquidation of the

Company, the shares of Common Stock are entitled to share equally in corporate assets after the satisfaction of all liabilities. Holders of Common Stock are entitled to receive such dividends as the board of directors may from time to time declare out of funds legally available for the payment of dividends. During the last two fiscal years the Company has not paid cash dividends on its Common Stock and does not anticipate that it will pay cash dividends in the foreseeable future.

On September 27, 2007 we filed a Registration Statement on Form S-8 registering a total of 4 million shares of our common stock which can be issued under our 2007/08 Stock Incentive and Equity Compensation Plan. Under the Plan, we may issue stock awards or common stock options. For a complete list of the types of securities that may be issued under the Plan and the requirement for the grants, reference is made to the S-8 registration statement.

## **TRANSFER AGENT**

Our stock transfer agent is Mellon Investor Services whose address is 480 Washington Blvd. Jersey City, NJ 07310.

## **Listing on The American Stock Exchange and Toronto Stock Exchange**

Our common stock is listed on both the American Stock Exchange and the Toronto Stock Exchange under the symbol PZG

## **DESCRIPTION OF WARRANTS**

### **General**

We may issue warrants to purchase shares of our common stock. The common stock warrants may be issued independently or together with any other securities offered by this prospectus and may be attached to or separate from the other securities. If warrants are issued, they will be issued under warrant agreements to be entered into between us and the warrant holder or under a warrant indenture with a warrant agent (all of which will be described in the prospectus supplement relating to the warrants being offered).

The applicable prospectus supplement will describe the following terms of the common stock warrants offered under this prospectus:

(1)

the title;

(2)

the securities issuable upon exercise;

(3)

the issue price or prices;

(4)

the number of warrants issued with each share of common stock;

(5)

any provisions for adjustment of (a) the number or amount of shares of common stock receivable upon exercise of the warrants or (b) the exercise price;

(6)

any other terms, including terms, procedures and limitations relating to exchange and exercise;

(7)

the commencement and expiration dates of the right to exercise; and

(8)

the maximum or minimum number of warrants that may be exercised at any time.

### **Exercise of Warrants**

Each warrant will entitle the holder to purchase for cash the shares of common stock at the applicable exercise price set forth in, or determined as described in, the applicable prospectus supplement. Warrants may be exercised at any time up to the close of business on the expiration date set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Warrants may be exercised by delivering to the Company or the warrant agent, as the case may be (a) the warrant certificate properly completed and duly executed and (b) payment of the amount due upon exercise. As soon as practicable following exercise, we will forward the shares of common stock purchasable upon exercise. If less than all of the warrants represented by a warrant certificate are exercised, a new warrant certificate will be issued for the remaining warrants.

### **DESCRIPTION OF UNITS**

The following description, together with the additional information we may include in any applicable prospectus supplements, summarizes the material terms and provisions of the units that we may offer under this prospectus. While the terms we have summarized below will apply generally to any units that we may offer under this prospectus, we will describe the particular terms of any series of units in more detail in the applicable prospectus supplement. The terms of any units offered under a prospectus supplement may differ from the terms described below. However, no prospectus supplement will fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the SEC, the form of unit that describes the terms of the units we are offering, and any supplemental agreements, before the issuance of the related units. The following summaries of material terms and provisions of the units are subject to, and qualified in their entirety by reference to, all the provisions of the unit and any supplemental agreements applicable to the units. We urge you to read the applicable prospectus supplements related to the units that we sell under this prospectus, as well as any supplemental agreements that contain the terms of the units.

## General

We may issue units comprised of one or more shares of common stock and warrants in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

We will describe in the applicable prospectus supplement the terms of the series of units, including:

.  
the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;

.  
any provisions of the governing unit agreement that differ from those described below; and

.  
any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units.

The provisions described in this section, as well as those described under **Description of Capital Stock**, and **Description of Warrants** will apply to each unit and to any common stock, or warrant included in each unit, respectively.

## PLAN OF DISTRIBUTION

We may sell the securities being offered by us in this prospectus:

(1)

directly to purchasers;

(2)

through agents;

(3)

through dealers;

(4)

through underwriters; or

(5)

through a combination of any of these methods of sale.

We and our agents and underwriters may sell the securities being offered by us in this prospectus from time to time in one or more transactions:

(1)

at a fixed price or prices, which may be changed;

(2)

at market prices prevailing at the time of sale;

(3)

at prices related to the prevailing market prices; or

(4)

at negotiated prices.

#### **Underwriters and Agents**

We may solicit directly offers to purchase securities. We may also designate agents from time to time to solicit offers to purchase securities. Any agent, who may be deemed to be an underwriter as that term is defined in the Securities Act of 1933, may then resell the securities to the public at varying prices to be determined by that agent at the time of resale.



If we use underwriters to sell securities, we will enter into an underwriting agreement with them at the time of the sale to them. The names of the underwriters will be set forth in the prospectus supplement that will be used by them together with this prospectus to make resales of the securities to the public. In connection with the sale of the securities offered, these underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions. Underwriters may also receive commissions from purchasers of the securities.

Underwriters may also use dealers to sell securities. If this happens, these dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

Any underwriting compensation paid by us to underwriters in connection with the offering of the securities offered in this prospectus, and any discounts, concessions or commissions allowed by underwriters to participating dealers, will be set forth in the applicable prospectus supplement.

Underwriters, dealers, agents and other persons may be entitled, under agreements that may be entered into with us, to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution with respect to payments that they may be required to make in respect of these liabilities. Underwriters and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters, dealers, or other persons to solicit offers by certain institutions to purchase the securities offered by us under this prospectus pursuant to contracts providing for payment and delivery on a future date or dates. The obligations of any purchaser under any these contracts will be subject only to those conditions described in the applicable prospectus supplement, and the prospectus supplement will set forth the price to be paid for securities pursuant to these contracts and the commissions payable for solicitation of these contracts.

### **Trading Markets**

Our shares of common stock are listed on both the American Stock Exchange ( AMEX ) and the Toronto Stock Exchange ( TSX ). Any shares of common stock sold pursuant to a prospectus supplement will be listed on both the American Stock Exchange and Toronto Stock Exchange subject to official notice and approval of issuance by the AMEX and the TSX.

The anticipated date of delivery of the securities offered hereby will be set forth in the applicable prospectus supplement relating to each offering.

### **LEGAL MATTERS**

The validity of the securities offered hereby will be passed upon by Jeffrey G. Klein, P.A.

### **EXPERTS**

The financial statements of Paramount Gold and Silver Corp. appearing in our Annual Report on Form 10-KSB for the year ended June 30, 2007, have been audited by Cinnamon Jang Willoughby & Company, registered independent accountants, as set forth in their report thereon included therein and incorporated herein by reference. We also incorporate by reference those financial statements contained in our quarterly reports for the periods ended September 30, 2007, December 31, 2007 and March 31, 2008. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. With respect to references made in this prospectus to any contract or other document, you should review our filings that we make with the Securities and Exchange Commission. You may review these filings at the SEC's public reference rooms at 100 F Street N.E. Washington, D.C. 20549 or by calling the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our Securities and Exchange Commission filings can also be reviewed by accessing the SEC's Web site at [www.sec.gov](http://www.sec.gov).

Our internet website is [www.paramountgold.com](http://www.paramountgold.com) and through the Investor portion of our website, you may access, free of charge, our filings, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. The information contained in our website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus. Our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov>. Our common stock is listed on the American Stock Exchange. Additional information regarding our operations is also available on the AMEX website at [www.amex.com](http://www.amex.com).

## DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information in this prospectus supersedes information incorporated by reference that we filed with the SEC prior to the date of this prospectus, while information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference into this Registration Statement and prospectus the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus but prior to the termination of the offering of the shares covered by this prospectus. The following documents filed with the SEC are incorporated by reference in this prospectus:

1.

The description of our common stock set forth in our registration statement on Form 10-SB filed with the SEC on November 2, 2005 and all amendments thereto.

2.

Our Annual Report on Form 10-KSB for the year ended June 30, 2007, filed with the SEC on September 27, 2007 and all amendments thereto.

3.

Our Quarterly Report on Form 10-Q for the period ended September 30, 2007, filed with the SEC on November 13, 2007;

4.

Our Quarterly Report on Form 10-Q for the period ended December 31, 2007, filed with the SEC on May 12, 2008.

5.

Our Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed with the SEC on May 12, 2008.

6.

Our Form SB-2 Registration Statement filed on July 2, 2007 and all amendments thereto.

7.

Our Post-Effective Registration Statement filed on October 17, 2007 and all amendments thereto.

8.

Form S-8 Registration Statement filed September 27, 2007

9.

Our Periodic Report on Form 8-K, filed with the SEC on August 28, 2007; and

10.

Our Report on Form 8-K filed with the SEC on March 3, 2008

11.

Our Report on Form 8-K filed with the SEC on March 28, 2008

12.

Our Report on Form 8-K/A filed with the SEC on April 1, 2008

13.

Our Report on Form 8-k filed with the SEC on April 22, 2008

14.

Our Report on Form 8-K filed with the SEC on May 1, 2008

15.

Our Report on Form 13(d) filed July 1, 2008 and all amendments thereto

We will furnish without charge to you, on written or oral request, a copy of any or all of the documents incorporated by reference, including exhibits to these documents. You should direct any requests for documents to Paramount Gold and Silver Corp. 346 Waverly Street Suite 110 Ottawa, Ontario Canada. K2P OW5, attention: Lucie Letellier, Chief Financial Officer and the telephone number is (613)226-9881.

To the extent that any statement in this prospectus is inconsistent with any statement that is incorporated by reference and that was made on or before the date of this prospectus, the statement in this prospectus shall control. The incorporated statement shall not be deemed, except as modified or superceded, to constitute a part of this

prospectus or the registration statement of which this prospectus is a part. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete and, in each instance, we refer you to the copy of each contract or document filed as an exhibit to the registration statement of which this prospectus is a part.

You should rely only on the information provided or incorporated by reference in this prospectus. We have not authorized anyone to provide you with any different information. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, these securities in any state where the offer or sale is prohibited. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of the document.

**PART II.****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 14.****Other Expenses of Issuance and Distribution**

The following table sets forth the various costs and expenses payable by the Registrant in connection with the issuance and distribution of the common stock being registered, other than underwriting discounts and commissions. All amounts are estimated except for the SEC registration fee.

SEC Registration Fee	\$	3,144
Legal Fees and Expenses	\$	25,000 *
Accounting Fees and Expenses	\$	1,000 *
Miscellaneous	\$	1,000 *
Total	\$	30,144

\*Indicates estimate for the purpose of this filing.

**ITEM 15.****Indemnification of Directors and Officers**

We are incorporated under the laws of the State of Delaware. Section 145 of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer, director, employee or agent of such corporation, or is or was serving at the request of such person as an officer, director, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal. A Delaware corporation may indemnify any persons who are, or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred. Our amended and restated certificate of incorporation and amended and restated bylaws provide for the indemnification of our directors and officers to the fullest extent permitted under the Delaware General Corporation Law.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability:

.

for any transaction from which the director derives an improper personal benefit;

.

for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

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for improper payment of dividends or redemptions of shares; or

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for any breach of a director's duty of loyalty to the corporation or its stockholders.

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Expenses incurred by any officer or director in defending any such action, suit or proceeding in advance of its final disposition shall be paid by us upon delivery to us of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified by us.

Section 174 of the Delaware General Corporation Law provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for such actions. A director who was either absent when the unlawful actions were approved, or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

As permitted by the Delaware General Corporation Law, we will indemnify each of our directors and executive officers, that require us to indemnify such persons against any and all expenses (including attorneys' fees), witness fees, damages, judgments, fines, settlements and other amounts incurred (including expenses of a derivative action) in connection with any action, suit or proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director, an officer or an employee of Paramount, provided that such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

We have an insurance policy covering our officers and directors with respect to certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, or otherwise.

Insofar as the indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.



**ITEM 16.**

**Exhibits**

(a)

Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
3.1	Articles of Incorporation filed for a name change on August 24, 2007 (Filed as part of our Form 10-SB on 11/2/05
3.2	Certificate of Amendment to Articles of Incorporation filed as an exhibit to our Form 8-k filed 8/28/07
3.3	Bylaws filed as an exhibit to our Form 8-k filed on 8/28/07
4.1	2006/07 Stock Incentive and Equity Compensation Plan filed as on exhibit on Form S-8 filed November 8, 2006
4.2	2007/08 Stock Incentive and Equity Compensation Plan filed as an exhibit to our proxy statement on 6/29/07
4.3	Registration Rights Agreement filed as an exhibit to Form 8-k filed 4/6/07
4.4	Warrant Agreement filed as an exhibit to Form 8-k filed 4/6/07
4.5	Broker Warrant Agreement filed as an exhibit to Form 8-k filed 4/6/07
4.6	Form of Warrant Agreement issued to Anima S.G.R.p.A. and affiliates filed on Form S-3 January 24, 2008
<u>5.1</u> *	Opinion of Law Offices of Jeffrey G. Klein, P.A.
10.1	Option Agreement on San Miguel properties. Filed as an exhibit to Form 10-SB filed on 11/2/05
10.2	Agency Agreement with Blackmont Securities filed as an exhibit to Form 8-k filed 4/6/07
10.3	Form of Debenture in connection with Mexoro financing filed as an exhibit to Form 13(d) filed July 21, 2008
10.4	Form of Conversion Warrant in connection with Mexoro financing filed as an exhibit to

Form 13(d) filed July 21, 2008

23.1\* Consent of HLB Cinnamon Jang Wiloughby and Company

23.2\* Consent of Jeffrey G. Klein, P.A. (Included as part of Exhibit 5.1)

\*

Filed Herewith

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**ITEM 17.**

**Undertakings**

The undersigned Registrant hereby undertakes:

(1)

To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(a)

To include any prospectus required by Section 10(a)(3) of the Securities Act;

(b)

To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement.

(c)

To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; provided, however, that paragraphs (1)(a) and 1(b) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in this registration statement.

