

Sabra Health Care REIT, Inc.  
Form DEF 14A  
April 28, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.         )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**Sabra Health Care REIT, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

**Sabra Health Care REIT, Inc.**  
**18500 Von Karman Avenue, Suite 550**  
**Irvine, California 92612**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On June 17, 2015**

To the Stockholders of Sabra Health Care REIT, Inc.:

Notice is hereby given that the 2015 annual meeting of stockholders (the Annual Meeting) of Sabra Health Care REIT, Inc. (the Company) will be held at the Company's headquarters located at 18500 Von Karman Avenue, Suite 550, Irvine, California 92612 on Wednesday, June 17, 2015, at 9:00 a.m., Pacific time, for the following purposes:

- (1) To elect to the Board of Directors the five nominees named in the attached Proxy Statement to serve until the Company's 2016 annual meeting of stockholders and until their successors are duly elected and qualified;
- (2) To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015;
- (3) To approve, on an advisory basis, the compensation of the Company's named executive officers; and
- (4) To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Only stockholders of record of the Company's common stock as of the close of business on April 20, 2015 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

You are cordially invited to attend the Annual Meeting in person. **Your vote is important to us. Whether or not you expect to attend the Annual Meeting, please submit your proxy as soon as possible. If you attend the Annual Meeting and vote in person, your proxy will not be used.**

By Order of the Board of Directors,

Harold W. Andrews, Jr.

*Executive Vice President, Chief Financial  
Officer and Secretary*

Irvine, California

April 28, 2015

Table of Contents

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <u>Proxy Statement</u>   | 1           |
| <u>Important Notice Regarding Internet Availability of Proxy Materials</u>                           | 1           |
| <u>Questions and Answers About the Annual Meeting</u>  | 1           |
| <u>Security Ownership of Principal Stockholders, Directors and Management</u>                        | 6           |
| <u>Board of Directors and Executive Officers</u>   | 8           |
| <u>Corporate Governance</u>  | 12          |
| <u>Director Compensation</u>   | 18          |
| <u>Executive Compensation</u>  | 20          |
| <u>Compensation Discussion and Analysis</u>  | 20          |
| <u>Compensation Committee Report</u>   | 34          |
| <u>Compensation Committee Interlocks and Insider Participation</u>                                   | 34          |
| <u>Summary Compensation Table 2012 2014</u>  | 35          |
| <u>Description of Employment Agreements Salary and Incentive Bonus Payments</u>                      | 35          |
| <u>Grants of Plan-Based Awards 2014</u>  | 36          |
| <u>Description of Equity Awards</u>  | 37          |
| <u>Outstanding Equity Awards at End of 2014</u>  | 39          |
| <u>Option Exercises and Stock Vested 2014</u>  | 41          |
| <u>Potential Payments Upon Termination or Change in Control</u>                                      | 41          |
| <u>Equity Compensation Plan Information</u>  | 44          |
| <u>Transactions with Related Persons</u>   | 45          |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u>                                       | 45          |
| <u>Audit Committee Report</u>  | 46          |
| <u>Audit Information</u>   | 47          |
| <u>Election of Directors (Proposal No. 1)</u>  | 48          |
| <u>Ratification of Appointment of Independent Registered Public Accounting Firm (Proposal No. 2)</u> | 49          |
| <u>Advisory Approval of Named Executive Officer Compensation (Proposal No. 3)</u>                    | 50          |
| <u>Other Matters</u>   | 51          |
| <u>Stockholder Proposals and Director Nominations for 2016 Annual Meeting of Stockholders</u>        | 51          |
| <u>Annual Report to Stockholders</u>   | 51          |
| <u>Delivery of Documents to Stockholders Sharing an Address</u>                                      | 52          |

**Table of Contents**

**SABRA HEALTH CARE REIT, INC.**

**18500 Von Karman Avenue, Suite 550**

**Irvine, California 92612**

**PROXY STATEMENT**

The Board of Directors of Sabra Health Care REIT, Inc. ( Sabra, we, our and us ) solicits your proxy for the 2015 Annual Meeting of Stockholders (the Annual Meeting ) to be held at 9:00 a.m., Pacific time, on Wednesday, June 17, 2015 at our headquarters located at 18500 Von Karman Avenue, Suite 550, Irvine, California 92612, and at any and all adjournments or postponements of the Annual Meeting. The approximate date on which these proxy materials are first being sent or made available to our stockholders is May 4, 2015.

**IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS**

This Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2014 are posted in the Investor Relations Annual Report and Proxy section of our website at [www.sabrahealth.com](http://www.sabrahealth.com). You can also view these materials at [www.proxyvote.com](http://www.proxyvote.com) by using the 12-digit control number provided on your proxy card or Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability ).

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**Q: Why did I receive only a Notice of Internet Availability?**

A: As permitted by the Securities and Exchange Commission (the SEC ), Sabra is furnishing to stockholders its Notice of Annual Meeting, Proxy Statement and Annual Report on Form 10-K for the year ended December 31, 2014 primarily over the Internet. On or about May 4, 2015, we mailed to each of our stockholders (other than those who previously requested electronic delivery or to whom we are mailing a paper copy of the proxy materials) a Notice of Internet Availability containing instructions on how to access and review the proxy materials via the Internet and how to submit a proxy electronically using the Internet. The Notice of Internet Availability also contains instructions on how to receive, free of charge, paper copies of the proxy materials. If you received the Notice of Internet Availability, you will not receive a paper copy of the proxy materials unless you request one.

We believe the delivery options that we have chosen will allow us to provide our stockholders with the proxy materials they need, while lowering the cost of the delivery of the materials and reducing the environmental impact of printing and mailing printed copies.

**Q: What items will be voted on at the Annual Meeting?**

A: The items of business scheduled to be voted on at the Annual Meeting are:

the election to the Board of Directors of the five nominees named in this Proxy Statement to serve until the 2016 annual meeting of stockholders and until their successors are duly elected and qualified (Proposal No. 1);

the ratification of the appointment of PricewaterhouseCoopers LLP ( PwC ) as Sabra 's independent registered public accounting firm for the fiscal year ending December 31, 2015 (Proposal No. 2); and

the approval, on an advisory basis, of the compensation of our Named Executive Officers (as hereinafter defined) (Proposal No. 3).

We will also consider any other business that properly comes before the Annual Meeting or any adjournments or postponements thereof. See **How will voting on any other business be conducted?** below.

**Table of Contents**

**Q: How does the Board recommend I vote on these items?**

A: The Board of Directors recommends that you vote your shares:

FOR the election to the Board of Directors of each of the following five nominees: Craig A. Barbarosh, Robert A. Ettl, Michael J. Foster, Richard K. Matros and Milton J. Walters (Proposal No. 1);

FOR the ratification of the appointment of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2015 (Proposal No. 2); and

FOR the approval, on an advisory basis, of the compensation of our Named Executive Officers (Proposal No. 3).

**Q: Who is entitled to vote at the Annual Meeting?**

A: The record date for the Annual Meeting is April 20, 2015. Stockholders of record of Sabra's common stock as of the close of business on the record date are entitled to receive notice of, and to vote at, the Annual Meeting. Holders of Sabra's preferred stock are not entitled to receive notice of, or to vote at, the Annual Meeting.

**Q: What options are available to me to vote my shares?**

A: Whether you hold shares directly as the stockholder of record or through a bank, broker or other nominee (that is, in street name), your shares may be voted at the Annual Meeting by following any of the voting options available to you below:

*You may vote via the Internet.*

- (1) If you received a Notice of Internet Availability by mail, you can submit your proxy or voting instructions over the Internet by following the instructions provided in the Notice of Internet Availability;
- (2) If you received proxy materials by email, you may submit your proxy or voting instructions over the Internet by following the instructions included in the email; or
- (3) If you received a printed set of the proxy materials by mail, including a paper copy of the proxy card or voting instruction form, you may submit your proxy or voting instructions over the Internet by following the instructions on the proxy card or voting instruction form.



*You may vote via the telephone.* If you are a stockholder of record, you can submit your proxy by calling the telephone number specified on the paper copy of the proxy card you received if you received a printed set of the proxy materials. You must have the control number that appears on your proxy card available when submitting your proxy over the telephone. Most stockholders who hold their shares in street name may submit voting instructions by calling the telephone number specified on the paper copy of the voting instruction form provided by their bank, broker or other nominee. Those stockholders should check the voting instruction form for telephone voting availability.

*You may vote by mail.* If you received a printed set of the proxy materials, you can submit your proxy or voting instructions by completing and signing the separate proxy card or voting instruction form you received and mailing it in the accompanying prepaid and addressed envelope.

*You may vote in person at the Annual Meeting.* All stockholders of record may vote in person at the Annual Meeting. Written ballots will be passed out to anyone who wants to vote at the Annual Meeting. However, if you are the beneficial owner of shares held in street name through a bank, broker or other nominee, you may not vote your shares at the Annual Meeting unless you obtain a legal proxy from the bank, broker or other nominee that holds your shares giving you the right to vote the shares at the Annual Meeting.

