

## Paramount Gold and Silver

This is a company that has come full circle. Back in 2005 I invested in a seed financing in a company that had a Silver and Gold project in Mexico. The stock came out like gangbusters went to \$4.00 a share and eventually sold that property to Cde for \$146 million .

I have done numerous financings both pre ipo and on the market the last 15 years but this was probably my most successful in terms of percentage gain.

The company then spun off some of its other assets into another Paramount Gold and Silver.

They have the Sleeper project in Nevada a silver project with a proven resource. However, the new project that has really caught my eye is the Grassy Mountain project in Oregon. This is a proposed underground mine that has a good sized resource (numbers below).

### **MINERAL RESOURCES**

Class	Tonnes <sup>  </sup> (millions)	Au (g/T)	Au (ozs)	Ag (g/T)	Ag (ozs)
Measured	16.27	0.69		363,00 2.71	1,409,000
Indicated	11.69	1.85	0	695,00 5.01	1,882,000
<b>Measured + Indicated*</b>	<b>27.96</b>	<b>1.17</b>	<b>1,057,000</b>	<b>3.67</b>	<b>3,291,000</b>
Inferred	0.96	1.37		42,000 4.08	125,000
					0

<sup>||</sup>in metric tonnes

\*Grassy Mountain mineral resources are inclusive of the mineral reserves.

---

### **MINERAL RESERVES**

Class	Tons <sup>a</sup> (millions)	Au (opt)	Au (ozs)	Ag (opt)	Ag (ozs)
Proven	0.23	0.191	43,000	0.27	62,000
Probable	1.49	0.214	319,000	0.30	454,000
<b>Proven &amp; Probable</b>	<b>1.72</b>	<b>0.210</b>	<b>362,000</b>	<b>0.30</b>	<b>516,000</b>

*a in imperial tons*

---

#### MINERAL RESERVES

Class	Tonnes <sup>b</sup> (millions)	Au (g/T)	Au (ozs)	Ag (g/T)	Ag (ozs)
Proven	0.21	6.55	43,000	9.26	62,000
Probable	1.35	7.34	319,000	10.29	454,000
<b>Proven &amp; Probable</b>	<b>1.56</b>	<b>7.23</b>	<b>362,000</b>	<b>10.29</b>	<b>516,000</b>

*b in metric tonnes*

The company is in the process of completing the permitting and putting the mine into production, which should happen sometime in 2019. Below are some highlights.

Highlights of the PFS are as follows:

Cash operating costs of \$528 per ounce gold<sup>3</sup>;

Total costs of \$853 per ounce gold<sup>3</sup> produced including all capital

Total operating cash-flows of \$254 million;

After tax IRR of 27.6% and NPV (5%) of \$87.8 Million at the base case metal prices; Annual production of approximately 47,000 ounces of gold and 50,000 ounces of silver for 7.25 years;

Initial infrastructure capital expenditures of \$69.9 million for a 750 ton per day mine and milling operation;

Note that the company has over 1 million ounces of gold and 2 million of silver in resources in this project.

Total initial capital costs of \$110 million including \$12.2 million in mine development and preproduction costs, \$13.6 million in owners and working capital and \$14.2 million in contingencies; and Pay back of 2.5 years from the start of production.

One of the keys I see for PZG is how tight and good the share structure is. They will have to raise the money for the mine but those shares should be in the hands of some large shareholders. The company only has about 24 million shares out at the moment and only a \$30 million market cap. This means that the structure is tight and the stock does not have a lot of overhang. This is very important as we have seen from deals in the past. In addition, to the limited number of shares two institutions hold over ¼ of the company. FCMI Financial owns 19 percent and seabridge 7 percent.

In addition, my favourite deals are always near production deals. If you get the combination of the production and cash flow starting and rising gold and silver prices that gives extra leverage to the company. In 2009 one of our best picks was Avion Resources which took a mine in Mali into production and saw the stock go from \$0.06 to near \$2.00 as the company went into production and gold rallied from 2009 to 2011.