(2)

That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3)

To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Registrant hereby undertakes that for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relation to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and persons controlling the Registrant under the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities

(other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling persons of the Registrant in the successful defense of any action suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether the indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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4.0 4.0

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Comprehensive loss  
(11.0)

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**Balance at March 31, 2003**  
89.0 \$556.2 2.0 \$2.0 \$1,554.5 \$1,154.9 \$(454.5) \$(12.9) \$2,800.2

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See Notes to Consolidated Financial Information

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**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria	Cerro Verde	El Abra	Primary Molybdenum
<b>First Quarter 2003</b>									
Sales & other operating revenues:									
Unaffiliated customers				0.1		59.2	9.9	31.5	75.9
Intersegment	136.2	95.4	9.0	9.4	26.7	23.5	27.2	21.0	
Depreciation, depletion and amortization	18.7	7.3	1.9	2.0	3.3	10.8	7.3	14.5	6.1
Operating income (loss) before special items and provisions	12.4	6.7	(0.7)	(2.1)	(4.4)	23.1	7.5	5.6	0.1
Special items and provisions									
Operating income (loss)	12.4	6.7	(0.7)	(2.1)	(4.4)	23.1	7.5	5.6	0.1
Assets at March 31	1,076.5	762.7	119.8	292.2	149.8	660.4	432.6	549.7	787.2
Expenditures for segment assets	6.1	6.2		1.0	0.2	0.6	1.0	0.2	2.5
<b>First Quarter 2002 (as restated)</b>									
Sales & other operating revenues:									
Unaffiliated customers				0.2		47.8	8.5	37.8	61.3
Intersegment	130.5	99.5	9.5	21.9	24.3	19.3	24.8	17.8	
Depreciation, depletion and amortization	19.5	6.6	1.3	3.1	3.0	10.0	7.4	16.5	5.5
Operating income (loss) before special items and provisions	11.8	(4.3)	(4.5)	5.7	(1.7)	20.2	6.8	0.5	(0.3)
Special items and provisions									
Operating income (loss)	11.8	(4.3)	(4.5)	5.7	(1.7)	20.2	6.8	0.5	(0.3)
Assets at March 31	1,141.3	761.3	124.9	413.3	141.7	670.7	457.5	557.6	797.4
Expenditures for segment assets	1.7	7.6		0.1	0.1	0.4	2.2	1.5	1.9

	Manufactur- ing and Sales	Other Mining	PDMC Elimi- nations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Elimi- nations	Totals
<b>First Quarter 2003</b>									
Sales & other operating revenues:									
Unaffiliated customers	473.4	5.0		655.0	162.1	160.9	323.0		978.0
Intersegment	85.3	16.3	(420.0)	30.0				(30.0)	
Depreciation, depletion and amortization	4.2	1.1		77.2	11.0	8.9	19.9	4.5	101.6
Operating income (loss) before special items and provisions	8.5	(21.0)		35.7	10.9	3.4	14.3	(23.2)	26.8
Special items and provisions					3.2		3.2	(1.3)	1.9
Operating income (loss)	8.5	(21.0)		35.7	14.1	3.4	17.5	(24.5)	28.7
Assets at March 31	486.3	1,511.2	(1,617.6)	5,210.8	708.3	525.1	1,233.4	551.9	6,996.1

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Expenditures for segment assets	1.6	0.5		19.9	3.8	2.6	6.4	1.0	27.3
<b>First Quarter 2002 (as restated)</b>									
Sales & other operating revenues:									
Unaffiliated customers	453.7	2.4		611.7	129.3	177.5	306.8		918.5
Intersegment	96.2	15.7	(422.5)	37.0		0.2	0.2	(37.2)	
Depreciation, depletion and amortization	6.0	0.8		79.7	10.5	10.7	21.2	2.0	102.9
Operating income (loss) before special items and provisions	(1.7)	(19.0)		13.5	13.2	2.8	16.0	(20.6)	8.9
Special items and provisions		13.8		13.8				(10.0)	3.8
Operating income (loss)	(1.7)	(5.2)		27.3	13.2	2.8	16.0	(30.6)	12.7
Assets at March 31	507.7	1,726.1	(1,788.1)	5,511.4	674.1	601.5	1,275.6	754.2	7,541.2
Expenditures for segment assets	1.5	0.4		17.4	2.0	1.7	3.7	1.7	22.8

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**NOTES TO CONSOLIDATED FINANCIAL INFORMATION**

(Unaudited)

*1. General Information*

The unaudited consolidated financial information of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) presented herein has been prepared in accordance with the instructions to Form 10-Q and does not include all of the information and note disclosures required by generally accepted accounting principles. Therefore, this information should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2002. This information reflects all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the interim periods reported. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI).

The results of operations for the three-month period ended March 31, 2003, are not necessarily indicative of the results to be expected for the full year.

*2. Restatements*

As discussed in Note 1, Summary of Significant Accounting Policies, and Note 22, Restatement of Consolidated Financial Statements, in the Company's Form 10-K for the year ended December 31, 2002, we identified certain accounting matters in the fourth quarter of 2002 that required restatement of our December 31, 2001 and 2000, Consolidated Financial Statements and our financial statements for the quarterly periods ended March 31, 2001, through September 30, 2002. Additionally, our presentation of reportable segment information for PDMC for the quarter ended March 31, 2002, has been revised to reflect additional segments.

Following is a summary of selected unaudited quarterly financial data, as restated for the quarter ended March 31, 2002:

(Unaudited; \$ in millions except per share data)

	<b>First Quarter 2002</b>		
	<b>As Previously Reported</b>	<b>(1)(2) (3)(4) (5) Adjust- ments</b>	<b>As Restated</b>
Sales and other operating revenues	\$918.5		\$918.5
Operating income	7.0	5.7	12.7
Loss before cumulative effect of accounting change	(4.8)	2.9	(1.9)
Net loss	(27.7)	2.9	(24.8)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.06)	0.03	(0.03)
Basic and diluted loss per common share	(0.35)	0.03	(0.32)

(1) To adjust the units-of-production depreciation rate calculation for PDMC's mining, smelting and refining operations. This change reduced our depreciation and amortization expense and increased our operating income by \$2.7 million in the first quarter of 2002. Additionally, this change decreased our net loss by \$2.2 million, or 3 cents per common share, in the first quarter of 2002.

(2) To adjust the acquired reclamation obligations assumed in the Cyprus Amax Minerals Company acquisition. This change increased our cost of products sold and decreased our operating income by \$0.9 million in the first quarter of 2002. Additionally, this change increased our net loss by \$0.8 million, or 1 cent per common share, in the first quarter of 2002.



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- (3) To adjust the estimated reclamation obligation at our Tyrone mine in 2002 to exclude mineralized material from the determination of the unit reclamation and closure accrual rate. This change increased our cost of products sold and decreased our operating income and increased our net loss by \$2.1 million, or 3 cents per common share, in the first quarter of 2002.
  - (4) To capitalize costs associated with material in mill and leach stockpiles and the consequent in-process material being converted to salable copper products, which were stated at lower of cost or market. This change decreased our cost of products sold and increased our operating income by \$6.0 million in the first quarter of 2002. Additionally, this change decreased our net loss by \$5.6 million, or 7 cents per common share, in the first quarter of 2002.
  - (5) In 2001, a deferred tax asset valuation allowance of \$57.9 million associated with our El Abra copper mine in Chile was established. The adjustment to the deferred tax asset caused an increase to our net loss by \$2.0 million, or 3 cents per common share, in the first quarter of 2002.
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3. *Stock Compensation*

We account for our stock option plans by measuring compensation cost using the intrinsic-value-based method presented by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No compensation cost is reflected in consolidated net loss, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table presents the effect on net loss and loss per common share as if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to compensation cost.

(Unaudited; \$ in millions except per share data)

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		<b>(As Restated)*</b>
Net loss as reported	\$(15.0)	(24.8)
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(3.2)	(3.8)
<i>Pro forma</i> net loss	<u>\$(18.2)</u>	<u>(28.6)</u>
Loss per common share		
Basic as reported	\$(0.21)	(0.32)
Basic <i>pro forma</i>	\$(0.24)	(0.36)
Loss per common share		
Diluted as reported	\$(0.21)	(0.32)
Diluted <i>pro forma</i>	\$(0.24)	(0.36)

\* Refer to Note 2, Restatements, for further discussion.

4. *Special Items and Provisions*

Special items and provisions are unpredictable and atypical of the Company's operations in a given period. This supplemental information is not a substitute for any U.S. generally accepted accounting principles (GAAP) measure and should be evaluated within the context of our U.S. GAAP results.

Note: Supplemental Data

The following schedule summarizes the special items and provisions for the quarter ended March 31, 2003:

(Unaudited; gains (losses) in millions except per share amounts)

<b>Statement of Consolidated Operations Line Item</b>	<b>Pre-tax Earnings</b>	<b>After-tax Earnings</b>	<b>\$/Share After-tax</b>
Special items and provisions, net:			
PDI			
Termination of a foreign postretirement benefit plan	\$ 3.2	2.4	0.03
Corporate and Other			
Environmental provisions	(1.3)	(1.3)	(0.01)

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	—	—	—
	1.9	1.1	0.02
	—	—	—
Cumulative effect of accounting change	9.7	8.4	0.09
	—	—	—
	\$11.6	9.5	0.11
	—	—	—

In the 2003 first quarter, a special, net pre-tax gain of \$11.6 million was recognized consisting of (i) a pre-tax gain of \$9.7 million (\$8.4 million after-tax) for the cumulative effect of an accounting change (refer to Note 5, Accounting Standards, for further discussion); (ii) a \$1.3 million charge (before and after taxes) for environmental provisions (refer to Note 6, Environmental, and Reclamation and Closure Matters); and a \$3.2 million gain (\$2.4 million after-tax) from the termination of a foreign postretirement benefit plan.

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Note: Supplemental Data

The following schedule summarizes the special items and provisions for the quarter ended March 31, 2002:

(Unaudited; gains (losses) in millions except per share amounts)

Statement of Consolidated Operations Line Item	Pre-tax Earnings	After-tax Earnings	\$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental insurance recoveries, net	\$ 13.8	11.2	0.14
Corporate and Other			
Environmental provisions	(12.1)	(12.1)	(0.15)
Environmental insurance recoveries, net	2.1	1.9	0.02
	(10.0)	(10.2)	(0.13)
	3.8	1.0	0.01
Miscellaneous income (expense), net:			
Cost investment write-downs	(0.5)	(0.4)	
Benefit (provision) for taxes on income:			
Tax benefit for 2001 net operating loss carryback		38.5	0.49
Cumulative effect of accounting change	(33.0)	(22.9)	(0.29)
	\$(29.7)	16.2	0.21

In the 2002 first quarter, a special, net pre-tax loss of \$29.7 million was recognized consisting of (i) pre-tax charges of \$33.0 million (\$22.9 million after-tax) for the cumulative effect of an accounting change (refer to Note 5, Accounting Standards, for further discussion); (ii) a \$12.1 million charge (before and after taxes) for environmental provisions; (iii) a \$0.5 million write-off (\$0.4 million after-tax) of a cost basis investment; and (iv) a \$15.9 million gain (\$13.1 million after-tax), net of fees and expenses, from recoveries associated with insurance settlements reached with companies on historic environmental claims. In addition, the 2002 first quarter included a tax benefit of \$38.5 million for net operating loss carrybacks prior to 2002 resulting from U.S. tax legislation enacted in that period (refer to Note 9, Benefit (Provision) for Taxes on Income).

In September 2002, we announced the temporary closure of two U.S. wire and cable plants and other actions to improve efficiencies and consolidate certain wire and cable operations. Refer to the Company's Form 10-K for the year ended December 31, 2002, for additional discussion.

The following schedule presents a roll-forward from December 31, 2002, of the liabilities incurred in connection with the September 2002 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:

(Unaudited; \$ in millions)

12/31/02	Payments	3/31/03
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PDI			
Wire and Cable			
Employee severance	\$1.3	(0.9)	0.4
	■	■	■

In the second quarter of 2001, we announced a restructuring of our professional, administrative and operational support functions, as well as various other operational improvement initiatives. Additionally, in the second quarter of 2000 and 1999, we announced plans to reduce operating costs and restructure operations at our PDMC division and our Wire and Cable segment. Refer to the Company's Form 10-K for the year ended December 31, 2002, for additional discussion.

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The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the 2001 restructuring programs, which were reflected as current liabilities in our consolidated balance sheet:  
(Unaudited; \$ in millions)

	<u>12/31/02</u>	<u>Payments</u>	<u>3/31/03</u>
PDMC			
U.S. Mines			
Morenci			
Employee severance	\$0.1	(0.1)	—
	<u>—</u>	<u>—</u>	<u>—</u>
Bagdad/Sierrita			
Mothballing/take-or-pay contracts	0.2	(0.2)	—
	<u>—</u>	<u>—</u>	<u>—</u>
Miami/Bisbee			
Mothballing/take-or-pay contracts	0.1	(0.1)	—
	<u>—</u>	<u>—</u>	<u>—</u>
Chino/Cobre			
Employee severance	0.1	(0.1)	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>0.5</u>	<u>(0.5)</u>	<u>—</u>
Manufacturing and Sales			
Employee severance	0.1	(0.1)	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$0.6</u>	<u>(0.6)</u>	<u>—</u>

(Unaudited; \$ in millions)

	<u>12/31/01</u>	<u>Payments</u>	<u>3/31/02</u>
PDMC			
U.S. Mines			
Morenci			
Employee severance	\$ 0.3	(0.3)	—
	<u>—</u>	<u>—</u>	<u>—</u>
Bagdad/Sierrita			
Employee severance	3.5	(1.3)	2.2
Mothballing/take-or-pay contracts	3.1	—	3.1
	<u>6.6</u>	<u>(1.3)</u>	<u>5.3</u>
Miami/Bisbee			
Employee severance	1.8	(0.8)	1.0
Mothballing/take-or-pay contracts	1.0	(0.2)	0.8
	<u>2.8</u>	<u>(1.0)</u>	<u>1.8</u>
Chino/Cobre			

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Employee severance	1.2	(0.2)	1.0
Mothballing/take-or-pay contracts	0.2	(0.1)	0.1
	<u>1.4</u>	<u>(0.3)</u>	<u>1.1</u>
<b>Tyrone</b>			
Employee severance	0.2	(0.2)	
	<u>11.3</u>	<u>(3.1)</u>	<u>8.2</u>
<b>Manufacturing and Sales</b>			
Employee severance	1.4	(0.3)	1.1
Mothballing/take-or-pay contracts	4.1	(2.1)	2.0
	<u>5.5</u>	<u>(2.4)</u>	<u>3.1</u>
<b>Primary Molybdenum</b>			
Employee severance	0.1	(0.1)	
<b>Other Mining</b>			
Employee severance	0.8	(0.4)	0.4
	<u>\$17.7</u>	<u>(6.0)</u>	<u>11.7</u>

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	<u>12/31/01</u>	<u>Payments</u>	<u>3/31/02</u>
PDI			
Specialty Chemicals			
Disposal and dismantling	0.5		0.5
Employee severance	0.8	(0.4)	0.4
	<u>1.3</u>	<u>(0.4)</u>	<u>0.9</u>
	\$19.0	(6.4)	12.6
	<u>          </u>	<u>          </u>	<u>          </u>

The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the June 2000 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:

(Unaudited; \$ in millions)

(Unaudited; \$ in millions)

	<u>12/31/01</u>	<u>Reassess- ments</u>	<u>3/31/02</u>
PDI			
Wire and Cable			
Plant removal and dismantling	\$1.9	(0.2)	1.7
	<u>          </u>	<u>          </u>	<u>          </u>

PDI's Wire and Cable segment reassessment related to a non-cash deduction associated with the devaluation of Venezuelan currency.