**Table of Contents**

*Even if you plan to attend the Annual Meeting, we recommend that you submit your proxy or voting instructions in advance to authorize the voting of your shares at the Annual Meeting so that your vote will be counted if you later are unable to attend the Annual Meeting.*

**Q: What is the deadline for voting my shares?**

A: If you are a stockholder of record, your proxy must be received by telephone or the Internet by 11:59 p.m. Eastern time on June 16, 2015 in order for your shares to be voted at the Annual Meeting. However, if you are a stockholder of record and you received a copy of the proxy materials by mail, you may instead mark, sign and date the proxy card you received and return it in the accompanying prepaid and addressed envelope so that it is received by Sabra before the Annual Meeting in order for your shares to be voted at the Annual Meeting. If you hold your shares in street name, please provide your voting instructions by the deadline specified by the bank, broker or other nominee that holds your shares.

**Q: Once I have submitted my proxy, is it possible for me to change or revoke my proxy?**

A: Yes. Any stockholder of record has the power to change or revoke a previously submitted proxy at any time before it is voted at the Annual Meeting by:

submitting to our Secretary, before the voting at the Annual Meeting, a written notice of revocation bearing a later date than the proxy;

properly submitting a proxy on a later date prior to the deadlines specified in **What is the deadline for voting my shares?** above (only the latest proxy submitted by a stockholder by Internet, telephone or mail will be counted); or

attending the Annual Meeting and voting in person; attendance at the Annual Meeting will not by itself constitute a revocation of a proxy.

For shares held in street name, you may revoke any previous voting instructions by submitting new voting instructions to the bank, broker or other nominee holding your shares by the deadline for voting specified in the voting instructions provided by your bank, broker or other nominee. Alternatively, if your shares are held in street name and you have obtained a legal proxy from the bank, broker or other nominee giving you the right to vote the shares at the Annual Meeting, any previous voting instructions will be revoked, and you may vote by attending the Annual Meeting and voting in person.

**Q: How many shares are eligible to vote at the Annual Meeting?**

A: As of the close of business on the record date of April 20, 2015, there were 59,234,056 shares of Sabra common stock outstanding and eligible to vote at the Annual Meeting. There is no other class of voting securities outstanding. Each share of common stock entitles its holder to one vote at the Annual Meeting.

**Q: How is a quorum determined?**

A: A quorum refers to the number of shares that must be in attendance at an annual meeting of stockholders to lawfully conduct business. The representation, in person or by proxy, of holders entitled to cast a majority of all of the votes entitled to be cast at the Annual Meeting constitutes a quorum at the Annual Meeting. Your shares will be counted for purposes of determining whether a quorum exists for the Annual Meeting if you returned a signed and dated proxy card or voting instruction form, if you submitted your proxy or voting instructions by telephone or the Internet, or if you vote in person at the Annual Meeting, even if you abstain from voting on any of the proposals. In addition, if you are a street name holder, your shares may also be counted for purposes of determining whether a quorum exists for the Annual Meeting even if you do not submit voting instructions to your broker. See **How will votes be counted at the Annual Meeting?** below.

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**Table of Contents**

**Q: What is required to approve each proposal at the Annual Meeting?**

A: *Election of Directors (Proposal No. 1)*. Our Amended and Restated Bylaws ( Bylaws ) provide for a majority voting standard for the election of directors. Under this majority voting standard, once a quorum has been established, each director nominee receiving a majority of the votes cast with respect to his or her election (that is, the number of votes cast FOR the nominee exceeds the number of votes cast AGAINST the nominee) will be elected as a director. As required by our Bylaws, each incumbent director has submitted an irrevocable letter of resignation as a director that becomes effective if the director is not elected by stockholders and the Board of Directors accepts the resignation. The majority voting standard does not apply, however, in a contested election where the number of director nominees exceeds the number of directors to be elected. In such circumstances, directors will instead be elected by a plurality of the votes cast, meaning that the persons receiving the highest number of FOR votes, up to the total number of directors to be elected at the meeting, will be elected. The majority voting standard is discussed further under the section entitled Election of Directors (Proposal No. 1) Majority Voting Standard.

The election of directors at the Annual Meeting is not contested. Therefore, in accordance with the majority voting standard, director nominees will be elected at the Annual Meeting by a majority of the votes cast. Stockholders are not permitted to cumulate their shares for the purpose of electing directors.

*Other Items (Proposal Nos. 2 and 3)*. Once a quorum has been established, pursuant to our Bylaws, approval of each of the other items to be submitted for a vote of stockholders at the Annual Meeting requires the affirmative vote of a majority of all of the votes cast on the proposal at the Annual Meeting.

Notwithstanding this vote standard required by our Bylaws, Proposal No. 2 (ratification of the appointment of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2015) and Proposal No. 3 (advisory approval of named executive officer compensation) are advisory only and are not binding on Sabra. Our Board of Directors will consider the outcome of the vote on each of these items in considering what action, if any, should be taken in response to the vote by stockholders.

**Q: How will votes be counted at the Annual Meeting?**

A: In the election of directors (Proposal No. 1), you may vote FOR, AGAINST or ABSTAIN with respect to each director nominee. For each of the other proposals (Proposal Nos. 2 and 3), you may vote FOR, AGAINST or ABSTAIN. Abstentions with respect to any proposal at the Annual Meeting will be counted as present and entitled to vote for purposes of determining the presence of a quorum, but will not be counted as a vote cast on the proposal and therefore will not be counted in determining the outcome of the proposal.

If you hold your shares in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may generally vote your shares in its discretion on routine matters. However, a broker cannot vote shares held in street name on non-routine matters unless the broker receives voting instructions from the street name holder. The proposal to ratify the appointment of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2015 (Proposal No. 2) is considered routine under applicable rules, while each of the other items to be submitted for a vote of stockholders at the Annual Meeting is considered non-routine. Accordingly, if you hold your shares in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may exercise its discretion to vote your shares on Proposal No. 2, but will not be permitted to vote

your shares on any of the other items at the Annual Meeting. If your broker exercises this discretion, your shares will be counted as present for the purpose of determining the presence of a quorum at the Annual Meeting and will be voted on Proposal No. 2 in the manner directed by your broker, but your shares will constitute broker non-votes on each of the other items at the Annual Meeting. Broker non-votes will not be counted as a vote cast with respect to these other items and therefore will not be counted in determining the outcome of the items.

**Table of Contents**

**Q: How will my shares be voted if I do not give specific voting instructions in the proxy or voting instructions I submit?**

A: If you properly submit a proxy or voting instructions but do not indicate your specific voting instructions on one or more of the items listed above in the Notice of Annual Meeting, your shares will be voted as recommended by the Board of Directors on those items. See **How does the Board recommend I vote on these items?** above.

**Q: How will voting on any other business be conducted?**

A: Although the Board of Directors does not know of any business to be considered at the Annual Meeting other than the items described in this Proxy Statement, if any other business properly comes before the Annual Meeting, a stockholder's properly submitted proxy gives authority to the proxy holders named in the proxies solicited by the Board of Directors to vote on those matters in their discretion.

**Q: Who will bear the costs of the solicitation of proxies?**

A: The cost of preparing the Notice of Annual Meeting of Stockholders, this Proxy Statement, the Notice of Internet Availability and the form of proxy, the cost of making such materials available on the Internet and the cost of soliciting proxies will be paid by Sabra. In addition to solicitation by mail, certain officers, regular employees and directors of Sabra, without receiving any additional compensation, may solicit proxies personally or by telephone. Sabra will request brokerage houses, banks and other custodians or nominees holding stock in their names for others to forward proxy materials to their customers or principals who are the beneficial owners of shares of our common stock and will reimburse them for their expenses in doing so.

**Q: Where can I find the voting results of the Annual Meeting?**

A: We intend to announce preliminary voting results at the Annual Meeting and disclose final voting results in a Current Report on Form 8-K to be filed with the SEC within four business days following the Annual Meeting.