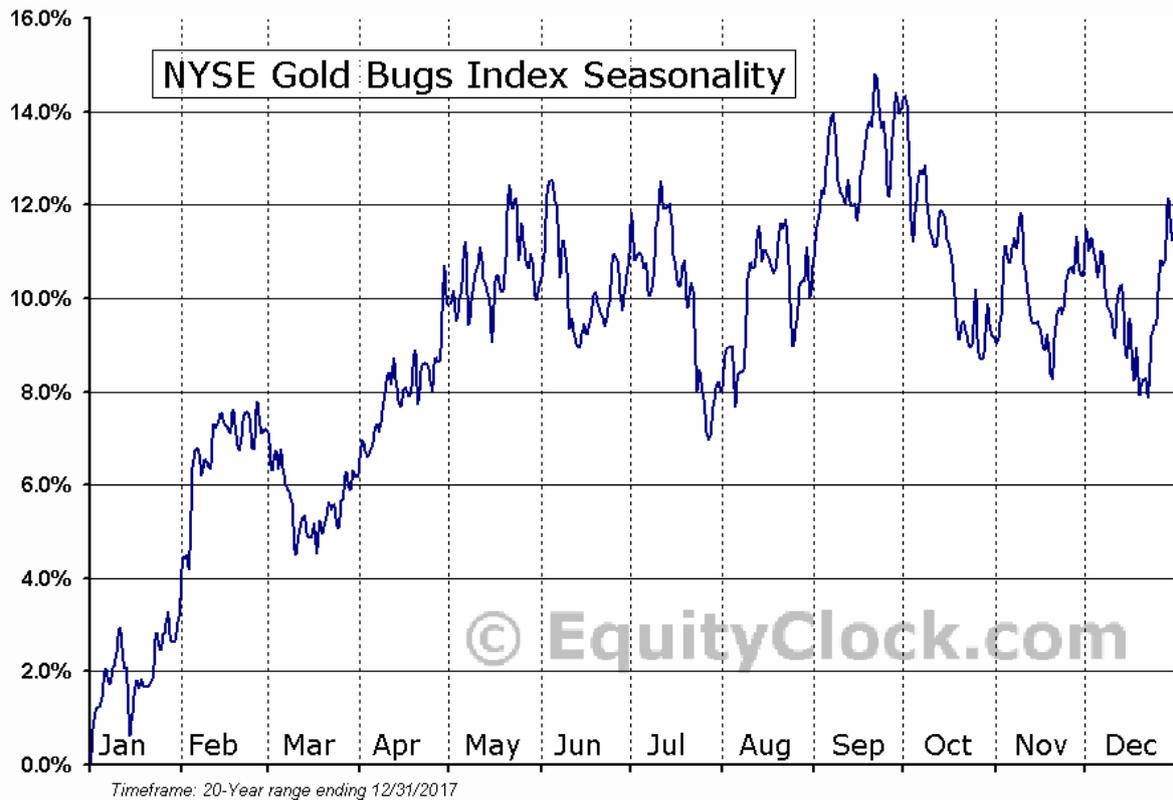
I think as Paramount approaches production you will see the stock rally into that and if we see higher precious metals over the next 12-18 months that should really help the stock.

The company also has solid management. Glen Van Trek the president had the same role at paramount through their take over by CDE and previously he worked at mining giant Teck. The CFO Carlos Buffone was also the CFO at paramount during their takeover by CDE. Both have been with the company for over a decade and have experience developing a property.

Technically the stock has support in the 1.20-1.40 range. I think buying it down here at this low market cap with production probably happening within the next 18 months represents very good risk reward.



In addition, seasonal we are in the midst of the seasonally strong period for Gold and Precious metals stocks where they often fall into may bounce then fall and have a final bottom In late June/Early July then rally strongly into years end. Therefore, I think the fundamentals of Paramount combined with these seasonal tailwinds make it a strong play here.



Source: equityclock.com

If I say the company has to issue 50 million shares to fund the mine that would give them about 80 million total I think it can become a 300 million dollar company if they can meet these production targets and cost targets that would be roughly a 4 dollar stock and of course it could be a lot higher than that if say Silver and Gold prices can go higher. As I am just about to go to press the company announced a \$ 3 million dollar financing to mostly help along with the mining permitting process in Oregon.

Disclosure : David Skarica and his family own shares in Paramount