The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the June 1999 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:

(Unaudited; \$ in millions)

	<u>12/31/02</u>	<u>Payments</u>	<u>3/31/03</u>
PDMC			
Other Mining			
Mothballing/take-or-pay contracts	\$0.6		0.6
	<u>          </u>	<u>          </u>	<u>          </u>
PDI			
Wire and Cable			
Take-or-pay contracts	1.0		1.0
	<u>          </u>	<u>          </u>	<u>          </u>
	\$1.6		1.6
	<u>          </u>	<u>          </u>	<u>          </u>

(Unaudited; \$ in millions)

12/31/01	Payments	3/31/02
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PDMC			
Other Mining			
Employee severance	\$0.2	(0.1)	0.1
Mothballing/take-or-pay contracts	1.4	(0.3)	1.1
	<u>        </u>	<u>        </u>	<u>        </u>
	1.6	(0.4)	1.2
	<u>        </u>	<u>        </u>	<u>        </u>
PDI			
Specialty Chemicals			
Disposal and dismantling	0.3		0.3
Environmental	0.6		0.6
	<u>        </u>	<u>        </u>	<u>        </u>
	0.9		0.9
	<u>        </u>	<u>        </u>	<u>        </u>
Wire and Cable			
Take-or-pay contracts	1.1		1.1
Plant removal and dismantling	0.2		0.2
	<u>        </u>	<u>        </u>	<u>        </u>
	1.3		1.3
	<u>        </u>	<u>        </u>	<u>        </u>
	2.2		2.2
	<u>        </u>	<u>        </u>	<u>        </u>
	\$3.8	(0.4)	3.4
	<u>        </u>	<u>        </u>	<u>        </u>

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5. *Accounting Standards*

On January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations. With the adoption of this Statement, we recognize asset retirement obligations (AROs) as liabilities when incurred, with the initial measurement at fair value. These liabilities will be accreted to full value over time through charges to income. In addition, an asset retirement cost was capitalized as part of the related asset's carrying value and will subsequently be allocated to expense over the asset's useful life. Our AROs consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthwork, revegetation, water treatment and demolition. Upon adoption, we recorded a pre-tax cumulative effect of a change in accounting principle of \$9.7 million credit to income (\$8.4 million after-tax). In the first quarter 2003, the effect of adopting SFAS No. 143 decreased loss before cumulative effect of accounting change by approximately \$3 million, or 4 cents per common share.

The following table summarizes the balance sheet impact associated with the adoption of SFAS No. 143:

(Unaudited; \$ in millions)

	December 31, 2002 As Reported	SFAS No. 143 Adoption Impact	January 1, 2003 After Adoption
Mining properties	\$ 1,361.4	67.4*	1,428.8
Mining properties accumulated depreciation	(122.4)	(55.2)	(177.6)
Net mining properties assets	\$ 1,239.0	12.2	1,251.2
Asset retirement obligation liability	\$ 138.6	10.4**	149.0

\* Amount includes \$91.5 million of additions related to recording an asset retirement cost, offset by \$24.1 million to reclassify amounts recognized as ore reserves in purchase accounting.

\*\* Amount consists of \$2.5 million of liabilities recognized at adoption and \$7.9 million of reclassifications related to closure obligations from other liabilities at adoption.

The *pro forma* effects of the application of SFAS No. 143 as if this Statement had been adopted on January 1, 2002, are presented below:

(Unaudited; \$ in millions except per share data)

	First Quarter	
	2003	2002
Loss before cumulative effect of accounting change as reported	\$ (23.4)	(1.9)
Reduced cost of products sold, net of tax benefit (accretion expense)		5.3
Additional depreciation expense, net of tax provision		(0.6)
<i>Pro forma</i> income (loss) before cumulative effect of accounting change	\$ (23.4)	2.8
Income (loss) per common share before cumulative effect of accounting change:		
Basic and diluted as reported	\$ (0.30)	(0.03)

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Basic and diluted <i>pro forma</i>	\$(0.30)	0.03
Net loss as reported	\$(15.0)	(24.8)
<i>Pro forma</i> net loss	\$(23.4)	(20.1)
 Loss per common share:		
Basic and diluted as reported	\$(0.21)	(0.32)
Basic and diluted <i>pro forma</i>	\$(0.30)	(0.26)

The *pro forma* asset retirement obligation liability balances as if SFAS No. 143 had been adopted on January 1, 2002, are as follows:

(Unaudited; \$ in millions)

<i>Pro forma</i> asset retirement obligation liability	January 1, 2002	\$ 138.1
<i>Pro forma</i> asset retirement obligation liability	December 31, 2002	\$ 149.0

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized, but rather tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. Upon completion of the transitional impairment tests, the fair value of three of the Company's international wire and cable reporting units was determined to be less than the related carrying amount. The resulting impairment loss recognized upon adoption of SFAS No. 142 in the first quarter of 2002 was \$33.0 million, pre-tax

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(\$22.9 million after-tax), and was recognized as a cumulative effect of a change in accounting principle.

Subsequently, the Company completed its annual goodwill impairment test as of December 31, 2002, with no additional impairments. The Company will continue to test its goodwill annually on a consistent measurement date unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, and quarter ended March 31, 2003, were as follows:

(Unaudited; \$ in millions)	<b>Specialty Chemicals Segment</b>	<b>Wire and Cable Segment</b>	<b>Total</b>
Balance as of December 31, 2001	\$ 88.5	54.6	143.1
Goodwill acquired during period			
Impairment losses upon adoption of SFAS No. 142		(33.0)	(33.0)
Goodwill included in the disposal of a business unit			
Foreign currency exchange adjustments	(19.4)		(19.4)
Balance as of December 31, 2002	69.1	21.6	90.7
Goodwill acquired during period			
Impairment losses			
Goodwill included in the disposal of a business unit			
Foreign currency exchange adjustments	1.8		1.8
Balance as of March 31, 2003	\$ 70.9	21.6	92.5

In August 2001, the Financial Accounting Standard Board (FASB) issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, and also amends Accounting Research Bulletin (ARB) No. 51. This Statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. This Statement was adopted by the Company on January 1, 2002.

In April 2002, FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates SFAS No. 4 and, thus, the exception to applying APB No. 30 to all gains and losses related to extinguishments of debt. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. Applying the provisions of APB No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. Under SFAS No. 13, the required accounting treatment of certain lease modifications that have economic effects similar to sale-leaseback transactions was inconsistent with the required accounting treatment for sale-leaseback transactions. This Statement amends SFAS No. 13 to require that those lease modifications be accounted for in the same manner as sale-leaseback transactions. This Statement was adopted by the Company on January 1, 2003. As a result of this Statement being adopted, we will reclassify the third quarter 2002 extraordinary item for debt extinguishment to recurring operations in our Form 10-Q filing for the quarter ended September 30, 2003.

In June 2002, FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The principal difference between this Statement and EITF 94-3 relates to its re-

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quirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability was recognized at the date of an entity's commitment to an exit plan. This Statement is effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures by guarantors, in both interim and annual financial statements, about obligations associated with guarantees issued. FIN 45 disclosure requirements were adopted for our year ended December 31, 2002; the initial recognition and measurement provisions were adopted on a prospective basis to guarantees issued or modified after December 31, 2002. There were no such guarantees issued or modified in the first quarter of 2003.

In December 2002, FASB issued SFAS No. 148, *Accounting for Stock Based Compensation - Transition and Disclosure - an Amendment of SFAS No. 123*. The Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of stock-based employee compensation and the effect of the method used on reported results. This Statement was effective for fiscal years ending after December 15, 2002. The Company adopted this Statement in regards to disclosure provisions for the year ended December 31, 2002, and has provided the interim information in Note 3, Stock Compensation.

In January 2003, FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51 (FIN 46) to clarify when a company should consolidate in its financial statements the assets, liabilities and activities of a variable interest entity. FIN 46 provides general guidance as to the definition of a variable interest entity and requires a variable interest entity to be consolidated if a company absorbs the majority of the variable interest entity's expected losses, or is entitled to receive a majority of the variable interest entity's residual returns, or both. FIN 46 is effective immediately for all new variable interest entities created after January 31, 2003. For variable interest entities created before February 1, 2003, the consolidation provisions of FIN 46 must be applied for the first interim or annual reporting period beginning after June 15, 2003. The disclosure provisions of FIN 46 apply to financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN 46 did not have a material impact on the Company's financial reporting and disclosures.

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. This Statement is generally effective for contracts entered into or modified after June 30, 2003. We are currently analyzing the impact of adoption of SFAS No. 149 on our financial reporting and disclosures.

6. *Environmental, and Reclamation and Closure Matters*

As of December 31, 2002, we had a reserve balance of \$305.9 million for estimated future costs associated with environmental matters at closed facilities and closed portions of certain operating facili-

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ties. During the first three months of 2003, we had a \$5.2 million net decrease in the reserve estimate (\$1.3 million of additions and \$6.5 million of reclassification to asset retirement obligation liability) and \$3.8 million of spending against the reserve. As of March 31, 2003, the reserve balance was \$296.9 million.

The sites for which Phelps Dodge has received a notice of potential liability or an information request that currently are considered to be significant are the Pinal Creek site near Miami, Arizona; the Laurel Hill site at Maspeth, New York; the former American Zinc and Chemical site in Langeloth, Pennsylvania; and the Cyprus Tohono site near Casa Grande, Arizona. At March 31, 2003, the cost range for reasonably possible outcomes for all reservable remediation sites was estimated to be from \$268 million to \$522 million of which approximately \$297 million has been reserved.

Phelps Dodge has a number of sites that are not the subject of an environmental reserve because it is not probable that a successful claim will be made against the Company for those sites, but for which there is a reasonably possible likelihood of an environmental remediation liability. As of March 31, 2003, the cost range for reasonably possible outcomes for all such sites was estimated to be from \$4 million to \$37 million. The liabilities arising from potential environmental obligations that have not been reserved at this time may be material to the operating results of a single quarter or year in the future. Management, however, believes the liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company's liquidity or financial position.

On January 1, 2003, we adopted SFAS No. 143 (refer to Note 5, Accounting Standards, for further discussion). The following table summarizes our asset retirement obligation liability as of March 31, 2003:

(Unaudited; \$ in millions)	
Balance, December 31, 2002	\$ 138.6
Liability recorded upon adoption of SFAS No. 143	10.4
Accretion expense	3.4
Payments	(0.4)
	\$ 152.0

We have estimated the total cost of asset retirement obligations at approximately \$983 million (unescalated, undiscounted and on a third-party cost basis), leaving approximately \$831 million remaining to be accreted over time. These aggregate costs may increase or decrease materially in the future as a result of changes in regulations, technology, mine plans or other factors. Asset retirement obligation activities and expenditures generally are made over a number of years or potentially greater periods commencing near the end of the mine life.

7. *Contingencies*

**Significant New Mexico Closure and Reclamation Programs**

Mining and smelting operations with leaching, tailing ponds, surface impoundments and other discharging facilities in New Mexico are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) Regulations. The Chino, Cobre and Tyrone mines and the Hidalgo smelter each have obtained multiple discharge permits for their operations, which specify operational, monitoring and notification requirements. These permits are issued for five-year terms and require renewal following the end of each permit term. The WQCC Regulations authorize the New Mexico Environment Department (NMED), which administers the discharge permit program, to require the submission of closure plans showing how applicable discharge permit requirements will be met following closure. Under certain circumstances, NMED also may require submis-

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sion and approval of abatement plans to address the exceedance of applicable water quality standards.

Further, Chino, Cobre, Tyrone and Hidalgo must submit closure plans for their operations. Hidalgo has an approved closure plan under its discharge permit. The three mines have submitted closure plans, which have been combined with closeout plans under the New Mexico Mining Act (NMMA), as discussed below. The proposed closure plans currently are subject to approval by NMED as part of separate discharge permits for closure for each of the three operations that would supplement the existing discharge permits (hereinafter referred to as "closure permits"). The proposed closure permits contain a number of permit conditions that would modify the proposed closure plans. Chino Mines Company and NMED reached agreement in December 2001 on proposed closure permit conditions presented at a public hearing in February 2002. On January 23, 2003, NMED's hearing officer issued a decision approving the closure permit as proposed by NMED and Chino, with minor changes. NMED issued a permit consistent with the hearing officer's decision on February 24, 2003. An appeal has been filed by a local environmental group. Phelps Dodge Tyrone, Inc. and NMED were unable to reach agreement on permit terms before a public hearing held in May 2002, and presented competing permit proposals. Other parties who participated in the public hearing presented their own proposals. On March 7, 2003, Tyrone received the hearing officer's decision on its permit, which generally adopted NMED's proposal. On April 2, 2003, Tyrone filed an appeal of the hearing officer's decision with the WQCC. NMED issued a permit in accordance with the hearing officer's decision on April 8, 2003, which Tyrone also has appealed. Cobre Mining Company and NMED also have not reached agreement on the terms of a closure permit. The closure permit for Cobre Mining Company does not require a public hearing, and may be issued by NMED at any time.

Chino, Cobre and Tyrone also are subject to permit requirements under NMMA, which was passed in 1993. Following adoption of the New Mexico Mining Act Rules (NMMAR) in 1994, Chino, Cobre and Tyrone received initial permits as existing mining operations under NMMAR in 1997. These permits require revisions to incorporate approved closeout plans, which consist of plans for reclamation of the mining operations to achieve a self-sustaining ecosystem or an approved post-mining land use following cessation of operations at a mine. Existing mining operations may seek a waiver of these reclamation standards for open pits and waste units based upon a demonstration that achieving these standards is technically or economically infeasible or environmentally unsound, as long as measures will be taken to meet air and water quality standards following closure.

NMMAR originally required approval of a closeout plan for an existing mining operation by December 31, 1999, based upon an extension granted by the Director of the Mining and Minerals Division (MMD). NMMAR subsequently was amended to extend the deadline for closeout plan approval until December 31, 2001, and later to October 1, 2002. NMMAR contains a requirement that NMED must provide MMD with a determination that a closeout plan meets applicable environmental standards, including air and water quality standards, before MMD can approve the closeout plan. NMED's policy is to issue this determination after it has issued closure permits for the facility that submits the closeout plan. In early 2001, Chino, Cobre and Tyrone submitted comprehensive closure/closeout plans (CCPs) to both NMED and MMD intended to address the requirements of both the WQCC Regulations and NMMAR. Approval of the CCPs under NMMAR would require the granting of waivers by MMD as authorized under NMMAR. The CCPs were the subject of the public hearings before NMED for Chino and Tyrone, as discussed above.