**Table of Contents****SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS, DIRECTORS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of Sabra common stock as of April 20, 2015 for the following: (i) each of Sabra's directors and each executive officer of Sabra identified as a Named Executive Officer in this Proxy Statement, (ii) all persons who are directors and executive officers of Sabra as a group and (iii) any person who is known by Sabra to be the beneficial owner of more than 5% of Sabra's outstanding common stock. This table is based on information supplied to us by our executive officers, directors and principal stockholders or included in a Schedule 13G filed with the SEC.

| Name of Beneficial Owner  | Sabra Shares          |                            |
|---|-----------------------|----------------------------|
|   | Beneficially Owned(1) | Percent of Sabra Shares(1) |
| <b>Directors and Named Executive Officers:</b>  |                       |                            |
| Richard K. Matros   | 876,092 (2)           | 1.5%                       |
| Harold W. Andrews, Jr.  | 172,350               | *                          |
| Talya Nevo-Hacohen  | 173,059               | *                          |
| Craig A. Barbarosh  | 31,118 (3)            | *                          |
| Robert A. Ettl  | 33,955 (4)            | *                          |
| Michael J. Foster   | 47,725 (5)            | *                          |
| Milton J. Walters   | 31,268 (5)            | *                          |
| All persons who are directors and executive officers of Sabra as a group (7 persons, each of whom is named above) | 1,365,567 (6)         | 2.3%                       |
| <b>5% Stockholders:</b>   |                       |                            |
| The Vanguard Group, Inc. and affiliates<br>100 Vanguard Blvd.<br>Malvern, PA 19355                                | 7,623,609 (7)         | 12.9%                      |
| FMR LLC<br>245 Summer Street<br>Boston, MA 02210  | 6,195,956 (8)         | 10.5%                      |
| BlackRock, Inc.<br>55 East 52nd Street<br>New York, NY 10022  | 5,686,547 (9)         | 9.6%                       |

\* Less than 1.0%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise noted below, applicable percentage ownership is determined based on 59,234,056 shares of Sabra common stock outstanding as of April 20, 2015. Restricted stock units vesting within 60 days of April 20, 2015 and shares of common stock subject to restricted stock units that have vested but the payment of which has been deferred until the earlier of the fifth anniversary of the grant date, a change in control or the director's separation from service from the Board of Directors are considered outstanding for purposes of computing the share amount and percentage ownership of the person holding such restricted stock units, but Sabra does not deem them outstanding for

purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

- (2) Consists of shares held by the R&A Matros Revocable Trust, with respect to which Mr. Matros shares voting and investment power.
- (3) Includes (i) 26,430 vested restricted stock units, the payment of which has been deferred, that are payable in shares of common stock and (ii) 688 shares of common stock subject to restricted stock units that vest within 60 days of April 20, 2015.
- (4) Includes (i) 26,767 vested restricted stock units, the payment of which has been deferred, that are payable in shares of common stock and (ii) 688 shares of common stock subject to restricted stock units that vest within 60 days of April 20, 2015.



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**Table of Contents**

- (5) Includes (i) 14,151 vested restricted stock units, the payment of which has been deferred, that are payable in shares of common stock and (ii) 688 shares of common stock subject to restricted stock units that vest within 60 days of April 20, 2015.
- (6) Includes (i) 876,092 shares held by family trusts, with respect to which the officer or director shares voting and investment power, (ii) 81,499 vested restricted stock units, the payment of which has been deferred, that are payable in shares of common stock and (iii) 2,752 shares of common stock subject to restricted stock units that vest within 60 days of April 20, 2015.
- (7) Beneficial share ownership information is given as of December 31, 2014, and was obtained from a Schedule 13G/A filed with the SEC on February 10, 2015 by The Vanguard Group, Inc. ( Vanguard ). According to the Schedule 13G/A, Vanguard has sole voting power over 145,129 shares, shared voting power over 10,275 shares, sole dispositive power over 7,548,738 shares and shared dispositive power over 74,871 shares of our common stock. The Schedule 13G/A states that Vanguard Fiduciary Trust Company ( VFTC ), a wholly owned subsidiary of Vanguard, is the beneficial owner of 64,596 shares as a result of serving as investment manager of collective trust accounts. The Schedule 13G/A also states that Vanguard Investments Australia, Ltd. ( VIA ), a wholly owned subsidiary of Vanguard, is the beneficial owner of 90,808 shares as a result of serving as investment manager of Australian investment offerings. According to information received from Vanguard, the number of shares reported as beneficially owned by Vanguard in the Schedule 13G/A includes 3,955,491 shares, representing 6.7% of our outstanding common stock, that Vanguard Specialized Funds - Vanguard REIT Index Fund ( Vanguard REIT Fund ) separately reported as beneficially owned in a Schedule 13G/A filed on February 6, 2015 with the SEC. According to the Schedule 13G/A, Vanguard REIT Fund has sole voting power over 3,955,491 shares and no dispositive power over any shares of our common stock. Vanguard has represented to us that no Vanguard entity, trust or fund has a direct or indirect ownership in our common stock in excess of 9.9%.
- (8) Beneficial share ownership information is given as of December 31, 2014, and was obtained from a Schedule 13G filed with the SEC on January 12, 2015 by FMR LLC ( FMR ), Edward C. Johnson 3d ( E. Johnson ) and Abigail P. Johnson ( A. Johnson ). According to the Schedule 13G, FMR, E. Johnson and A. Johnson each have sole dispositive power over 6,195,956 shares and FMR has sole voting power over 1,198,657 shares of our common stock. The Schedule 13G states that FMR is a parent holding company and that none of FMR, E. Johnson or A. Johnson have the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act advised by Fidelity Management and Research Company, a wholly owned subsidiary of FMR. FMR has represented to us that no FMR entity, trust or fund has a direct or indirect ownership in our common stock in excess of 9.9%.
- (9) Beneficial share ownership information is given as of December 31, 2014, and was obtained from a Schedule 13G/A filed with the SEC on January 9, 2015 by BlackRock, Inc. ( BlackRock ). According to the Schedule 13G/A, BlackRock has sole voting power over 5,541,772 shares and sole dispositive power over 5,686,547 shares of our common stock. The Schedule 13G/A states that BlackRock is a parent holding company and that various persons have the right to receive or the power to direct the receipt of dividends from or the proceeds from the sale of Sabra's common stock but that no one person's interest in our common stock is more than five percent of the total outstanding common shares.



Table of Contents

**BOARD OF DIRECTORS AND EXECUTIVE OFFICERS**

**Directors of the Company**

Set forth below is a brief biographical description of each of our directors, all of whom have been nominated for election to the Board of Directors at the Annual Meeting. Sabra believes that its directors should be of high character and integrity, be accomplished in their respective fields, have relevant expertise and experience and collectively represent a diversity of backgrounds and experiences. The disclosure below identifies and describes the key experience, qualifications and skills that are important for persons who serve on Sabra's board of directors in light of its business and structure. The specific experiences, qualifications and skills that led to the conclusion that each of our directors should serve on the Board of Directors is also included in the biographical description for each director provided below.

*Leadership experience.* The Board of Directors believes that directors with experience in a significant leadership position, such as having served as chief executive officer of another entity, will provide the Board with special insights. These individuals generally possess extraordinary leadership qualities and the ability to identify and develop those qualities in others. They demonstrate a practical understanding of organizations, processes, strategy, risk management and the methods to drive change and growth.

*Finance experience.* The Board of Directors believes that an understanding of finance and financial reporting processes is important for its directors and therefore it seeks directors who are financially knowledgeable. Sabra measures its operating and strategic performance primarily by reference to financial targets. In addition, accurate financial reporting and robust auditing are critical to Sabra's success.

*Industry experience.* Sabra seeks directors with experience as executives or directors or in other leadership positions in the industries in which it operates. The Board of Directors believes that such experience is important to the director's understanding of Sabra's operations, risks and opportunities.

*Public company experience.* The Board of Directors believes that directors with experience as executives or directors in publicly owned corporations, including as members of the key standing board committees of those corporations, will be more familiar with the securities laws and other issues faced by public companies that do not affect privately owned corporations.

*Other experience.* Sabra seeks directors who bring diverse, yet relevant experience to the Board of Directors.

**Craig A. Barbarosh.** Mr. Barbarosh, 47, has served on our Board of Directors since November 2010. He has been a partner at the law firm of Katten Muchin Rosenman ( Katten ) since June 2012 and is a nationally recognized restructuring expert. Mr. Barbarosh serves on Katten's Executive Committee and Board of Directors. From 1999 until joining Katten, Mr. Barbarosh was a partner at the law firm of Pillsbury Winthrop Shaw Pittman LLP ( Pillsbury ). He served in several leadership positions while a partner at Pillsbury including serving on the firm's Board of Directors, as the Chair of the firm's Board Strategy Committee, as a co-leader of the firm's national Insolvency & Restructuring practice section and as the Managing Partner of the firm's Orange County office. Mr. Barbarosh also currently serves as a director, and as chair of the nominating and governance committee and member of the transaction and

compensation committees, of Quality Systems, Inc., a developer and marketer of healthcare information systems.

Director Qualifications:

Public company experience current director and chair of the nominating and governance committee of a public company; and

Other experience as a practicing attorney specializing in the area of financial and operational restructuring and related mergers and acquisitions, including in the real estate industry.

**Robert A. Ettl.** Mr. Ettl, 55, has served on our Board of Directors since November 2010. He currently serves as Chief Operating Officer of Harvard Management Company (HMC). Mr. Ettl joined HMC in October 2008.

**Table of Contents**

HMC manages the endowment for Harvard University. Previously, he was a Managing Director with Allianz Global Investors from 2001 to 2008, where he was most recently Chief Executive Officer for the Alpha Vision hedge fund subsidiary from 2003 to 2007 and served as an internal management consultant from 2007 to 2008. He was also the firm's Global Chief Technology and Operations Officer from 2001 to 2003. Prior to its acquisition by Allianz, Mr. Ettl held various roles at Pacific Investment Management Co. (PIMCO) from 1995 to 2000. He joined PIMCO in 1995 as Chief Operations Officer, later focusing on PIMCO's international expansion as Chief Operating Officer of PIMCO's Global unit in 1998 and became Executive Vice President and Chief Information Officer in 1999. Mr. Ettl has previously held management positions in Salomon Brothers' government arbitrage trading analytics, technology and operations divisions. He also was associated with Arthur Andersen & Co. (now Accenture) as a senior consultant. Mr. Ettl served as a director of Advent Software, Inc., a provider of software and services for the investment management industry, from November 2007 until November 2009.

Director Qualifications:

Leadership experience expertise managing operations of financial services companies in a variety of officer positions including chief executive officer, chief operating officer, and chief technology officer;

Finance experience chief operating officer of Harvard Management Company responsible for managing Harvard University's endowment and related assets and previously chief executive officer of a hedge fund;

Industry experience management consulting in the healthcare field; and

Public company experience former director and a member of the audit committee of a public company.

**Michael J. Foster.** Mr. Foster, 61, has served on our Board of Directors since November 2010. He served as a member of Old Sun's board of directors from 2005 until the Separation (as each capitalized term is defined in Executive Compensation Compensation Discussion and Analysis Introduction) and as a member of Sun Healthcare Group, Inc.'s (Sun) board of directors from the Separation until Sun's acquisition by Genesis HealthCare LLC in December 2012. Mr. Foster is a managing director of RFE Management Corp. of New Canaan, Connecticut, where he has been employed since 1989. RFE Management Corp. is the investment manager for RFE Investment Partners VII L.P. and RFE Investment Partners VIII, L.P. (collectively referred to as RFE) and other private equity investment funds. Mr. Foster was a director of several publicly held healthcare companies five or more years ago, including Res-Care, Inc., a provider of residential, therapeutic and educational support to people with developmental or other disabilities, from 2001 to 2005. Mr. Foster is also, and has been previously, a director of several privately held portfolio companies of RFE, including Peak Medical Corporation, an operator of long-term care inpatient centers, from 1998 to 2005.

Director Qualifications:

Industry experience former director of a long-term care company;

Public company experience current and former director of several public companies; and

Other experience as director of multiple privately held companies.

**Richard K. Matros.** Mr. Matros, 61, has served as Sabra's President and Chief Executive Officer and as a director since May 2010, and he has served as Chairman of the Board since November 2010. He was Chairman of the board of directors and Chief Executive Officer of Old Sun from 2001 until the Separation. Mr. Matros served as Chief Executive Officer and President of Bright Now! Dental from 1998 to 2000 and as a director from 1998 until its sale in December 2010. From 1998 until the sale of its operations in 2006, Mr. Matros was also a member of, and a member of the management committee of, CareMeridian, LLC ( CareMeridian ), a healthcare company that specialized in offering subacute and skilled nursing for patients suffering from traumatic brain injury, spinal cord injury and other catastrophic injuries. Previously, from 1994 to 1997, he served Regency Health Services, Inc., a publicly held long-term care operator, holding positions as Chief Executive Officer, President, director and Chief

**Table of Contents**

Operating Officer. Prior to that time, from 1988 to 1994, he served Care Enterprises, Inc., holding positions as Chief Executive Officer, President, Chief Operating Officer, director and Executive Vice President Operations. Mr. Matros currently serves on the executive board for RFE Investment Partners and is the Executive Producer of Sabra Films, LLC.

Director Qualifications:

Industry experience chief executive officer of Sabra since the Separation and executive of long-term care companies for over 25 years and experience in long-term care companies for 35 years;

Public company experience former and current chief executive officer of publicly held companies; and

Leadership experience former and current chief executive officer.

**Milton J. Walters.** Mr. Walters, 72, has served on our Board of Directors since November 2010. He served as a member of Old Sun's board of directors from 2001 until the Separation and as a member of Sun's board of directors, the chairman of Sun's audit committee and a member of its compensation committee from the Separation until Sun's acquisition by Genesis in December 2012. Mr. Walters has served with a financial consulting firm as President of Tri-River Capital since 1999 and previously served with investment banking companies for over 25 years, including: Managing Director of Prudential Securities from 1997 to 1999; Senior Vice President and Managing Director of Smith Barney from 1984 to 1988, where he was in charge of the financial institutions group; and the head of the financial institutions group of Warburg Paribas Becker from 1969 to 1984, including as Managing Director from 1978 to 1984. Previously, from 2008 until its sale in June 2014, Mr. Walters served as a director of Fredericks of Hollywood Group, Inc., a former publicly held company that designs, manufactures and sells women's clothing, where he most recently served as the lead director and sole member of the independent committee.

Director Qualifications:

Public company experience director and audit committee chairman of public companies;

Leadership experience current president of a financial consulting firm, former managing director of investment banking companies and chairman of a non-profit organization; and

Finance experience current audit committee chairman of public companies and extensive experience from 40 years of financial consulting and investment banking positions.

**Executive Officers of the Company**

The following sets forth biographical information regarding our executive officers, other than Mr. Matros, whose biographical information is set forth above.

**Harold W. Andrews, Jr.** Mr. Andrews, 50, served as Sabra's Treasurer and Secretary from May 2010 to November 2010 and has served as Sabra's Executive Vice President, Chief Financial Officer and Secretary since November 2010. Mr. Andrews is also a member of, and a member of the management committee of, Journey Health Properties, LLC and Journey Lane 5, LLC, two real estate holding entities he organized to own and lease specialized healthcare facilities and a commercial office building. From 1997 to May 2008, Mr. Andrews was also a member, a member of the management committee and Chief Financial Officer of CareMeridian. Previously, from 1996 to 1997, Mr. Andrews served as the Vice President of Finance for Regency Health Services, Inc., a provider of post-acute care services. Prior to that time, he spent 10 years in public accounting at Arthur Andersen LLP, including serving as senior manager for publicly traded healthcare and real estate companies. Mr. Andrews is also a CPA and a member of the AICPA and Financial Executives International. He also serves on the board of directors of Links Players International, a non-profit organization.



**Table of Contents**

**Talya Nevo-Hacohen.** Ms. Nevo-Hacohen, 55, has served as Sabra's Executive Vice President, Chief Investment Officer and Treasurer since November 2010. From September 2006 to August 2008 and from February 2009 to November 2010, Ms. Nevo-Hacohen served as an advisor to private real estate developers and operators regarding property acquisitions and dispositions, corporate capitalization, and equity and debt capital raising. From August 2008 to February 2009, Ms. Nevo-Hacohen was a Managing Director with Cerberus Real Estate Capital Management, LLC, an affiliate of Cerberus Capital Management, L.P., a private investment firm. From 2003 to 2006, Ms. Nevo-Hacohen served as Senior Vice President - Capital Markets and Treasurer for HCP, Inc., a healthcare REIT. Previously, from 1993 to 2003, Ms. Nevo-Hacohen worked for Goldman, Sachs & Co. where she was a Vice President in the investment banking and finance, operations and administration divisions. Prior to her affiliation with Goldman Sachs, she practiced architecture and was associated with several architectural firms in New York.

There are no family relationships among any of our directors or executive officers.

**Table of Contents**

**CORPORATE GOVERNANCE**

**Corporate Governance Guidelines**

The Board of Directors has adopted Corporate Governance Guidelines, which provide the framework for the governance of our company and represent the Board's current views with respect to selected corporate governance issues considered to be of significance to our stockholders. The Corporate Governance Guidelines direct our Board's actions with respect to, among other things, Board composition and director qualifications, selection of the Chairman of the Board and the Lead Independent Director, composition of the Board's standing committees, stockholder communications with the Board, succession planning and the Board's annual performance evaluation. A current copy of the Corporate Governance Guidelines is posted in the About Sabra Governance Documents section of our website at [www.sabrahealth.com](http://www.sabrahealth.com).

**Director Independence**

Our Corporate Governance Guidelines require that a substantial majority of our Board of Directors qualify as independent directors under applicable rules of the NASDAQ Stock Market LLC (the NASDAQ rules) and the rules and regulations of the SEC. In considering the independence of each director, the Board of Directors reviews information provided by each director and considers whether any director has a relationship that would interfere with the director's exercise of independent judgment in carrying out his responsibilities as a director. Our Board of Directors has affirmatively determined that none of Messrs. Barbarosh, Ettl, Foster or Walters has a relationship that, in the opinion of the Board of Directors, would interfere with the director's exercise of independent judgment in carrying out his responsibilities as a director and that each such director is an independent director under the NASDAQ and SEC rules. Mr. Matros does not qualify as an independent director because he is employed as our President and Chief Executive Officer.

**Committees of the Board of Directors**

The standing committees of our Board of Directors include: Audit, Compensation, and Nominating and Governance. The members of these standing committees are appointed by and serve at the discretion of the Board of Directors. Current copies of the charters for each of these committees are posted in the About Sabra Governance Documents section of our website at [www.sabrahealth.com](http://www.sabrahealth.com).