As of October 1, 2002, NMED had not issued closure permits for Chino, Cobre or Tyrone. Consequently, as of October 1, 2002, MMD had not approved closeout permits for these three mines. MMD issued Notices of Violation (NOVs) to Chino, Cobre and Tyrone because the three mines did not obtain approved closeout plans by the October 1, 2002, deadline. The NOVs were modified by the

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Mining Commission following a public hearing to set new deadlines for closeout plan approval tied to NMED permit actions. Based on NMED's permit actions, closeout plan approval for Chino is now due by September 24, 2003, and the closeout plan approval date for Tyrone is April 8, 2004. The closeout plan approval deadline for Cobre will be nine months from the date of NMED's permit issuance, which is currently pending.

NMMAR contains specific requirements regarding financial assurance that must be provided to MMD to assure that sufficient funds would be available to MMD to carry out the closeout plan in the event of a default by the permittee. NMED also may require financial assurance under the WQCC Regulations. The financial assurance requirements are based upon the net present value of estimated costs to carry out the requirements of the closure permit and the approved closeout plan, assuming the state would hire a third-party contractor to conduct the work. Actual reclamation costs may differ significantly from the costs estimated under the permits due to advances in technology and reclamation techniques and opportunities to prepare each site for more efficient reclamation through careful development of the site over time. Consequently, the estimated costs under the permits are higher than the cost the Company would be expected to incur if the Company performed the work.

The CCPs submitted in early 2001 contained cost estimates of approximately \$100 million for Chino, \$121 million for Tyrone, and \$9 million for Cobre, based upon unescalated and undiscounted capital and operating costs over a 30-year operating period. The closure permit negotiated by NMED and Chino Mines Company and approved by the NMED hearing officer has an estimated cost of approximately \$394 million, based upon third-party unescalated and undiscounted capital and operating costs over a 100-year operating period, including the cost of technical studies required under the permit. The Company's two-thirds share of NMED's \$394 million estimate is approximately \$263 million and our joint venture partner's cost share is approximately \$131 million. We estimate total costs for Chino Mines Company to achieve the closure standards required by NMED to be approximately \$264 million (100 percent basis); that estimate is approximately one-third lower than the financial assurance cost estimate as a result of the Company's historical cost advantages, savings from the use of the Company's own personnel and equipment versus third-party contract costs, and opportunities to prepare the site for more efficient reclamation. The financial assurance cost estimate includes approximately \$10 million (100 percent basis) of costs the Company has recognized in environmental reserves. The Company's two-thirds share of these costs is approximately \$176 million and our joint venture partner's cost share is approximately \$88 million. At March 31, 2003, and December 31, 2002, we had accrued approximately \$17 million and \$8 million, respectively, (two-thirds basis) for reclamation at Chino. The NMED cost estimate for Chino is subject to further review, and possible adjustment, by MMD under NMMAR.

NMED estimated the cost to carry out the requirements of its proposed closure permits for Tyrone at approximately \$440 million, without discounting or escalation, under NMED's proposal at the May 2002 hearing; Tyrone estimated the cost of its proposal at approximately \$328 million, without discounting or escalation over a 100-year operating period. NMED has not yet supplied its proposed cost estimate for Cobre. The proposed terms of the closure permits would require additional studies over the five-year term of the permits to refine the closure plan. The plan requirements and cost estimates may increase or decrease based upon the results of the studies and other factors, including changes in technology, completion of some closure and reclamation work, and inflation.

Based upon NMED's undiscounted financial assurance cost estimates for the Tyrone plan of approximately \$440 million, and considering the same cost advantages as indicated in the above discussion regarding Chino, we estimate the Company's costs to achieve the closure standards under that estimate to be approximately \$288 million for Tyrone. The Company has not obtained approval from NMED of an estimate of its cost to achieve the closure standards that would

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be required by the hearing officer's decision. The Company's current cost estimate for Cobre of approximately \$9 million will be updated with the issuance of the discharge permit. At March 31, 2003, and December 31, 2002, we had accrued closure costs of approximately \$38 million and \$27 million, respectively, at Tyrone and approximately \$6 million and \$2 million, respectively, at Cobre.

Following NMED's issuance of the closure permits, Chino, Cobre and Tyrone are required to submit proposals for financial assurance based upon the permit requirements and subject to NMED's approval. Under the proposed closure permit terms, the amount of financial assurance may be based upon the net present value of the estimated cost for a third-party to implement the plan, using discount and escalation rates specified in the permit. These amounts are expected to be substantially lower than the undiscounted and unescalated cost estimates. For example, based upon the cost estimate approved by NMED, the financial assurance amount for Chino could be approximately \$191 million. This amount is based on annual escalation rates of approximately 3.2 percent for long-term water treatment costs and approximately 3.6 percent for other costs and discount rates of 5 percent for years one through 12 of the plan and 8 percent for years 13 through 100.

NMMAR requires that financial assurance for a closeout plan be approved and put in place before MMD can approve the closeout plan. Chino and Tyrone have provided approximately \$56 million and \$58 million of financial assurance in the form of surety bonds, respectively, to NMED under the terms of several discharge permits. The closure and financial assurance requirements of these permits have been superseded by the recently issued NMED closure permits. Consequently, the Company has advised NMED that this financial assurance should be terminated and replaced by new financial assurance under the terms of the new closure permits. Chino has submitted a financial assurance proposal in accordance with the schedule under its NMED closure permit proposing financial assurance primarily in the form of a corporate performance guarantee from the Company. The Company continues to work with the state to finalize appropriate terms and conditions for financial assurance. Cobre also has approximately \$2 million of financial assurance in place held jointly by NMED and MMD. Following NMED's issuance of the closure permits, and prior to MMD's approval of the closeout plans, Chino, Tyrone and Cobre will be required to provide substantial amounts of additional financial assurance to cover the amounts of the approved cost estimates. Hidalgo currently has provided financial assurance in the amount of approximately \$11 million under its discharge permit.

**Other**

At our Morenci mine in Arizona, we have a venture agreement dated February 7, 1986, with our business partner, Sumitomo, that includes a put/call option guarantee clause. We hold an 85 percent undivided interest in the Morenci complex. Under certain limited circumstances associated with a change in control or continuing breach of agreement, our partner has the right to sell its 15 percent share to the Company.

Likewise, under certain limited circumstances associated with change in control or continuing breach of agreement, the Company has the right to acquire our business partner's 15 percent share of the venture.

The exercise price is calculated as specified in the agreement. As of December 31, 2002, and March 31, 2003, the exercise price was approximately \$112 million, which is substantially less than the estimated fair value of that 15 percent interest.

**8. *Earnings (Loss) Per Share***

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed in a similar manner except that the denominator is increased to include the incremental number of common shares that would have been outstanding assuming the conversion of mandatory convertible preferred shares, the exercise of stock options

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where the exercise prices were less than the average market price of the Company's common shares during the period, and the number of unvested restricted shares, but all of the foregoing only to the extent that the related impacts are not anti-dilutive. Additionally, dividends on mandatory convertible preferred shares that were deducted in arriving at net income (loss) available to common shares are added back to the numerator as a result of the assumed conversion of such preferred shares.

As a result of the net loss experienced during the three-month period ended March 31, 2003, the number of incremental common shares relating to the assumed conversion of the mandatory convertible preferred shares (5.0 million), and unvested restricted stock (0.2 million) and stock options (0.1 million) issued to employees were excluded from the calculation as the related impacts were anti-dilutive.

As a result of the net loss experienced during the three-month period ended March 31, 2002, the number of incremental common shares relating to unvested restricted stock (0.2 million) and stock options (0.1 million) issued to employees were excluded from the calculation as the related impacts were anti-dilutive.

Finally, common shares relating to stock options where the exercise prices exceeded the average market price of the Company's common shares during the period were also excluded from the diluted earnings per share calculation as the related impact was anti-dilutive. Incremental shares relating to these options totaled 8.6 million shares at an average exercise price of \$55.48 for the first quarter of 2003 and 7.5 million shares at an average exercise price of \$61.64 for the first quarter of 2002.

(Unaudited; \$ in millions except per share data)

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		(As Restated)*
<b>Basic Earnings (Loss) Per Share Computation</b>		
Numerator:		
Net loss	\$(15.0)	(24.8)
Preferred stock dividends	(3.4)	
	—————	—————
Net loss applicable to common shares	(18.4)	(24.8)
Denominator:		
Weighted average common shares outstanding	88.6	78.5
	—————	—————
Basic loss per common share	\$(0.21)	(0.32)
	—————	—————
<b>Diluted Earnings (Loss) Per Share Computation</b>		
Numerator:		
Net loss	\$(15.0)	(24.8)
Denominator:		
Weighted average common shares outstanding**	88.6	78.5
	—————	—————
Diluted loss per common share	\$(0.21)	(0.32)
	—————	—————

\* Refer to Note 2, Restatements, for further discussion.

\*\* Excludes mandatory convertible preferred shares and unvested restricted stock due to the anti-dilutive impact.

9. *Benefit (Provision) for Taxes on Income*

The Company's income tax provision for the 2003 first quarter principally resulted from taxes on earnings at international operations (\$14.9 million) that cannot be offset by losses at domestic operations.

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The Company's income tax benefit for the 2002 first quarter primarily comprised the following: (i) a \$38.5 million tax benefit associated with the carryback of 2001 net operating losses resulting from the March enactment of the Job Creation and Worker Assistance Act of 2002; (ii) a \$12.9 million benefit recognized for first quarter 2002 net operating losses that, based on the new tax legislation, may also be carried back to recover prior years' taxes paid; and (iii) a \$14.4 million expense for taxes on earnings at international operations.

### 10. *Accounting for Derivative Instruments and Hedging Activities*

The Company does not purchase, hold or sell derivative contracts unless we have an existing asset, obligation or anticipate a

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future activity that is likely to occur and will expose us to market risk. We do not enter into any contracts for speculative purposes. We use various strategies to manage our market risk, including the use of derivative contracts to limit, offset or reduce our market exposure. Derivative instruments are used to manage well-defined commodity price, energy, foreign exchange and interest rate risks from our primary business activities. The fair values of our derivative instruments are based on quoted market prices for similar instruments at period end. Refer to Management's Discussion and Analysis and Note 20, Derivative Financial Instruments Held for Purposes Other Than Trading and Fair Value of Financial Instruments, to the Consolidated Financial Statements included in the Company's Form 10-K for the year ended December 31, 2002, for a discussion on our derivative instruments.

During the quarters ended March 31, 2003 and 2002, we reclassified approximately \$2.4 million and \$3.6 million, respectively, of other comprehensive losses to the statement of consolidated operations, principally as a result of our floating-to-fixed interest rate swaps.

11. *Shareholders' Equity*

Series A Mandatory Convertible Preferred Stock

Each share of Series A Mandatory Convertible Preferred Stock (Series A Stock) is convertible into 2.083 shares of Common Stock, subject to certain adjustments, at any time prior to August 15, 2005, and is entitled to an annual dividend of \$6.75, paid quarterly. On August 15, 2005, each Series A Stock will automatically convert, subject to certain adjustments, into between 2.083 and 2.5 shares of Common Stock depending on the then-current market price of our Common Stock. Each share of Series A Stock is non-voting and entitled to a liquidation preference of \$100 plus any accrued but unpaid dividends. There were 6 million authorized shares and 2 million outstanding shares of Series A Stock at March 31, 2003.

**REVIEW BY INDEPENDENT ACCOUNTANTS**

The financial information as of March 31, 2003, and for the three-month periods ended March 31, 2003 and 2002, included in Part I pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), the Company's independent accountants, in accordance with standards established by the American Institute of Certified Public Accountants. PricewaterhouseCoopers' report is included in this quarterly report.

PricewaterhouseCoopers does not carry out any significant or additional procedures beyond those that would have been necessary if its report had not been included in this quarterly report. Accordingly, such report is not a report or part of a registration statement within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11 of such Act do not apply.

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Report of Independent Accountants

To the Board of Directors and Shareholders  
of Phelps Dodge Corporation

We have reviewed the accompanying consolidated balance sheet of Phelps Dodge Corporation and its subsidiaries as of March 31, 2003, and the related consolidated statements of operations, of cash flows and of shareholders' equity for each of the three-month periods ended March 31, 2003 and 2002. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated interim financial information, the Company restated its consolidated interim financial information for the quarter ended March 31, 2002.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2002, and the related consolidated statements of operations, of cash flows and of shareholders' equity for the year then ended (not presented herein), and in our report dated April 3, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Phoenix, Arizona  
April 25, 2003

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## Item 2. Management's Discussion and Analysis

The United States securities laws provide a "safe harbor" for certain forward-looking statements. This quarterly report contains forward-looking statements that express expectations of future events or results. All statements based on future expectations rather than historical facts are forward-looking statements that involve a number of risks and uncertainties, and Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) cannot give assurance that such statements will prove to be correct. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). Refer to Management's Discussion and Analysis in the Company's report on Form 10-K for the year ended December 31, 2002, for a further discussion of such risks and uncertainties, our operations, and our critical accounting policies. Additionally, refer to Note 5, Accounting Standards, to our unaudited March 31, 2003, Consolidated Financial Information for a discussion on the adoption of Statement of Financial Accounting (SFAS) No. 143.

## Restatements

As discussed in Note 2, Restatements, in this Form 10-Q for the quarter ended March 31, 2003, certain accounting matters were identified in the fourth quarter of 2002 that required restatement of our December 31, 2001 and 2000, Consolidated Financial Statements and our financial statements for the quarterly periods ended March 31, 2001, through September 30, 2002. The adjustments for the first quarter of 2002 increased operating income by \$5.7 million and decreased net loss by \$2.9 million, or 3 cents per common share.

Additionally, our presentation of reportable segment information for PDMC for the quarter ended March 31, 2002, has been revised to reflect additional segments.