Our Chief Executive Officer and Secretary regularly attend meetings of our Board committees when they are not in executive session and report on matters that are not addressed by other officers. In addition, our directors are encouraged to communicate directly with members of management regarding matters of interest, including matters related to risk, at times when meetings are not being held.

*Audit Committee*

The Audit Committee consists of Mr. Barbarosh (Chair), Mr. Foster and Mr. Walters. The Board of Directors has determined that each member of the Audit Committee is an independent director under the NASDAQ rules. In addition, each member of the Audit Committee is also independent under Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and satisfies the additional financial literacy requirements of the NASDAQ rules. The Board has designated one member of the Audit Committee, Mr. Foster, as an audit committee financial expert as defined by SEC rules. The Board based its determination on the qualifications and business experience of Mr. Foster described above under Board of Directors and Executive Officers Directors of the Company.

The Audit Committee is responsible for overseeing Sabra's accounting and financial reporting processes and the audit of Sabra's financial statements, including the integrity of Sabra's financial statements, the qualifications and independence of Sabra's independent registered public accounting firm and the performance of Sabra's independent registered public accounting firm and internal auditors. Among other things, the Audit Committee is responsible for the appointment, compensation and retention of Sabra's independent registered public accounting firm; pre-approval of all audit and non-audit services to be performed by the independent registered public accounting firm; review of Sabra's internal controls and disclosure controls and procedures; oversight of Sabra's internal audit function; oversight of Sabra's legal and regulatory compliance and risk assessment and risk

## **Table of Contents**

management policies; and review and approval of any related party transactions. The Audit Committee is also responsible for preparing the Audit Committee Report included in this Proxy Statement. In performing its responsibilities, the Audit Committee meets regularly with management, Sabra's independent registered public accounting firm and Sabra's internal auditors.

### *Compensation Committee*

The Compensation Committee consists of Mr. Ettl (Chair), Mr. Barbarosh and Mr. Walters. The Board of Directors has determined that each member of the Compensation Committee is an independent director under the NASDAQ rules. In making the determination regarding the independence of each member of the Compensation Committee, the Board of Directors considered whether the director has a relationship with Sabra that is material to the director's ability to be independent from management in connection with the duties of a member of the Compensation Committee.

The Compensation Committee oversees and determines the compensation of Sabra's Chief Executive Officer and other executive officers, including salaries, bonuses and awards of equity-based compensation, approves all employment and severance agreements for executive officers, makes recommendations to the Board with respect to the adoption or amendment of incentive compensation plans and stock-based benefit plans, administers Sabra's stock-based benefit plans and makes recommendations to the Board of Directors concerning the compensation of directors. The Compensation Committee is also responsible for reviewing the Compensation Discussion and Analysis included in this Proxy Statement and for preparing the Compensation Committee Report included in this Proxy Statement.

The Compensation Committee is solely responsible for making the final decisions on compensation for Sabra's executive officers. However, the Compensation Committee takes into account recommendations of Sabra's Chief Executive Officer in determining the compensation (including stock awards) of executive officers other than the Chief Executive Officer. Otherwise, Sabra's officers do not have any role in determining the form or amount of compensation paid to the executive officers of Sabra. In addition, the Compensation Committee retains the power to appoint and delegate matters to a subcommittee comprised of at least one member of the Compensation Committee, except that the Compensation Committee may not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Compensation Committee as a whole. The Compensation Committee does not currently intend to delegate any of its responsibilities to a subcommittee.

Pursuant to its charter, the Compensation Committee is authorized to retain compensation consultants to assist in the evaluation of compensation to Sabra's executive officers. As further described under "Executive Compensation Compensation Discussion and Analysis" below, since our becoming a separate publicly traded company following the Separation (as defined in "Executive Compensation Compensation Discussion and Analysis Introduction"), the Compensation Committee has retained Frederic W. Cook & Company, Inc. ("FWC") as its independent compensation consultant to assist the Compensation Committee with the design and structure of our executive compensation program and the amounts payable thereunder. The Compensation Committee is directly responsible for the appointment, compensation and oversight of FWC's work, and does not believe FWC's work has raised any conflict of interest. FWC reports only to the Compensation Committee and does not perform services for us, except for executive compensation-related services on behalf of, and as instructed by, the Compensation Committee. All compensation decisions were made solely by our Compensation Committee.

### *Nominating and Governance Committee*

The Nominating and Governance Committee consists of Mr. Ettl (Chair), Mr. Foster and Mr. Walters. The Board of Directors has determined that each member of the Nominating and Governance Committee is an independent director under the NASDAQ rules.

As further described below under Director Nomination Process, the Nominating and Governance Committee assists our Board of Directors in identifying individuals qualified to become Board members and selecting the director nominees for each annual meeting of stockholders. The Nominating and Governance Committee also makes recommendations to the Board of Directors concerning the structure and operations of the Board and its committees and is responsible for overseeing the Corporate Governance Guidelines, for developing and recommending to the Board of Directors any changes to the Corporate Governance Guidelines, for overseeing new director orientation and director continuing education and for receiving reports annually from the Chief Executive Officer concerning senior management development and succession plans.

## **Table of Contents**

### **Meetings and Attendance**

During 2014, there were seven meetings of the Board of Directors, six meetings of the Audit Committee, four meetings of the Compensation Committee and two meetings of the Nominating and Governance Committee. Each of our directors attended at least 75% of the aggregate meetings of the Board and the committees of the Board on which he served during 2014. In addition, the independent directors meet regularly in executive session without the presence of management. Mr. Foster, who has been designated by our Board of Directors as Lead Independent Director, chairs these executive sessions of the independent directors.

Our Board of Directors encourages each director to attend the annual meeting of stockholders. All of our directors attended the 2014 annual meeting of stockholders in person or by telephone.

### **Board Leadership Structure**

Our Corporate Governance Guidelines provides that the Board is free to make its choice for Chairman and Chief Executive Officer in any way that the Board of Directors considers best for Sabra at a given point in time. Accordingly, the Chairman and Chief Executive Officer positions may be filled by one individual or by two different individuals. The Board believes that the most effective leadership structure for Sabra at this time is for Mr. Matros to serve as both our Chairman and Chief Executive Officer, in concert with an independent director serving as our Lead Independent Director.

Our Board of Directors believes that Mr. Matros, our Chief Executive Officer, is best suited to serve as our Chairman because he is the director most familiar with Sabra's business and industry and most capable of identifying strategic priorities. In the Board's view, combining the roles of Chairman and Chief Executive Officer facilitates the flow of information between management and the Board, and helps assure that the strategies adopted by the Board will be best positioned for execution by management.

To promote the independence of the Board and appropriate oversight of management and to demonstrate our commitment to strong corporate governance, the Board of Directors designates annually an independent, non-employee director to serve as our Lead Independent Director. As noted above, our Board of Directors has currently designated Mr. Foster to serve as our Lead Independent Director. The Lead Independent Director helps to facilitate free and open discussion and communication among the independent directors of the Board. The duties of the Lead Independent Director include chairing all meetings of the independent directors when they meet in executive session and chairing all meetings of the full Board in the absence of the Chairman; representing the Board in meetings with third parties, as appropriate; and working with the Chairman to finalize information provided to the Board, meeting agendas and meeting schedules. The Lead Independent Director also sets the agenda for the meetings held in executive session, and discusses issues that arise from these meetings with the Chief Executive Officer. The non-employee members of the Board meet in executive session during each regularly scheduled Board meeting and during special meetings of the Board as appropriate.

### **Risk Oversight**

One of the principal functions of our Board of Directors is to provide oversight concerning the assessment and management of risk related to our business. The Board of Directors is involved in risk oversight through approval authority with respect to fundamental financial and business strategies and major corporate activities, including material acquisitions and financings, as well as through its oversight of management and the committees of the Board of Directors. Management is responsible for identifying the material risks facing Sabra, implementing appropriate risk management strategies and ensuring that information with respect to material risks is shared with the Board of

Directors or the appropriate Board committee. In connection with this responsibility, members of management provide regular reports to the Board of Directors regarding business operations and strategic planning, financial planning and budgeting and regulatory matters, including any material risk to Sabra relating to such matters.

## **Table of Contents**

The Board of Directors has delegated oversight for specific areas of risk exposure to committees of the Board of Directors as follows:

The Audit Committee is responsible for periodically discussing Sabra's overall risk assessment and risk management policies with management, our internal auditors and our independent registered public accounting firm as well as Sabra's plans to monitor, control and minimize any risk exposure. The Audit Committee is also responsible for primary risk oversight related to our financial reporting, accounting and internal controls and oversees risks related to our compliance with legal and regulatory requirements.

The Compensation Committee oversees, among other things, the assessment and management of risks related to Sabra's compensation plans, policies and overall philosophy and equity-based incentive plans.

The Nominating and Govern.867px; text-indent:24.933px">The committee charters and code of ethics is available on the Company's website located at [www.paramountgold.com](http://www.paramountgold.com). Copies of these documents are also available upon written request to the Company's Secretary. The Company will post information regarding any amendment to, or waiver from, its Code of Ethics on its website.

The Board periodically reviews its corporate governance policies and practices. Based on these reviews, the Board will adopt changes to policies and practices that are in the best interests of the Company and as appropriate to comply with any new requirements of the Commission or any Exchange listing requirements.

### **Director Independence**

As part of the Company's Corporate Governance Guidelines, the Board has established a policy requiring a majority of the members of the Board to be independent. The Board has determined that Mr. Talbot, Mr. Stinglhamber, Mr. Carden and Mr. Dinning satisfy any listing standards as well as the Company's independence standards.

### **Communications with the Board**

Stockholders and other interested parties may communicate with the Board or specific directors by mail addressed to: Board of Directors, c/o Paramount Gold and Silver Corp.346 Waverly Street, Ottawa, Ontario Canada K2P 0W5. Attn: Christopher Crupi. If you wish to communicate with a specific board member, the communication should be sent to the indicated address with the name of the Board member appearing on the front cover of your communication.

### **Audit Committee**

The Audit Committee currently consists of Robert Dinning, Ian Talbot, John Carden and Michel Stinglhamber. During fiscal 2008, the Audit Committee held 6 meetings. The Board has determined that each member of the Audit Committee is independent. Each member of the audit committee is financially literate and experienced in financial matters. The Board has also determined that Mr. Dinning is an audit committee financial expert within the meaning of applicable Commission regulations.

The Audit Committee assists the Board in its oversight of the Company's financial reporting, focusing on the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications and



independence of the Company's independent auditor and the performance of the Company's internal audit function and independent auditor. The Audit Committee's primary responsibilities include:

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acting as the direct contact with the Company's independent auditor, who is ultimately accountable to the Audit Committee and the Board;

.

appointing the independent auditor, setting the terms of compensation and retention for the independent auditor and overseeing the work of the independent auditor;

.

pre-approving all audit and non-audit services provided to the Company by the independent auditor, except for items exempt from pre-approval requirements under applicable law; and

.

acting in respect of all other matters as to which Audit Committee action is required by law or applicable listing standards.

The Audit Committee's responsibilities and key practices are more fully described in its written charter.

Following is a report of our audit committee for the year ended June 30, 2008

### **AUDIT COMMITTEE REPORT**

The Audit Committee is currently composed of four directors who are neither officers nor employees of the Company. All members of the Committee are independent .

In connection with its review of the audited financial statements appearing in the Company s Annual Report on Form 10-K for fiscal 2008, the Committee:

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discussed these financial statements with the Company s management and the Company s independent auditors, HLB Cinnamon Jang Willoughby & Company;

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discussed with the Company s independent auditors those matters required to be discussed under Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380) and SAS No. 90 (Committee Communication).

.  
received and reviewed the written disclosures and the letter from our independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with our auditors their independence.

Based on the review and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for fiscal 2008, as filed with the Commission.

The Committee has selected and engaged HLB Cinnamon Jang Willoughby & Company as our independent auditor to audit and report to the Company s stockholders on the Company s financial statements for fiscal 2009.

This report is submitted by the members of the Audit Committee.

#### *Members of the Audit Committee*

Robert Dinning (Chair)

Ian Talbot

John Carden

Michel Stinglhamber

#### **Compensation Committee**

The Compensation Committee currently consists of Ian Talbot (Chairman), Daniel Hachey and John Carden. During fiscal 2008, the Compensation Committee held 2 meetings. Mr. Talbot and Mr. Carden qualify as independent directors.

The Compensation Committee assists the Board in overseeing executive compensation and administers the Company's executive bonus and equity compensation plan. The Compensation Committee's primary responsibilities include:

- evaluating the performance of and establishing compensation for the Company's Chief Executive Officer;

- establishing compensation levels for the Company's directors and executive officers and reviewing executive compensation matters generally;

- making recommendations to the Board with respect to approval and adoption of all cash and equity-based incentive plans; and

- approving awards of options, restricted shares, restricted share units and other equity rights to executive officers.

The Compensation Committee's responsibilities are discussed more fully in its charter. A report of the Compensation Committee is set forth below:

### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed with management the Executive Compensation and Analysis. Based on that review and discussion, the Compensation Committee recommended to the Board of Directors of the Company that the Executive Compensation and Analysis be included in this Proxy Statement.

This report is submitted by the members of the Compensation and Option Committee.

#### *Members of the Compensation Committee*

Ian Talbot (Chair)

Daniel Hachey

John Carden

#### **Nominating Committee**

The Nominating Committee currently consists of Ian Talbot, Michel Stinglhamber and Daniel Hachey. Mr. Talbot and Mr. Stinglhamber are independent directors.

The Nominating Committee assists the Board in carrying out its oversight responsibilities relating to the composition of the Board. The Nominating Committee's primary responsibilities include considering and making recommendations to the Board with respect to:

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nominees for election to the Board consistent with criteria approved by the Board or the Nominating Committee, including director candidates submitted by the Company's stockholders.

The Nominating Committee's responsibilities and key practices are more fully described in its charter.

#### ***Director Nominees***

The Nominating Committee utilizes a variety of methods for identifying and evaluating director nominees. The Committee may consider candidates recommended by the Company's directors, members of management, professional search firms or stockholders. These candidates may be considered at any point during the year.

#### ***Qualifications***

In evaluating nominees for election as a director, the Nominating and Governance Committee considers a number of factors, including the following:

personal and professional qualities, characteristics, attributes, accomplishments and reputation in the business community and otherwise;

.

reputation in a particular field or area of expertise;

.

current knowledge and contacts in the markets in which the Company does business and in the Company's industry and other industries relevant to the Company's business;

.

the ability and willingness to participate fully in board activities, including attendance at, and active participation in, meetings of the Board and its committees;

.

the skills and personality of the nominee and how the Nominating Committee perceives the nominee will fit with the existing directors and other nominees in maintaining a Board that is collegial and responsive to the needs of the Company and its stockholders;

.

the willingness to represent the best interests of all of the Company's stockholders and not just one particular constituency; and

.

diversity of viewpoints, background and experience, compared to those of existing directors and other nominees.

### ***Stockholder Recommendations***

The Nominating Committee will evaluate director candidates recommended by a stockholder in the same manner as candidates otherwise identified by the Nominating Committee. The Company has never received any recommendations for director candidates from stockholders. In considering director candidates recommended by stockholders, the Nominating Committee will also take into account such factors as it considers relevant, including the length of time that the submitting stockholder has been a stockholder of the Company and the aggregate amount of the submitting stockholder's investment in the Company.

Stockholders may recommend candidates at any time, but to be considered by the Nominating Committee for inclusion in the Company's proxy statement for the next annual meeting of stockholders, recommendations must be submitted in writing no later than 120 days before the first anniversary of the date the proxy statement was mailed to stockholders in connection with the previous year's annual meeting. A stockholder's notice must contain the following:

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the name of the director candidate, the name of the stockholder recommending the director candidate for consideration, and the written consent of the director candidate and stockholder to be publicly identified;

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a written statement by the director candidate agreeing to be named in the Company's proxy materials and serve as a member of the Board if nominated and elected;

.  
a written statement by the director candidate and the recommending stockholder agreeing to make available to the Nominating Committee all information reasonably requested in connection with the Nominating Committee's consideration of the director candidate; and

.  
the director candidate's name, age, business and residential address, principal occupation or employment, number of shares of Common Stock and other securities beneficially owned, a resume or similar document detailing personal and professional experiences and accomplishments, and all other information relating to the director candidate that would be required to be disclosed in a proxy statement or other filing made in connection with the solicitation of proxies for the election of directors.

The stockholder's notice must be signed by the stockholder recommending the director candidate for consideration and sent to the following address: Paramount Gold and Silver Corp. 346 Waverly Street Ottawa, Ontario Canada K2P 0W5, attention Nominating Committee / Director Candidate Recommendation).

### **NOMINATING COMMITTEE REPORT**

The Nominating Committee has reviewed and discussed with management the election of the Company's nominees for its Board of Directors. Based on that review and discussion, the Nominating Committee recommended to the Board of Directors of the Company that the proposed nominees to serve on our Board of Directors be included in this Proxy Statement.

This report is submitted by the members of the Compensation and Option Committee.

*Members of the Nominating Committee*

Ian Talbot (chairman)

Daniel Hachey

Michel Stinglhamber

## COMPENSATION OF OUR OFFICERS AND DIRECTORS

### Overview

#### *Overview of Compensation Program*

Our compensation philosophy is based on our belief that our compensation programs should: be aligned with stockholder's interests and business objectives; reward performance; and be externally competitive and internally equitable. In order to attract quality board members in a manner commensurate with our status as an exploratory stage mining company, with no revenues, our Compensation Committee, examined studies conducted by independent industry sources in both the United States and Canada as to the level of compensation received by officers and directors. Their primary focus was with respect to compensation paid to officers and directors of mining companies which have no proven mineral reserves. Since our common stock is also traded on the Toronto Stock Exchange, our compensation committee examined public filings of companies which trade on the Toronto Stock Exchange as well as companies which file periodic reports with the Securities and Exchange Commission. The Compensation Committee also reviewed compensation studies prepared by independent consulting firms such as Spencer Davis located in Toronto, Ontario.