**RESULTS OF OPERATIONS**

## Consolidated Financial Results

(Unaudited; \$ in millions except per share amounts)

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		(As Restated)
Sales and other operating revenues	\$978.0	918.5
Operating income	\$ 28.7	12.7
Loss before cumulative effect of accounting change	\$ (23.4)	(1.9)
Cumulative effect of accounting change	8.4	(22.9)
<b>Net loss</b>	<b>\$ (15.0)</b>	<b>(24.8)</b>
Loss before cumulative effect of accounting change per common share, basic and diluted	\$ (0.30)	(0.03)
Cumulative effect of accounting change	0.09	(0.29)
<b>Net loss per common share, basic and diluted</b>	<b>\$ (0.21)</b>	<b>(0.32)</b>

The Company had a consolidated loss in the 2003 first quarter of \$15.0 million, or 21 cents per common share, including a special, net gain of \$9.5 million, or 11 cents per common share, after taxes. In the 2002 first quarter, the consolidated loss was \$24.8 million, or 32 cents per common share, including a special, net gain of \$16.2 million, or 21 cents per common share, after taxes.

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The \$9.8 million decrease in consolidated loss in the 2003 first quarter compared with the corresponding 2002 period primarily was due to a higher cumulative income effect of accounting change (\$31.3 million), higher copper prices (approximately \$26 million), and lower interest expense (\$16.8 million); partially offset by a slightly higher implied unit cost of copper production as defined on page 25 (approximately \$4 million) and a higher tax provision (\$52.4 million) resulting primarily from the absence of the effect of 2002 tax legislation.

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## Special Items

Throughout Management's Discussion and Analysis there is disclosure and discussion of what management believes to be special items. We view special items as unpredictable and atypical of our operations in the period. We believe consistent identification, disclosure and discussion of such items, both favorable and unfavorable, provide additional information to assess the quality of our performance and our earnings or losses. This supplemental information is not a substitute for any U.S. generally accepted accounting principles (GAAP) measure and should be evaluated within the context of our U.S. GAAP results. Any supplemental information references to earnings, losses or results excluding special items or before special items, our non-GAAP measure of items, may not be comparable to similarly titled measures reported by other companies.

Note: Supplemental Data

(Unaudited; \$ in millions)

	First Quarter	
	2003	2002
		(As Restated)
Special items, net of taxes	\$ 9.5	16.2
Losses excluding special items (after taxes)	\$(24.5)	(41.0)

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Note: Supplemental Data

The following schedules summarize the special items and provisions for the quarters ended March 31, 2003 and 2002:

(Unaudited; gains (losses) in millions except per share amounts)

	2003 First Quarter			2002 First Quarter		
	Pre-tax Earnings	After-tax Earnings	\$/share After-tax	Pre-tax Earnings	After-tax Earnings	\$/share After-tax
Special items and provisions, net:						
PDMC (see Business Segment disclosure)	\$			13.8	11.2	0.14
PDI (see Business Segment disclosure)	3.2	2.4	0.03			
Corporate and Other						
Environmental provisions	(1.3)	(1.3)	(0.01)	(12.1)	(12.1)	(0.15)
Environmental insurance recoveries, net				2.1	1.9	0.02
	(1.3)	(1.3)	(0.01)	(10.0)	(10.2)	(0.13)
	1.9	1.1	0.02	3.8	1.0	0.01
Miscellaneous income (expense), net:						
Cost investment write-downs				(0.5)	(0.4)	
Benefit (provision) for taxes on income:						
Tax benefit for 2001 net operating loss carryback (see Note 9)					38.5	0.49
Cumulative effect of accounting change (see Note 5)	9.7	8.4	0.09	(33.0)	(22.9)	(0.29)
Total	\$ 11.6	9.5	0.11	(29.7)	16.2	0.21

*Quest for Zero* Operational Improvement Program

Phelps Dodge announced in October 2001 that it was commencing *Quest for Zero*, a comprehensive, lean-production program, designed to, among other things, improve operating income by a targeted \$250 million annually. *Quest for Zero* encompasses both the October 2001 program and the \$150 million cost improvement program announced in May 2001. The Company's goal is to achieve these combined annual operating income improvements of \$400 million by the end of 2003 when compared with the results that were then expected for 2001.

In order to achieve the full \$400 million target, PDMC chartered business improvement teams to drive performance improvement projects and best practices. The elimination of variance and waste are key factors in this process, coupled with the rapid transfer of best practices to all business units. On a quarterly basis, we document improvement successes, failures and potential projects yet to be implemented. New project ideas are generated at internal conferences where statistical analysis tools are utilized on current performance data to identify improvement opportunities. Improvement projects are prioritized and implemented accordingly. Key elements of the plan going forward include six-sigma quality programs, technology innovations, global procurement strategies and improved operating practices.

During the 2003 first quarter, we achieved \$79 million (an annual run rate of approximately \$315 million) in improvements, bringing total improvements since the program was announced to \$345 million.

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We believe we will meet our \$400 million annual run rate by year-end 2003. We have experienced a leveling off of the rate of improvement due to the increased challenge that comes with multi-year improvement projects as we begin to tackle more difficult initiatives; unforeseen costs including higher energy, pension and medical costs, and higher administrative costs and professional fees; and our Company's decision to emphasize growth-oriented projects. Hence, achieving this objective may require additional time.

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The following is a reconciliation of improvement dollars:

(Unaudited; \$ in millions)	<b>First Quarter 2003</b>
U.S. Mining Operations*	\$ 56
South American Mines**	11
Primary Molybdenum	3
	<hr/>
Total PDMC	70
	<hr/>
Specialty Chemicals	4
Wire and Cable	5
	<hr/>
Total PDI	9
	<hr/>
Total <i>Quest for Zero</i>	\$ 79
	<hr/>

\* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

\*\* South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.  
Business Divisions

Results for 2003 and 2002 can be meaningfully compared by separate reference to our reporting divisions, PDMC and PDI. PDMC is a business division that includes our worldwide copper operations from mining through rod production, marketing and sales; molybdenum operations from mining through manufacturing, marketing and sales; other mining operations and investments; and worldwide mineral exploration and development programs. PDMC comprises 11 reportable segments. PDI, our manufacturing division, produces engineered products principally for the global energy, telecommunications, transportation and specialty chemicals sectors. PDI includes our Specialty Chemicals segment and our Wire and Cable segment. Significant events and transactions have occurred within each segment which, as indicated in the separate discussions presented below, are material to an understanding of the particular year's results and to a comparison with results of the other periods.

**RESULTS OF PHELPS DODGE MINING COMPANY**

PDMC is our international business division that comprises our vertically integrated copper operations from mining through rod production, primary molybdenum operations through conversion, marketing and sales, and worldwide exploration. PDMC comprises 11 reportable segments.

Our copper mines comprise five reportable segments in the United States (Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre and Tyrone) and three reportable segments in South America (Candelaria, Cerro Verde and El Abra). These segments include open-pit mining, sulfide ore concentrating and electrowinning. In addition, some of these produce gold and silver, and the Bagdad and Sierrita mines also produce molybdenum and rhenium as by-products.

The Manufacturing and Sales segment consists of conversion facilities including our smelters, refineries and rod mills, as well as sales and marketing. The Manufacturing and Sales segment sells copper to others primarily as rod, cathode or concentrate, and as rod to our Wire and Cable segment. In addition, at times it smelts and refines copper and produces copper rod for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

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The Primary Molybdenum segment consists of the Henderson and Climax mines and related conversion facilities. This segment is an integrated producer of molybdenum, with mining, roasting and processing facilities producing high-purity, molybdenum-based chemical and metallurgical products. In addition, at times it roasts and/or processes material on a toll basis. Toll arrangements require the tolling customer to deliver appropriate molybdenum-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

Other Mining includes our worldwide mineral exploration and development programs, a process technology center that directs its activities at improving existing processes and developing new cost-competitive technologies, and other ancillary operations.

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(Unaudited; \$ in millions except per pound amounts)

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		(As Restated)
Sales and other operating revenues to unaffiliated customers	\$ 655.0	611.7
Operating income	\$ 35.7	27.3
Copper production (thousand short tons):		
Total production	317.2	321.9
Less minority participants' shares (A)	56.8	64.7
	<b>260.4</b>	<b>257.2</b>
Copper sales (thousand short tons):		
Net Phelps Dodge share from own mines	263.8	268.5
Purchased copper	93.7	97.4
	<b>357.5</b>	<b>365.9</b>
LME average spot copper price per pound cathodes	\$ 0.755	0.705
COMEX average spot copper price per pound cathodes	\$ 0.760	0.721
Implied unit cost of copper production	\$ 0.687	0.680
Implied cash unit cost of copper production	\$ 0.536	0.518
Molybdenum production (million pounds)	11.5	10.6
Molybdenum sales (million pounds):		
Net Phelps Dodge share from own mines	13.8	12.8
Purchased molybdenum	1.5	2.6
	<b>15.3</b>	<b>15.4</b>
<i>Metals Week:</i>		
Molybdenum oxide price per pound	\$ 4.06	2.74

(A) Minority participant interests include (i) a 15 percent undivided interest in Morenci, Arizona, copper mining complex held by Sumitomo Metal Mining Arizona, Inc., (ii) a one-third partnership interest in Chino Mines Company in New Mexico held by Heisei Minerals Corporation, (iii) a 20 percent partnership interest in Candelaria in Chile held by SMMA Candelaria, Inc., a jointly owned indirect subsidiary of Sumitomo Metal Mining Co., Ltd., and Sumitomo Corporation, and (iv) a 49 percent partnership interest in the El Abra copper mining operation in Chile held by Corporación Nacional del Cobre de Chile (CODELCO).

Note: Supplemental Data

Implied unit cost of copper production measures the all-in cost of each pound of copper produced by PDMC. As the title indicates, this measure is the cost implied by the market price of copper (i.e., London Metal Exchange average spot) for a given period versus PDMC's operating income (loss) for the same period.

There is no established common standard for calculating unit production costs in the copper industry. PDMC's implied unit production costs indicator (which is based on readily accessible, publicly disclosed data) acts as a proxy to enable investors to follow and interpret cost trends over historical periods.

PDMC calculates its all-in operating margin per pound of copper sold by dividing its operating income (loss) excluding special items by the total pounds of copper sold from its own mines for its own account (as disclosed in the table above). This results in an all-in operating margin (i.e., inclusive of cost of products sold; depreciation, depletion and amortization; selling and general administrative expense; and exploration and

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research expense for the segment's operations) that is compared to the market price of copper to render an implied cost of copper production. Following is the calculation of implied unit cost of copper production for the quarters ended March 31, 2003 and 2002:

(Unaudited; \$ in millions except per pound amounts)

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		<b>(As Restated)</b>
PDMC implied unit cost of copper production		
Operating income	\$ 35.7	27.3
Less special operating items		13.8
	\$ 35.7	13.5
Copper sales from own mines - million pounds	527.6	537.0
Operating margin - per pound of copper sold	\$0.068	0.025
LME average spot copper price per pound cathodes	\$0.755	0.705
Implied unit cost of copper production per pound	\$0.687	0.680

Note: Our measure of implied unit cost of copper production may not be comparable to similarly titled measures reported by other companies.

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**Total PDMC Division Sales**

PDMC's sales and other operating revenues to unaffiliated customers increased \$43.3 million, or 7 percent, in the 2003 first quarter compared with the 2002 first quarter. The increase reflected higher average copper prices (approximately \$31 million), and higher average molybdenum prices (approximately \$15 million); partially offset by lower sales volumes (approximately \$6 million) associated with lower market demand.

**Total PDMC Operating Income (Loss)**

PDMC reported operating income of \$35.7 million in the 2003 first quarter, compared with operating income of \$27.3 million in the 2002 first quarter, including a special, net pre-tax gain of \$13.8 million. The increase in operating income primarily reflected higher copper prices (approximately \$26 million), partially offset by a higher implied unit cost of copper production (approximately \$4 million) and lower pre-tax special gains (\$13.8 million).

The New York Commodity Exchange (COMEX) spot price per pound of copper cathode, primarily upon which we base our U.S. sales, averaged 76.0 cents and 72.1 cents in the first quarters of 2003 and 2002, respectively. The London Metal Exchange (LME) spot price per pound of copper cathode, primarily upon which we base our international sales, averaged 75.5 cents and 70.5 cents in the first quarters of 2003 and 2002, respectively.

The implied full and cash unit cost of copper production for the first quarter of 2003 increased 0.7 cent per pound and 1.8 cents per pound, respectively, compared with the corresponding 2002 period. The increases in both full and cash unit cost of copper production were attributable to a 1.8 cents per pound net increase in energy costs, a 0.7 cent per pound net increase in stockpiles and inventory changes and 0.5 cent per pound increase for net copper pricing adjustments; partially offset by 1.2 cents per pound of other items primarily due to higher molybdenum earnings. Partially offsetting the increase in full unit cost of copper production was a 1.1 cents per pound decrease in non-cash depreciation and closure costs.

**Note: Supplemental Data**

The following table summarizes PDMC's special items for the quarters ended March 31, 2003 and 2002, and the resultant earnings (losses) excluding these special items.

	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
		<b>(As Restated)</b>
Special, pre-tax items:		
U.S. Mining Operations*	\$	13.8
South American Mines**		
Primary Molybdenum	—	—
		13.8
	—	—
Segment operating income (loss) excluding special items:		
U.S. Mining Operations*	\$ (0.6)	(13.7)
South American Mines**	36.2	27.5
Primary Molybdenum	0.1	(0.3)
	—	—
	35.7	13.5
	—	—

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\* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

\*\* South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Note: Supplemental Data

Special, pre-tax items and provisions in operating income (loss) were as follows:

(Unaudited; \$ in millions)

	<b>First Quarter 2002</b>		
	<b>U.S. Mining Operations</b>	<b>South American Mines</b>	<b>Primary Molyb- denum</b>
Environmental insurance recoveries, net	\$ 13.8	—	—



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PDMC Results by Reportable Segments

The following tables summarize, on a segment basis, the production and sales statistics and the operating income (loss) and special items and provisions for the first quarter of 2003 and 2002. Additionally, our presentation of reportable segment information for PDMC for the quarter ended March 31, 2002, has been revised to reflect additional segments.

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**PDMC RESULTS BY REPORTABLE SEGMENTS**

(Unaudited)

	U.S. Mines					Subtotal
	Morenci	Bagdad/Sierrita	Miami/Bisbee	Chino/Cobre	Tyrone	
<b>First Quarter 2003</b>						
Copper production (thousand short tons):						
Total production	103.5	42.7	5.4	8.4	17.1	177.1
Less minority participants shares	15.5			2.8		18.3
Net Phelps Dodge share	88.0	42.7	5.4	5.6	17.1	158.8
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	88.0	44.1	5.8	5.6	17.1	160.6
Purchased copper						
Total copper sales	88.0	44.1	5.8	5.6	17.1	160.6
(\$ in millions)						
Operating income (loss)	\$ 12.4	6.7	(0.7)	(2.1)	(4.4)	11.9
Special items and provisions	\$					
<b>First Quarter 2002 (as restated)</b>						
Copper production (thousand short tons):						
Total production	101.5	38.1	2.0	18.3	16.1	176.0
Less minority participants shares	15.2			6.1		21.3
Net Phelps Dodge share	86.3	38.1	2.0	12.2	16.1	154.7
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	86.3	52.7	6.3	12.2	16.1	173.6
Purchased copper						
Total copper sales	86.3	52.7	6.3	12.2	16.1	173.6
(\$ in millions)						
Operating income (loss)	\$ 11.8	(4.3)	(4.5)	5.7	(1.7)	7.0
Special items and provisions	\$					

Refer to segment discussion on pages 31 through 34.

Revenues, operating costs and expenses of PDMC's segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 31 and 32 for further discussion.)

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**PDMC RESULTS BY REPORTABLE SEGMENTS**

(Unaudited)

	South American Mines			
	Candelaria	Cerro Verde	El Abra	Subtotal
<b>First Quarter 2003</b>				
Copper production (thousand short tons):				
Total production	60.0	24.6	53.1	137.7
Less minority participants shares	12.0		26.0	38.0
Net Phelps Dodge share	48.0	24.6	27.1	99.7
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	49.1	24.6	27.5	101.2
Purchased copper	9.7		5.8	15.5
Total copper sales	58.8	24.6	33.3	116.7
(\$ in millions)				
Operating income (loss)	\$23.1	7.5	5.6	36.2
Special items and provisions	\$			
<b>First Quarter 2002 (as restated)</b>				
Copper production (thousand short tons):				
Total production	57.7	22.9	64.9	145.5
Less minority participants shares	11.5		31.8	43.3
Net Phelps Dodge share	46.2	22.9	33.1	102.2
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	41.4	23.1	30.1	94.6
Purchased copper	10.1		8.5	18.6
Total copper sales	51.5	23.1	38.6	113.2
(\$ in millions)				
Operating income (loss)	\$20.2	6.8	0.5	27.5
Special items and provisions	\$			

Refer to segment discussion on pages 31 through 34.

Revenues, operating costs and expenses of PDMC's segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 31 and 32 for further discussion.)

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**PDMC RESULTS BY REPORTABLE SEGMENTS**

(Unaudited)

	Primary Molybdenum	Manufacturing and Sales	Other Mining	Total PDMC
<b>First Quarter 2003</b>				
Copper production (thousand short tons):				
Total production		2.4		317.2
Less minority participants shares		0.5		56.8
Net Phelps Dodge share		1.9		260.4
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines		2.0		263.8
Purchased copper		78.2		93.7
Total copper sales		80.2		357.5
Molybdenum production (thousand pounds):				
Primary Henderson	4,839			4,839
By-product	6,664			6,664
Total production	11,503			11,503
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	13,782			13,782
Purchased molybdenum	1,480			1,480
Total molybdenum sales	15,262			15,262
(\$ in millions)				
Operating income (loss)	\$ 0.1	8.5	(21.0)	35.7
Special items and provisions	\$			
<b>First Quarter 2002 (as restated)</b>				
Copper production (thousand short tons):				
Total production		0.4		321.9
Less minority participants shares		0.1		64.7
Net Phelps Dodge share		0.3		257.2
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines		0.3		268.5
Purchased copper		78.8		97.4
Total copper sales		79.1		365.9
Molybdenum production (thousand pounds):				
Primary Henderson	4,336			4,336

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By-product	6,290	—	—	6,290
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total production	10,626			10,626
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	12,795			12,795
Purchased molybdenum	2,621			2,621
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total molybdenum sales	15,416			15,416
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
(\$ in millions)				
Operating income (loss)	\$ (0.3)	(1.7)	(5.2)	27.3
Special items and provisions	\$		13.8	13.8

Refer to segment discussion on pages 31 through 34.

Revenues, operating costs and expenses of PDMC's segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 31 and 32 for further discussion.)

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## Sales of Copper (U.S. and South America) and Molybdenum

The Manufacturing and Sales segment is responsible for selling all copper produced at the U.S. mines. Intersegment revenues of the individual U.S. mines represent an internal allocation based on PDMC's sales to unaffiliated customers. Therefore, the following discussion and analysis combines the U.S. Mines and Other Mining segments with the Manufacturing and Sales segment. Additionally, the South American Mines sold approximately 40 percent of their copper to the Manufacturing and Sales segment in each of the first quarters of 2003 and 2002. Intersegment sales by the South American Mines are based upon arms-length prices at the time of the sale. Intersegment sales of any individual mine may not be reflective of the actual prices PDMC ultimately receives due to a variety of factors including additional processing, timing of sales to unaffiliated customers, and transportation premiums. These sales are reflected in the Manufacturing and Sales segment.

	First Quarter	
	2003	2002
(Unaudited; \$ in millions)		
U.S. Mining Operations*		
Unaffiliated customers	\$478.5	456.3
Intersegment elimination	(71.7)	(61.9)
	<u>406.8</u>	<u>394.4</u>
South American Mines**		
Unaffiliated customers	100.6	94.1
Intersegment	71.7	61.9
	<u>172.3</u>	<u>156.0</u>
Primary Molybdenum		
Unaffiliated customers	75.9	61.3
Intersegment		
	<u>75.9</u>	<u>61.3</u>
Total PDMC		
Unaffiliated customers	<u>\$655.0</u>	<u>611.7</u>

\* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

\*\* South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra. U.S. Mines, Other Mining and Manufacturing and Sales Segments Sales

Sales and other operating revenues to unaffiliated customers by U.S. Mines, Other Mining and Manufacturing and Sales increased \$22.2 million, or 5 percent, in the 2003 first quarter, compared with the 2002 first quarter. This increase was primarily due to higher average copper prices (approximately \$29 million), partially offset by lower copper sales volumes (approximately \$10 million).

## South American Mines Segments Sales

South American Mines sales and other operating revenues to unaffiliated customers increased \$6.5 million, or 7 percent, in the 2003 first quarter, compared with the 2002 first quarter. This increase was primarily due to higher sales volumes of copper (approximately \$4 million) and higher realized copper prices (approximately \$2 million).

Primary Molybdenum Segment Sales

Primary Molybdenum sales and other operating revenues to unaffiliated customers increased \$14.6 million, or 24 percent, in the 2003 first quarter, compared with the 2002 first quarter. This increase was primarily due to higher average molybdenum prices (approximately \$15 million).

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## Operating Income (Loss) for Copper (U.S. and South America) and Molybdenum

In addition to the allocation of revenues, management allocates certain operating costs, expenses and capital of PDMC's segments that may not be necessarily reflective of market conditions. We also do not allocate all costs and expenses applicable to a mine or operation from the division or corporate offices. Accordingly, the segment information reflects management determinations that may not be indicative of actual financial performance of each segment as if it was an independent entity.

(Unaudited; \$ in millions)	First Quarter	
	2003	2002
		(As Restated)
U.S. Mining Operations*	\$ (0.6)	0.1
South American Mines**	36.2	27.5
Primary Molybdenum	0.1	(0.3)
	<hr/>	<hr/>
Total PDMC	\$35.7	27.3
	<hr/>	<hr/>

\* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

\*\* South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.  
U.S. Mining Operations Operating Income (Loss)

U.S. Mining Operations reported an operating loss of \$0.6 million in the 2003 first quarter, compared with operating income of \$0.1 million in the 2002 first quarter including \$13.8 million of special, net pre-tax gains. (Refer to the separate discussion of PDMC's segments below for further detail.)

## Note: Supplemental Data

The following table summarizes U.S. Mining Operations special items for 2003 and 2002 and the resultant losses excluding these special items:

(Unaudited; \$ in millions)	First Quarter	
	2003	2002
		(As Restated)
Special, pre-tax items	\$	13.8
Segment operating losses excluding special items	\$(0.6)	(13.7)

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.  
Morenci Segment Operating Income

The Morenci open-pit mine, located in southeastern Arizona, primarily produces electrowon copper cathodes. We own an 85 percent interest in Morenci and apply the proportional consolidation method of accounting. Operating income of \$12.4 million in the 2003 first quarter increased \$0.6 million compared with the 2002 first quarter, primarily due to higher average copper prices (approximately \$4 million) and a property



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insurance recovery (approximately \$1 million); partially offset by higher cost of copper production (approximately \$4 million) primarily due to higher energy costs.

### Bagdad/Sierrita Segment Operating Income (Loss)

Our wholly owned Bagdad and Sierrita open-pit mines, located in northwest Arizona and near Green Valley, Arizona, respectively, mine copper sulfide and oxide ores. They produce copper and molybdenum concentrates. The 2003 first quarter operating income of \$6.7 million increased \$11.0 million compared with the 2002 first quarter, primarily due to lower cost of copper production (approximately \$8 million) and higher average copper prices (approximately \$2 million). Lower cost of copper production of \$8 million was primarily due to higher molybdenum credits resulting from higher molybdenum prices (approximately \$9 million).

On April 28, 2003, the Company announced its copper concentrate-leaching demonstration plant at Bagdad, Arizona, had been com-

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missioned ahead of schedule. It is now operating at design capacity.

The Bagdad plant is the first commercial facility in the world to use pressure leaching to treat chalcopyrite concentrates. This represents a major step forward in copper-extraction technology. The new technology should make it more economical to recover copper from chalcopyrite ores, which accounts for approximately 70 percent of the world's known copper reserves. The process involves leaching chalcopyrite concentrates in a pressure leach vessel. The resulting copper-containing solutions are blended with lower-grade stockpile leach solutions and subsequently processed by solution extraction and electrowinning. Our immediate plans are to continue in the present mode of operation until the economic viability of the process is proven. Once we have completed this demonstration, we will be ready for larger scale commercial application where appropriate.

**Miami/Bisbee Segment Operating Loss**

Our wholly owned Miami open-pit mine, located in Miami, Arizona, produces electrowon copper cathode. The Bisbee precipitation operation is located in southern Arizona. The 2003 first quarter operating loss of \$0.7 million decreased \$3.8 million compared with the 2002 first quarter, primarily due to lower cost of copper production (approximately \$4 million) resulting from higher production (approximately \$2 million) and lower depreciation expense (approximately \$2 million).

**Chino/Cobre Segment Operating Income (Loss)**

The Chino open-pit mine, located near Silver City, New Mexico, primarily mines copper sulfide and oxide ores. We own a two-thirds partnership interest in Chino and apply the proportional consolidation method of accounting. Our wholly owned Cobre mine, which is adjacent to the Chino mine, is on care-and-maintenance status. The 2003 first quarter operating loss of \$2.1 million increased \$7.8 million compared with the 2002 first quarter, primarily due to lower copper sales volumes (approximately \$3 million) and higher cost of copper production (approximately \$3 million) due to lower production from lower leach solution grades and flow rates.

**Tyrone Segment Operating Loss**

Our wholly owned Tyrone open-pit mine, located near Tyrone, New Mexico, primarily mines copper oxide ore. It produces electrowon copper cathode. The 2003 first quarter operating loss of \$4.4 million increased \$2.7 million compared with the 2002 first quarter, due to higher cost of copper production (approximately \$3 million) and lower copper sales volumes (approximately \$1 million), partially offset by higher average copper prices (approximately \$1 million). Higher cost of copper production of approximately \$3 million included an unfavorable change in heap leach and work-in-process inventory (approximately \$12 million); partially offset by lower costs associated with mine plan changes (approximately \$5 million) and lower closure expense from the adoption of SFAS No. 143 (approximately \$3 million).

**South American Mines Operating Income**

South American Mines reported operating income in the 2003 first quarter of \$36.2 million, compared with operating income of \$27.5 million in the 2002 first quarter. (Refer to the separate discussion of PDMC's segments below for further detail.)

**Candelaria Segment Operating Income**

The Candelaria open-pit mine is located near Copiapó in northern Chile and produces copper concentrates. We own an 80 percent partnership interest in Candelaria, a Chilean contractual mining company, and we apply the proportional consolidation method of accounting. Operating income of \$23.1 million in the 2003 first quarter increased \$2.9 million compared with the 2002 first quarter, primarily due to higher copper sales volumes (approximately \$3 million).

**Cerro Verde Segment Operating Income**

The Cerro Verde open-pit mine, located near Arequipa, Peru, produces copper cathode. We own approximately 82 percent of the common stock of Cerro Verde, which we fully consolidate and show the minority interest. The 2003 first quarter operating income of \$7.5 million increased \$0.7 million from the 2002 first quarter, primarily due to higher average copper prices (approximately \$2 million); partially offset by higher cost of copper production (approximately \$1 million) primarily due to the change in heap leach and work-in-process inventory.

**El Abra Segment Operating Income**

The El Abra open-pit mine is located in northern Chile and produces copper cathodes.

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We own a 51 percent partnership interest in El Abra, a Chilean contractual mining company, and we apply the proportional consolidation method of accounting. The remaining 49 percent interest is owned by Corporación Nacional del Cobre de Chile (CODELCO), a Chilean state-owned company. The 2003 first quarter operating income of \$5.6 million increased \$5.1 million from the 2002 first quarter, primarily due to higher average copper prices (approximately \$3 million) and lower cost of copper production (approximately \$2 million) primarily comprising a favorable change in heap leach and work-in-process inventory (approximately \$4 million); partially offset by higher depreciation expense (approximately \$1 million).

**Primary Molybdenum Operating Income (Loss)**

Primary Molybdenum includes our wholly owned Henderson and Climax molybdenum mines in Colorado and conversion facilities in the United States and Europe. Henderson produces high-purity, chemical-grade molybdenum concentrates, which are further processed into value-added molybdenum chemical products. Climax is currently on care-and-maintenance status. We expect to bring Climax into production concurrent with the exhaustion of the Henderson molybdenum mine reserves for continued long-term primary molybdenum supply for the chemicals business.

Primary Molybdenum operations reported operating income in the 2003 first quarter of \$0.1 million, compared with an operating loss of \$0.3 million in the first quarter of 2002. The 2003 first quarter increase of \$0.4 million primarily was due to higher average molybdenum prices (approximately \$15 million) essentially offset by higher costs, including internal by-product production costs (approximately \$2 million), higher costs of purchased molybdenum (approximately \$11 million) and lower tolling profits (approximately \$1 million).

**PDMC Other Matters**

We have approximately 760 million pounds of annual copper production capacity (100 percent basis) that could be brought to the market with minimal lead-time (715 million pounds in the United States and 45 million pounds internationally). This curtailed capacity is located at eight of our mine sites, all with existing infrastructures. Approximately 665 million pounds of this curtailed annual capacity is located at our active mine sites and approximately 95 million pounds is located at inactive sites (50 million at Cobre and 45 million at Ojos del Salado).