Our Compensation Committee studied the compensation level paid to officers and directors of more than a two dozen different resource companies. Overall compensation varied considerably. Companies paying their executive officers and directors on the high end include:

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Ecu Silver Mining Corp.

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Orko Silver Corp.

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Sabina Silver Corporation

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Silver Corp. Metals Inc.

As a group salaries and bonuses paid to the company's chief executive ranged from \$94,000 to \$294,000 with an average salary and bonus totaling \$249,106. Salaries and bonuses paid to the Company's president ranged from \$208,000 to \$240,000 with an average salary and bonus totaling \$224,677. It should be noted that Orko Silver Corp, and Sabina Silver Corporation do not have company presidents. Salaries and bonuses paid to each company's chief financial officer ranged from \$60,000 to \$142,000 with an average salary, inclusive of bonus totaling \$114,000. (Salary figures are for 2007 and 2008)

With respect to option grants to each company's chief executive officer, the market value for options ranged from \$1 million to \$6 million with average compensation of option grants totaling \$3,046,906. With respect to option grants for each company's president, option grants ranged from \$1 million to \$2.3 million with an average of \$1,665,000. Similarly, with respect to option grants for the company's chief financial officers, payments ranged from \$202,000 to \$661,000 with an average grant of \$427,6000.



Ecu Silver and Orko Silver did not pay any cash compensation to its directors. The other identified companies paid directors from \$35,000 to \$95,000. The principal means of compensating these directors was through stock options which ranged from \$808,000 to \$3.6 million with an average compensation grant for stock options totaling \$2,425,799.

Compensation levels for other resource companies varied significantly in scope and range:

For example, cash compensation paid to the chief executive officer of Sierra Minerals totaled \$70,000 in cash and \$1 million in stock options. Virgin Metals Inc. paid its chief executive officer \$170,000 in cash and \$1.5 million in stock options while Starcore International Ventures, Ltd. paid their chief executive officer \$66,000 in cash and \$400,000 in stock options. (Salary figures are for 2006 and 2007.)

In establishing the compensation level paid to our officers and directors, the Compensation Committee attempted to achieve a balance between compensation paid to the officers and directors as compared to the compensation package offered our employees and consultants. Recognizing the need to preserve working capital for drilling operations, employees and consultants have been offered cash and equity compensation packages which has permitted us to retain skilled personnel with little employee turnover.

In making compensation decisions, we seek to achieve three objectives:

(1)

Providing a total compensation package which is competitive and therefore, enables us to attract and retain, high-caliber executive personnel;

(2)

Integrating compensation programs with our short-term and long-term strategic plan and business objectives; and

(3)

Encouraging achievement of business objectives and enhancement of stockholder value by providing executive management long-term incentive through equity ownership.

Our Compensation Committee, determines compensation for our executive officers and directors is decided by this Committee. The Compensation Committee reviews recommendations submitted to the Committee as well as industry averages for similarly situated companies. The Committee reviews these recommendations and reports and makes recommendations.

In determining the appropriate compensation level as compared to other similarly situated mining companies, the Compensation Committee has determined that the primary goal will be to preserve its cash situation. Except for nominal consideration paid to one director, directors do not receive cash compensation for serving on the Board of Directors or for serving on any committee of the Board of Directors. Rather, the Compensation Committee's primary objective with respect to equity compensation is to establish equity based compensation within industry guidelines. Since the Company's objective is to retain cash, the Compensation Committee recommended to the entire Board that equity based compensation be the primary form of compensation utilized and should be within the higher range of equity based compensation.

#### Other Factors Considered in Establishing Compensation for Executive Officers

We are an exploratory stage mining company. We will not be generating revenues from operations for a significant period of time. As a result, the use of traditional performance standards, such as corporate profitability, is not believed to be appropriate in the evaluation of our performance or our individual executives. The compensation of our executive officers is based, in substantial part, on industry compensation practices, trends in the mining industry as well as the achievement of our business and the individual executive officers' objectives. Such objectives are established and modified as necessary to reflect changes in market conditions and other factors. Individual performance is measured by reviewing whether these objectives have been achieved.

It is the responsibility of our Compensation Committee to make recommendations to our Board of Directors with respect to appropriate levels of compensation.

#### *Annual Salary*

We pay an annual salary to our employees and the executive officers as consideration for fulfillment of certain roles and responsibilities.

#### *Determining Annual Salary*

Increases to annual salary reflect a reward and recognition for successfully fulfilling the position's role and responsibilities, the incremental value of the experience, knowledge, expertise and skills the individual acquires and develops during

employment with us and adjustments as appropriate based on external competitiveness and internal equity.

*Equity-Based Compensation*

We grant equity-based compensation to consultants, employees, including the executive officers, to attract, motivate, engage and retain highly qualified and highly sought-after employees. We grant stock options on a broad basis to encourage all employees to work with a long-term view. Stock options are inherently performance-based because they deliver value to the option holder only if the value of our stock increases. Thus, stock options are a potential reward for long-term value creation and serve as an incentive for employees who remain with us to contribute to the overall long-term success of the business.

*Retirement Benefits*

We currently do not offer any type of retirement savings plan for our executive officers, directors or employees.

*Perquisites*

None of our executive officers have perquisites in excess of \$10,000 in annual value.

*Severance Benefits*

We currently do not offer any type of severance program for our executive officers or employees. As we expand our operations, and on the recommendation of our Compensation Committee, we may implement such a plan to preserve employee morale and productivity and encourage retention in the face of the disruptive impact of an actual or rumored workforce reduction or a change in control of our company.

Based upon the above stated policies and industry norms, the Compensation Committee has determined that since directors ordinarily do not receive cash compensation, and our executive officers receive less than industry averages with respect to cash compensation, overall equity consideration should be within industry guidelines, but generally higher than industry average. The Compensation Committee believes that the overall cash and equity compensation paid to officers and directors meet these mandates and is in-line with similarly situated exploratory stage mining companies.

**COMPENSATION OF OUR OFFICERS**

We compensate our officers with both common stock and common stock options. With respect to the stock awards granted to Mr. Crupi, the Board agreed to issue 400,000 shares of its common stock (valued for accounting purposes at \$792,000) for meeting the following criteria. (1.) Secure a sufficient level of financing to undertake an extensive drilling program, (2) Secure a listing for the Company on the American Stock Exchange and (3) Secure a listing for the Company on the Toronto Stock Exchange. In connection with meeting these objectives, Mr. Crupi was granted 400,000 stock options valued at \$560,000.

Except with respect to the stock grants to Mr. Crupi, the Compensation Committee and the entire Board of Directors did not establish any quantifiable criteria with respect to the level of either the stock grants or options. Rather, the Compensation Committee evaluated both cash, stock grants and stock options paid to similarly situated mining companies.

With respect to other stock grants and options issued to the Company's officers the Nominating Committee considered an overall compensation package that included both cash and stock based compensation which would be in line with the Company's overall operations and compensation levels paid to similarly situated mining companies. It was further noted that any stock grants to officers (and directors) were issued on the condition that any shares of common stock received as a result of any stock grants could not be sold for a period of one year. By requiring a one year holding period, our officers were given the incentive to strive for shareholder value despite declining market conditions. Similar criteria were utilized with respect to stock awards and options granted to Mr. Reed, Mr. Clancy and Ms. Letellier.

All stock options were granted at the market on the date of grant. Under Generally Accepted Accounting Principles (GAAP) we were required to value these grants based on the date of grant. The dollar value of both the stock options and the stock awards are accounting entries and do not necessarily reflect actual compensation received by any of our officers.