Any decision to recommence full operations at these sites will depend on several factors including then-prevailing copper prices, management's assessment of copper market fundamentals and its estimates of future copper price trends and the extent to which any such new production is necessary for the efficient integration of the Company's other copper-producing operations at that time. Management's assessment of copper market fundamentals will reflect its judgment about future global economic activity and demand, and its estimates of the likelihood and timing of curtailed or new projects of competitors being placed into production. While there is no single copper price threshold that would necessarily trigger the recommencement of full operations at any of these sites, management does not expect to recommence operations until there has been a significant improvement in copper market fundamentals or a production integration inefficiency that could be alleviated by such recommencement.

Any material change in the price we receive for copper, or in PDMC's implied unit cost of copper production, has a significant effect on our results. Based on expected 2003 annual production of approximately 2.1 billion pounds of copper, each 1 cent per pound change in the average annual copper price, or in average annual implied unit cost of copper production, causes a variation in annual operating income before taxes of approximately \$21 million.

Our current annual molybdenum production is approximately 45 million pounds (approximately 20 million pounds from primary mines and 25 million pounds from by-product mines). Approximately 70 percent of our molybdenum contracts are priced based on the average of the previous 30 days of published prices (i.e., *Platts Metals Week*, *Ryan's Notes*, or *Metal Bulletin*) for molybdenum oxide, plus premiums. Accordingly, each \$1.00 per pound change in our average annual realized molybdenum price causes a variation in annual operating income before taxes of approximately \$32 million (subject to any negotiated limitations in outstanding customer agreements).

From time to time, we may purchase or sell copper price protection contracts for a portion of our expected future mine production. We do this to limit the effects of potential decreases in copper selling prices. We did not have any outstanding copper price protection contracts on March 31, 2003.

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**PDMC New Mexico Reclamation**

Mining and smelting operations with leaching, tailing ponds, surface impoundments and other discharging facilities in New Mexico are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) Regulations. The Chino, Cobre and Tyrone mines and the Hidalgo smelter each have obtained multiple discharge permits for their operations, which specify operational, monitoring and notification requirements. These permits are issued for five-year terms and require renewal following the end of each permit term. The WQCC Regulations authorize the New Mexico Environment Department (NMED), which administers the discharge permit program, to require the submission of closure plans showing how applicable discharge permit requirements will be met following closure. Under certain circumstances, NMED also may require submission and approval of abatement plans to address the exceedance of applicable water quality standards.

Further, Chino, Cobre, Tyrone and Hidalgo must submit closure plans for their operations. Hidalgo has an approved closure plan under its discharge permit. The three mines have submitted closure plans, which have been combined with closeout plans under the New Mexico Mining Act (NMMA), as discussed below. The proposed closure plans currently are subject to approval by NMED as part of separate discharge permits for closure for each of the three operations that would supplement the existing discharge permits (hereinafter referred to as closure permits). The proposed closure permits contain a number of permit conditions that would modify the proposed closure plans. Chino Mines Company and NMED reached agreement in December 2001 on proposed closure permit conditions presented at a public hearing in February 2002. On January 23, 2003, NMED's hearing officer issued a decision approving the closure permit as proposed by NMED and Chino, with minor changes. NMED issued a permit consistent with the hearing officer's decision on February 24, 2003. An appeal has been filed by a local environmental group. Phelps Dodge Tyrone, Inc. and NMED were unable to reach agreement on permit terms before a public hearing held in May 2002, and presented competing permit proposals. Other parties who participated in the public hearing presented their own proposals. On March 7, 2003, Tyrone received the hearing officer's decision on its permit, which generally adopted NMED's proposal. On April 2, 2003, Tyrone filed an appeal of the hearing officer's decision with the WQCC. NMED issued a permit in accordance with the hearing officer's decision on April 8, 2003, which Tyrone also has appealed. Cobre Mining Company and NMED also have not reached agreement on the terms of a closure permit. The closure permit for Cobre Mining Company does not require a public hearing, and may be issued by NMED at any time.

Chino, Cobre and Tyrone also are subject to permit requirements under NMMA, which was passed in 1993. Following adoption of the New Mexico Mining Act Rules (NMMAR) in 1994, Chino, Cobre and Tyrone received initial permits as existing mining operations under NMMAR in 1997. These permits require revisions to incorporate approved closeout plans, which consist of plans for reclamation of the mining operations to achieve a self-sustaining ecosystem or an approved post-mining land use following cessation of operations at a mine. Existing mining operations may seek a waiver of these reclamation standards for open pits and waste units based upon a demonstration that achieving these standards is technically or economically infeasible or environmentally unsound, as long as measures will be taken to meet air and water quality standards following closure.

NMMAR originally required approval of a closeout plan for an existing mining operation by December 31, 1999, based upon an extension granted by the Director of the Mining and Minerals Division (MMD). NMMAR subsequently was amended to extend the deadline for closeout plan approval until December 31, 2001, and later to October 1, 2002. NMMAR contains a requirement that NMED must provide MMD with a determination that a closeout plan meets applicable environmental standards, including air and water quality standards, before MMD can approve the closeout plan. NMED's policy is to issue this determination after it has issued closure permits for the facility that submits the closeout plan. In early 2001, Chino, Cobre and Tyrone submitted comprehensive closure/closeout plans (CCPs) to both NMED and MMD intended to address the requirements of both the WQCC Regulations and NMMAR. Approval of the CCPs under NMMAR would require the granting of waivers by MMD as authorized under NMMAR. The CCPs were the subject of the public hearings before NMED for Chino and Tyrone, as discussed above.

As of October 1, 2002, NMED had not issued closure permits for Chino, Cobre or Tyrone. Consequently, as of October 1, 2002, MMD had not approved closeout permits for these three mines. MMD issued Notices of Violation (NOVs) to Chino, Cobre and Tyrone because the three mines did not obtain approved closeout plans by

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the October 1, 2002, deadline. The NOV's were modified by the Mining Commission following a public hearing to set new deadlines for closeout plan approval tied to NMED permit actions. Based on NMED's permit actions, closeout plan approval for Chino is now due by September 24, 2003, and the closeout plan approval date for Tyrone is April 8, 2004. The closeout plan approval deadline for Cobre will be nine months from the date of NMED's permit issuance, which is currently pending.

NMMAR contains specific requirements regarding financial assurance that must be provided to MMD to assure that sufficient funds would be available to MMD to carry out the closeout plan in the event of a default by the permittee. NMED also may require financial assurance under the WQCC Regulations. The financial assurance requirements are based upon the net present value of estimated costs to carry out the requirements of the closure permit and the approved closeout plan, assuming the state would hire a third-party contractor to conduct the work. Actual reclamation costs may differ significantly from the costs estimated under the permits due to advances in technology and reclamation techniques and opportunities to prepare each site for more efficient reclamation through careful development of the site over time. Consequently, the estimated costs under the permits are higher than the cost the Company would be expected to incur if the Company performed the work.

The CCPs submitted in early 2001 contained cost estimates of approximately \$100 million for Chino, \$121 million for Tyrone, and \$9 million for Cobre, based upon unescalated and undiscounted capital and operating costs over a 30-year operating period. The closure permit negotiated by NMED and Chino Mines Company and approved by the NMED hearing officer has an estimated cost of approximately \$394 million, based upon third-party unescalated and undiscounted capital and operating costs over a 100-year operating period, including the cost of technical studies required under the permit. The Company's two-thirds share of NMED's \$394 million estimate is approximately \$263 million and our joint venture partner's cost share is approximately \$131 million. We estimate total costs for Chino Mines Company to achieve the closure standards required by NMED to be approximately \$264 million (100 percent basis); that estimate is approximately one-third lower than the financial assurance cost estimate as a result of the Company's historical cost advantages, savings from the use of the Company's own personnel and equipment versus third-party contract costs, and opportunities to prepare the site for more efficient reclamation. The financial assurance cost estimate includes approximately \$10 million (100 percent basis) of costs the Company has recognized in environmental reserves. The Company's two-thirds share of these costs is approximately \$176 million and our joint venture partner's cost share is approximately \$88 million. At March 31, 2003, and December 31, 2002, we had accrued approximately \$17 million and \$8 million, respectively, (two-thirds basis) for reclamation at Chino. The NMED cost estimate for Chino is subject to further review, and possible adjustment, by MMD under NMMAR.

NMED estimated the cost to carry out the requirements of its proposed closure permits for Tyrone at approximately \$440 million, without discounting or escalation, under NMED's proposal at the May 2002 hearing; Tyrone estimated the cost of its proposal at approximately \$328 million, without discounting or escalation over a 100-year operating period. NMED has not yet supplied its proposed cost estimate for Cobre. The proposed terms of the closure permits would require additional studies over the five-year term of the permits to refine the closure plan. The plan requirements and cost estimates may increase or decrease based upon the results of the studies and other factors, including changes in technology, completion of some closure and reclamation work, and inflation.

Based upon NMED's undiscounted financial assurance cost estimates for the Tyrone plan of approximately \$440 million, and considering the same cost advantages as indicated in the above discussion regarding Chino, we estimate the Company's costs to achieve the closure standards under that estimate to be approximately \$288 million for Tyrone. The Company has not obtained approval from NMED of an estimate of its cost to achieve the closure standards that would be required by the hearing officer's decision. The Company's current cost estimate for Cobre of approximately \$9 million will be updated with the issuance of the discharge permit. At March 31, 2003, and December 31, 2002, we had accrued closure costs of approximately \$38 million and \$27 million, respectively, at Tyrone and approximately \$6 million and \$2 million, respectively, at Cobre.

Following NMED's issuance of the closure permits, Chino, Cobre and Tyrone are required to submit proposals for financial assurance based upon the permit requirements and subject to NMED's approval. Under the proposed closure permit terms, the amount of financial assurance may be based upon the net present value of the estimated cost for a third-party to implement the

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plan, using discount and escalation rates specified in the permit. These amounts are expected to be substantially lower than the undiscounted and unescalated cost estimates. For example, based upon the cost estimate approved by NMED, the financial assurance amount for Chino could be approximately \$191 million. This amount is based on annual escalation rates of approximately 3.2 percent for long-term water treatment costs and approximately 3.6 percent for other costs and discount rates of 5 percent for years one through 12 of the plan and 8 percent for years 13 through 100.

NMMAR requires that financial assurance for a closeout plan be approved and put in place before MMD can approve the closeout plan. Chino and Tyrone have provided approximately \$56 million and \$58 million of financial assurance in the form of surety bonds, respectively, to NMED under the terms of several discharge permits. The closure and financial assurance requirements of these permits have been superseded by the recently issued NMED closure permits. Consequently, the Company has advised NMED that this financial assurance should be terminated and replaced by new financial assurance under the terms of the new closure permits. Chino has submitted a financial assurance proposal in accordance with the schedule under its NMED closure permit proposing financial assurance primarily in the form of a corporate performance guarantee from the Company. The Company continues to work with the state to finalize appropriate terms and conditions for financial assurance. Cobre also has approximately \$2 million of financial assurance in place held jointly by NMED and MMD. Following NMED's issuance of the closure permits, and prior to MMD's approval of the closeout plans, Chino, Tyrone and Cobre will be required to provide substantial amounts of additional financial assurance to cover the amounts of the approved cost estimates. Hidalgo currently has provided financial assurance in the amount of approximately \$11 million under its discharge permit.

**RESULTS OF PHELPS DODGE INDUSTRIES**

PDI, our manufacturing division, produces engineered products principally for the global energy, telecommunications, transportation and specialty chemicals sectors. Its operations are characterized by products with significant market share, internationally competitive cost and quality, and specialized engineering capabilities. The manufacturing division includes our Specialty Chemicals segment and our Wire and Cable segment. Our Specialty Chemicals segment includes Columbian Chemicals Company and its subsidiaries (Columbian Chemicals or Columbian). Our Wire and Cable segment consists of three worldwide product line businesses including magnet wire, energy and telecommunications cables, and specialty conductors.

	First Quarter	
	2003	2002
(Unaudited; \$ in millions)		
Sales and other operating revenues to unaffiliated customers:		
Specialty Chemicals	\$ 162.1	129.3
Wire and Cable	160.9	177.5
	\$ 323.0	306.8
Operating income:		
Specialty Chemicals	\$ 14.1	13.2
Wire and Cable	3.4	2.8
	\$ 17.5	16.0

**PDI Sales**

PDI reported sales to unaffiliated customers of \$323.0 million in the 2003 first quarter, compared with sales of \$306.8 million in the 2002 first quarter. The increase of \$16.2 million in PDI's sales in the first quarter compared with the corresponding 2002 period was due to higher specialty chemicals sales resulting primarily from higher sales volumes (approximately \$9 million) and higher average unit selling prices worldwide (approximately \$23 million) due to general market increases and higher feedstock related increases. This increase was partially offset

by lower sales volumes of wire and cable as a result of reduced demand stemming from continuing global economic uncertainty (approximately \$17 million).

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**PDI Operating Income**

PDI reported operating income of \$17.5 million in the 2003 first quarter, including a special, net pre-tax gain of \$3.2 million, compared with operating income of \$16.0 million in the 2002 first quarter. (Refer to the separate discussion of PDI's Specialty Chemicals and Wire and Cable segments below for further detail.)

**Note: Supplemental Data**

The following table summarizes PDI's special items for the first quarters of 2003 and 2002 and the resultant earnings excluding these special items:

	(Unaudited; \$ in millions)	
	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
Operating income	\$ 17.5	16.0
Special, pre-tax items	3.2	—
Segment operating earnings excluding special items	\$ 14.3	16.0

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Special items and provisions in operating income were as follows:

	(Unaudited; \$ in millions)	
	<b>First Quarter</b>	
	<b>2003</b>	<b>2002</b>
Termination of a foreign postretirement benefit plan	\$ 3.2	—

**Specialty Chemicals Operating Income**

Specialty Chemicals reported operating income in the 2003 first quarter of \$14.1 million including a special, net pre-tax gain of \$3.2 million, compared with operating income of \$13.2 million in the 2002 first quarter.

The 2003 first quarter increase in operating income of \$0.9 million compared with the 2002 first quarter was primarily due to a special, pre-tax gain of \$3.2 million that resulted from the termination of a foreign postretirement benefit plan. In addition, higher specialty chemicals sales volumes (approximately \$7 million), predominately in the tire and mechanical rubber goods markets in North America and Europe, were more than offset by lower margins for specialty chemical operations (approximately \$9 million) primarily due to the continued and significant escalation of feedstock costs.

**Note: Supplemental Data**

The following table summarizes Specialty Chemicals' special items for the first quarters of 2003 and 2002 and the resultant earnings excluding these special items:

(Unaudited; \$ in millions)

	First Quarter	
	2003	2002
Special, pre-tax items	\$ 3.2	
Segment operating earnings excluding special items	\$ 10.9	13.2

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.  
Wire and Cable Operating Income

Wire and Cable reported operating income in the 2003 first quarter of \$3.4 million, compared with operating income of \$2.8 million in the 2002 first quarter. Wire and Cable's sales decreased \$16.6 million as a result of reduced demand stemming from continuing global economic uncertainty, and operating costs decreased \$17.4 million. There were no special items in either quarter.

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**OTHER MATTERS RELATING TO THE STATEMENT OF CONSOLIDATED OPERATIONS**

## Exploration and Research Expense

Our net exploration and research expense was \$9.6 million in the 2003 first quarter, compared with \$8.7 million in the 2002 first quarter. The increase primarily resulted from slightly higher PDMC research expense (approximately \$1 million).

## Interest Expense

Interest expense decreased \$16.8 million in the 2003 first quarter, compared with the 2002 first quarter. The decrease in the 2003 first quarter primarily was attributable to reductions related to the payoff of long-term debt (approximately \$14 million) and project financing in 2002 (approximately \$1 million). Lower floating interest rates also contributed to the reductions (approximately \$1 million).

## Miscellaneous Income (Expense), Net

Miscellaneous income (expense), net, decreased \$1.1 million in the 2003 first quarter, compared with the 2002 first quarter. The decrease for the 2003 first quarter resulted primarily from lower interest income (\$0.9 million) and higher shutdown expenses (\$1.9 million); partially offset by higher dividends received (\$0.9 million) and foreign currency exchange gains (\$0.8 million).

## Benefit (Provision) for Taxes on Income

The Company's income tax provision for the 2003 first quarter principally resulted from taxes on earnings at international operations (\$14.9 million) that cannot be offset by losses at domestic operations.

The Company's income tax benefit for the 2002 first quarter primarily comprised the following: (i) a \$38.5 million tax benefit associated with the carryback of 2001 net operating losses resulting from the March enactment of the Job Creation and Worker Assistance Act of 2002; (ii) a \$12.9 million benefit recognized for first quarter 2002 net operating losses that, based on the new tax legislation, may also be carried back to recover prior years' taxes paid; and (iii) a \$14.4 million expense for taxes on earnings at international operations.

## Cumulative Effect of Accounting Change

On January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations. With the adoption of this Statement, we recognize asset retirement obligations (AROs) as liabilities when incurred, with the initial measurement at fair value. These liabilities will be accreted to full value over time through charges to income. In addition, an asset retirement cost was capitalized as part of the related asset's carrying value and will subsequently be allocated to expense over the asset's useful life. Our AROs consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthwork, revegetation, water treatment and demolition. Upon adoption, we recorded a pre-tax cumulative effect of a change in accounting principle of \$9.7 million credit to income (\$8.4 million after-tax). In the first quarter 2003, the effect of adopting SFAS No. 143 decreased loss before cumulative effect of accounting change by approximately \$3 million, or 4 cents per common share.

The following table summarizes the balance sheet impact associated with the adoption of SFAS No. 143:

	December 31, 2002 As Reported	SFAS No. 143 Adoption Impact	January 1, 2003 After Adoption
Mining properties	\$ 1,361.4	67.4*	1,428.8
Mining properties accumulated depreciation	(122.4)	(55.2)	(177.6)

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Net mining properties assets	\$ 1,239.0	12.2	1,251.2
	<b>_____</b>	<b>_____</b>	<b>_____</b>
Asset retirement obligation liability	\$ 138.6	10.4**	149.0
	<b>_____</b>	<b>_____</b>	<b>_____</b>

\* Amount includes \$91.5 million of additions related to recording an asset retirement cost, offset by \$24.1 million to reclassify amounts recognized as ore reserves in purchase accounting.

\*\* Amount consists of \$2.5 million of liabilities recognized at adoption and \$7.9 million of reclassifications related to closure obligations from other liabilities at adoption.

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The *pro forma* effects of the application of SFAS No. 143 as if this Statement had been adopted on January 1, 2002, are presented below:

(Unaudited; \$ in millions except per share data)

	First Quarter	
	2003	2002
Loss before cumulative effect of accounting change as reported	\$ (23.4)	(1.9)
Reduced cost of products sold, net of tax benefit (accretion expense)		5.3
Additional depreciation expense, net of tax provision		(0.6)
<i>Pro forma</i> income (loss) before cumulative effect of accounting change	\$ (23.4)	2.8
Income (loss) per common share before cumulative effect of accounting change:		
Basic and diluted as reported	\$ (0.30)	(0.03)
Basic and diluted <i>pro forma</i>	\$ (0.30)	0.03
Net loss as reported	\$ (15.0)	(24.8)
<i>Pro forma</i> net loss	\$ (23.4)	(20.1)
Loss per common share:		
Basic and diluted as reported	\$ (0.21)	(0.32)
Basic and diluted <i>pro forma</i>	\$ (0.30)	(0.26)

The *pro forma* asset retirement obligation liability balances as if SFAS No. 143 had been adopted on January 1, 2002, are as follows:

(Unaudited; \$ in millions)

<i>Pro forma</i> asset retirement obligation liability	January 1, 2002	\$ 138.1
<i>Pro forma</i> asset retirement obligation liability	December 31, 2002	\$ 149.0

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized, but rather tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. Upon completion of the transitional impairment tests, the fair value of three of the Company's international wire and cable reporting units was determined to be less than the related carrying amount. The resulting impairment loss recognized upon adoption of SFAS No. 142 in the first quarter of 2002 was \$33.0 million, pre-tax (\$22.9 million after-tax), and was recognized as a cumulative effect of a change in accounting principle.

Subsequently, the Company completed its annual goodwill impairment test as of December 31, 2002, with no additional impairments. The Company will continue to test its goodwill annually on a consistent measurement date unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, and quarter ended March 31, 2003, are as follows:

(Unaudited; \$ in millions)

Specialty Chemicals	Wire and Cable
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	Segment	Segment	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as of December 31, 2001	\$ 88.5	54.6	143.1
Goodwill acquired during period			
Impairment losses upon adoption of SFAS No. 142		(33.0)	(33.0)
Goodwill included in the disposal of a business unit			
Foreign currency exchange adjustments	(19.4)		(19.4)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as of December 31, 2002	69.1	21.6	90.7
Goodwill acquired during period			
Impairment losses			
Goodwill included in the disposal of a business unit			
Foreign currency exchange adjustments	1.8		1.8
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as of March 31, 2003	\$ 70.9	21.6	92.5
	<u>          </u>	<u>          </u>	<u>          </u>

**CHANGES IN FINANCIAL CONDITION**

Working Capital

During the first quarter of 2003, net working capital balances (excluding cash and cash equivalents and debt) increased \$80.0 million. This increase resulted primarily from:

a \$66.9 million increase in accounts receivable primarily due to higher molybdenum sales volumes (approximately \$15 million), the timing of copper receivable collections (approximately \$10 million), higher Specialty Chemicals sales volumes and prices (approximately \$21 million),

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higher Wire and Cable sales volumes (approximately \$8 million) and the timing of their receivable collections (approximately \$8 million); and

a \$28.9 million decrease in accounts payable and accrued expenses primarily due to the payment for an historic Cyprus Amax lawsuit and arbitration award (\$48.6 million), partially offset by higher accrued interest (\$25.7 million) for debt in which semi-annual payments are made in the second and fourth quarters; partially offset by

a \$12.0 million increase in accrued income taxes due to higher foreign taxes.

**Debt**

At March 31, 2003, our total debt was \$2,105.2 million, compared with \$2,110.6 million at year-end 2002. Our ratio of debt to total capitalization was 42.3 percent at March 31, 2003, and December 31, 2002.

As of March 31, 2003, the Company had no borrowings under its \$1 billion revolving credit facility that is available, provided compliance with covenant requirements, until its scheduled maturity on May 10, 2005.

In April 2002, Financial Accounting Standards Board (FASB) issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates SFAS No. 4 and, thus, the exception to applying Accounting Principles Board (APB) Opinion No. 30 to all gains and losses related to extinguishments of debt. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. Applying the provisions of APB No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. As a result of this Statement being adopted by the Company on January 1, 2003, we will reclassify the third quarter 2002 extraordinary item for debt extinguishment to recurring operations in our Form 10-Q filing for the quarter ended September 30, 2003.

**Capital Expenditures and Investments**

Capital expenditures and investments during the 2003 first quarter were \$19.9 million for PDMC, \$6.4 million for PDI and \$1.0 million for other Corporate-related activities. Capital expenditures and investments in the corresponding 2002 period were \$17.4 million for PDMC, \$3.7 million for PDI and \$1.7 million for other Corporate-related activities. We expect capital expenditures and investments for the year 2003 to approximate \$200 million, comprising approximately \$110 million for PDMC, approximately \$65 million for PDI, and approximately \$25 million for Corporate and other. These capital expenditures and investments are expected to be funded primarily from operating cash flow and cash reserves.

**Dividends**

On March 31, 2003, Phelps Dodge declared a quarterly dividend of \$1.6875 per mandatory convertible preferred share, to be paid on May 15, 2003.

**Contractual Obligations**

The following tables summarize Phelps Dodge's contractual obligations at March 31, 2003, and the effect such obligations are expected to have on its liquidity and cash flow in future periods for short-term debt, long-term debt (including capital lease obligations) and take-or-pay contracts. The following table, as of March 31, 2003, reflects an update of only the major changes to the similar table presented in the Company's Form 10-K at December 31, 2002:

Debt and Take-or-Pay Contracts as of March 31, 2003:

(Unaudited; \$ in millions)

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>
Short-term debt	\$ 41.2	41.2	

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Long-term debt	2,064.0	128.6	548.0
Take-or-pay contracts	582.3	145.4	203.4

	<u>4-5 Years</u>	<u>After 5 Years</u>
Short-term debt	\$	
Long-term debt	327.2	1,060.2
Take-or-pay contracts	125.6	107.9

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Our take-or-pay contracts primarily include contracts for electricity (\$294.1 million), contracts for petroleum-based feedstock for conversion into carbon black (\$166.4 million), and transportation and port fee commitments (\$50.9 million). Approximately 81 percent of our take-or-pay electricity obligations are through PD Energy Services, the legal entity used to manage power for PDMC at generally fixed-priced arrangements. PD Energy Services has the right and the ability to resell the electricity as circumstances warrant. Obligations for petroleum-based feedstock for conversion into carbon black are for specific quantities, and ultimately will be purchased based upon prevailing market prices at the time. These petroleum-based products may be re-sold to others if circumstances warrant. Transportation obligations total \$36.7 million for exporting cathode produced at El Abra and copper in concentrate at Candelaria and for importing sulfuric acid to El Abra. Our carbon black facility in the United Kingdom has port fee commitments of \$14.2 million.

**Guarantees**

In November 2002, FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures by guarantors, in both interim and annual financial statements, about obligations associated with guarantees issued. FIN 45 disclosure requirements were adopted for our year ended December 31, 2002; the initial recognition and measurement provisions were adopted on a prospective basis to guarantees issued or modified after December 31, 2002. There were no such guarantees issued in the first quarter of 2003.

**Other Items that May Affect Liquidity**

New Mexico and Colorado's mined-land reclamation laws require financial assurance covering reclamation cost. In contrast, Arizona's Mine Land Reclamation Act permits a company to satisfy financial assurance requirements by demonstrating it has financial strength to fund reclamation costs identified in an approved reclamation plan. An investment grade bond rating is one of the financial strength tests under the Arizona Act. Phelps Dodge presently has a credit rating one level above non-investment grade; however, it remains on *Negative Outlook*. If a downgrade occurs, the Company currently also meets another financial strength test that is not ratings dependent.

The cost of surety bonds (the traditional source of financial assurance) has increased significantly during the past year. Also, many surety companies are now requiring an increased level of collateral supporting the bonds. If surety bonds are unavailable, the Company could be required to post other collateral or possibly cash or cash equivalents directly in support of financial assurance obligations.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There have been no material changes in the Company's market risk during the quarter ended March 31, 2003. For additional information on market risk, refer to pages 51 and 93 through 97 of our report on Form 10-K for the year ended December 31, 2002.

**Item 4. Controls and Procedures**

The Company maintains a system of disclosure controls and procedures that is designed to ensure information required to be disclosed by the Company is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a timely manner. Management has reviewed this system of disclosure controls and procedures within 90 days of the date hereof, and has concluded that the current system of controls and procedures is effective.

The Company maintains a system of internal controls and procedures for financial reporting. Since the date of management's most recent evaluation, there were no significant changes in internal controls or in other factors that could significantly affect internal controls.

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Part II. Other Information

Item 1. Legal Proceedings

I. Reference is made to paragraph XIX of Part II, Item 3, Legal Proceedings, of the Company's Form 10-K for the year ended December 31, 2002.

The Company and Columbian Chemicals Company have also been served in the case entitled Synaflex Rubber Products Company v. Cabot Corporation et al, which was filed in USDC in New Jersey. We are also aware of four additional cases, two of which have been filed in federal court in New Jersey and two in Massachusetts, which we have not been served. The defendants in these proceedings (including the Company) have filed a Motion with the Panel for Multi-district Litigation to consolidate all of these cases in a single court.

Item 6. Exhibits and Reports on Form 8-K

(a) Any exhibits required to be filed by the Company are listed in the Index to Exhibits.

(b) No reports on Form 8-K were filed by us during the quarter ended March 31, 2003.

Signatures

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

PHELPS DODGE CORPORATION  
(Corporation or Registrant)

Date: May 13, 2003

By: /s/ Stanton K. Rideout

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Stanton K. Rideout  
Vice President and Controller  
(Principal Accounting Officer)

Certifications

I, J. Steven Whisler, Chairman, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Phelps Dodge Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
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6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 13, 2003

/s/ J. Steven Whisler

J. Steven Whisler

Chairman, President and Chief Executive Officer

I, Ramiro G. Peru, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Phelps Dodge Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 13, 2003

/s/ Ramiro G. Peru

Ramiro G. Peru

Senior Vice President and Chief Financial Officer



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Index to Exhibits

11	Computation of per share earnings.
12	Computation of ratios of total debt to total capitalization.
15	Letter from PricewaterhouseCoopers LLP with respect to unaudited interim financial information.
99.1	Certification of J. Steven Whisler, Chairman, President and Chief Executive Officer of the Company, pursuant to 18 United States Code section 1350, as enacted by section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Ramiro G. Peru, Chairman, President and Chief Executive Officer of the Company, pursuant to 18 United States Code section 1350, as enacted by section 906 of the Sarbanes-Oxley Act of 2002.