The table below summarizes the total compensation paid or earned by our Chief Executive Officer, Chief Financial Officer, and our vice president who represents the only other executive officer who earned \$100,000 in salary and bonus for the fiscal years indicated.

| Name, Principal and Position       | Fiscal Year | Salary (\$) | Bonus (\$) | Stock Award |     | Option Awards |     | Non equity Incentive Plan | Non qualified Deferred Comp | All other | TOTAL        |
|------------------------------------|-------------|-------------|------------|-------------|-----|---------------|-----|---------------------------|-----------------------------|-----------|--------------|
|                                    |             |             |            | (1)         | (3) | (3)           | (3) | (\$)                      | (\$)                        |           |              |
| Christopher Crupi,<br>Pres/CEO/Dir | 2008        | 156,000     |            | 792,000     |     | 560,000       |     |                           |                             |           | \$ 1,508,000 |
|                                    | 2007        | 39,000      | 35,000 (2) |             |     | 552,000       |     |                           |                             |           | 626,000      |
|                                    | 2006        | -0-         |            | 630,000     |     |               |     |                           |                             |           | 630,000      |
| Lucie Letellier<br>C/F/O           | 2008        | 125,000     |            |             |     | 210,000       |     |                           |                             |           | \$ 235,000   |
|                                    | 2007        | 82,600      |            | 112,500     |     |               |     |                           |                             |           | 195,100      |
|                                    | 2006        | 26,000      |            |             |     |               |     |                           |                             |           | 26,000       |
| Michael Clancy<br>Secretary        | 2008        |             |            |             |     | 105,000       |     |                           |                             |           | \$105,000    |
|                                    | 2007        |             |            |             |     |               |     |                           |                             |           | -0-          |
|                                    | 2006        |             |            |             |     |               |     |                           |                             |           | -0-          |
| Charles W. Reed<br>V/P             | 2008        | 166,000     |            | 79,200      |     | 560,000       |     |                           |                             |           | \$ 301,200   |
|                                    | 2007        | 63,750      | 35,000 (2) |             |     | 552,000       |     |                           |                             |           | 650,750      |
|                                    | 2006        | 62,641      |            | 562,500     |     |               |     |                           |                             |           | 625,141      |

(1)

The amounts in these columns reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years indicated in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R.). These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executives.

(2)

The \$35,000 bonus paid to Mr. Crupi was based on a review of the services provided and the time each officer devoted to the Company's operations. Mr. Crupi was critical to securing the Company's financing in 2007 and waived any type of additional salary until the financing was secured. Mr. Reed's \$35,000 bonus was paid on account of the additional work and time required on his part in overseeing operations at the San Miguel property. Both Mr. Crupi and Reed were awarded these bonuses for extra time and expenses incurred in the financing initiatives which took place from December 1, 2006 to March 31, 2007.

(3) Reflects the dollar value of all stock awards and stock options which we have disclosed in our financial statements. Our audited financial statements have been filed with the Securities and Exchange Commission and included in our annual report for the year ended June 30, 2008, Copies of these financial statements are available at no cost by contacting the Company.



**Grants of Plan-Based Awards**

The following table shows all plan-based compensation awards granted to the named executive officers:

| <b>Name</b>       | <b>Year</b> | <b>No. of Shares of Common Stock Issued to Officers</b> | <b>All Other Option Awards No. of Shares of Common Stock</b> | <b>Exercise Price of Option Awards</b> | <b>Grant Date Fair Value of Stock</b> |
|-------------------|-------------|---|--|--|---------------------------------------|
| Christopher Crupi | 2008        | 400,000   | 400,000  | \$2.42                                 | \$2.42                                |
|                   | 2007        | -0-   | 400,000  | \$2.06                                 | \$2.06                                |
|                   | 2006        | 300,000   | -0-  | -0-                                    | -0-                                   |
| Charles W. Reed   | 2008        | 40,000  | 400,000  | \$2.42                                 | \$2.42                                |
|                   | 2007        | -0-   | 400,000  | \$2.06                                 |                                       |
|                   | 2006        | 300,000   |  |  |                                       |
| Lucie Letellier   | 2008        | -0-   | 150,000  | \$2.42                                 | \$2.42                                |
|                   | 2007        | -0-   | -0-  | -0-                                    | -0-                                   |
|                   | 2006        | -0-   | -0-  | -0-                                    | -0-                                   |
| Michael Clancy    | 2008        | -0-   | 75,000   | \$2.42                                 | \$2.42                                |
|                   | 2007        | -0-   | -0-  | -0-                                    | -0-                                   |
|                   | 2006        | -0-   | -0-  | -0-                                    | -0-                                   |

**Outstanding Equity Awards at Year End**

The following table provides information regarding stock options held by our executive officers . As of June 30, 2008 each of our officers has been granted the following options:

| <b>Name</b>       | <b>Option Awards</b>                        |                        |                       |                         | <b>Stock Awards</b>                  |  |   |                               |                                     |
|-------------------|---|------------------------|-----------------------|-------------------------|--------------------------------------|--|---|-------------------------------|-------------------------------------|
|                   | <b>No. of Securities Underlying Options</b> | <b>Expiration Date</b> | <b>Exercise Price</b> | <b>Unvested Options</b> | <b>Market Value Unvested Options</b> | <b>Unvested Shares of Common Stock</b> | <b>Market Value Unvested Common Stock</b> | <b>No. of Unearned Shares</b> | <b>Market Value Unearned Shares</b> |
| Charles W. Reed   | 400,000                                     | 8/22/12                | \$2.42                | -0-                     | -0-                                  | -0-                                    | -0-                                       | -0-                           | -0-                                 |
|                   | 400,000                                     | 10/31/11               | \$2.06                | -0-                     | -0-                                  | -0-                                    | -0-                                       | -0-                           | -0-                                 |
| Christopher Crupi | 400,000                                     | 8/22/12                | \$2.42                | -0-                     | -0-                                  | -0-                                    | -0-                                       | -0-                           | -0-                                 |
|                   | 400,000                                     | 11/30/11               | \$2.06                | -0-                     | -0-                                  | -0-                                    | -0-                                       | -0-                           | -0-                                 |



|                 |         |         |        |     |     |     |     |     |     |
|-----------------|---------|---------|--------|-----|-----|-----|-----|-----|-----|
| Michael Clancy  | 75,000  | 8/22/12 | \$2.42 | -0- | -0- | -0- | -0- | -0- | -0- |
| Lucie Letellier | 150,000 | 8/22/12 | \$2.42 | -0- | -0- | -0- | -0- | -0- | -0- |

**All of the options identified above are fully vested. No executive officer has exercised any options.**

### **Employment Agreements**

Commencing April 1, 2007 Christopher Crupi entered into a consulting agreement with the Company which provides for payment of \$13,000 per month in consideration for his serving as our chief executive officer.

Commencing April 1, 2007, we pay Charles Reed, our vice president and chief geologist \$7,500 per month (\$750 per day) in consideration for his agreement to work a minimum of ten (10) days per month. Most of this time is spent in the field at our various mining properties or investigating and conducting due diligence on our behalf for other prospective acquisitions.

Commencing July 1, 2008, we pay Lucie Letellier, our chief financial officer, an annual salary of \$133,000 per year.

**OPTION GRANTS TO CONSULTANTS**

During the year ended June 30, 2008, the board granted 1,674,500 stock options to consultants as follow:

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150,000 common stock options exercisable until November 29, 2011, at a price of \$3.15;

.

62,500 stock options exercisable until September 30, 2009, at a price of \$2.50;

.

1,342,000 stock options exercisable until December 31, 2009, at a price of \$2.50. Of this grant, 25,000 options were cancelled due to termination of contract and 15,000 options are exercisable until February 11, 2009, due to death of optionee;

.

50,000 stock options exercisable until March 1, 2013, at a price of \$2.25;

.

10,000 stock options exercisable until March 31, 2010, at a price of \$2.50

.

During the year 30,000 stock options from the 2006/2007 grant were cancelled due to the resignation of the optionee.

Changes in the Company's stock options for the year ended June 30, 2008 are summarized below:

|                            | <b>Number</b> | <b>Weighted Avg.<br/>Exercise Price</b> |
|----------------------------|---------------|---|
| Balance, beginning of year | 1,620,000     | \$2.24                                  |
| Granted                    | 1,615,000     | \$2.42                                  |
| Granted                    | 150,000       | \$3.15                                  |
| Granted                    | 62,500        | \$2.50                                  |
| Granted                    | 1,342,000     | \$2.50                                  |
| Granted                    | 50,000        | \$2.25                                  |
| Granted                    | 10,000        | \$2.50                                  |
| Expired on cancelled       | (115,000)     | \$2.37                                  |
| Balance, end of period     | 4,734,500     | \$2.43                                  |

At June 30, 2008, there were 4,734,500 exercisable options outstanding.

**Option Exercises in Last Year:**

There were no option exercises by the named executive officers, directors or consultants for the year ended June 30, 2008.

### **Certain Relationships and Related Transactions**

It is our practice and policy to comply with all applicable laws, rules and regulations regarding related party transactions, including the Sarbanes-Oxley Act of 2002. A related person is any executive officer, director, or more than 5% shareholder of the Company, including any of their immediate family members, and any entity owned or controlled by such persons. Our audit committee has been charged with responsibility for approving all related party transactions as part of the audit committee's overall responsibilities as set forth in its charter. In considering related party transactions, the Audit Committee takes into account the relevant available facts and circumstances. In the event a director has an interest in the proposed transaction, the director must recuse himself from the deliberations and approval.

During the year ended June 30, 2008, directors received payments on account of professional fees and reimbursement of expenses in the amount of \$437,178 (2007: \$1,161,339).

On January 8, 2008, the Company issued 195,000 shares to Directors as compensation at a trading value of \$1.98 for a total consideration of \$386,100. On January 8, 2008, an officer was awarded 400,000 shares as compensation vesting immediately at a trading value of \$792,000.

On December 20, 2007, a director was issued 50,000 shares as compensation at a trading value of 1.75 for a total consideration of \$87,500.

During the year ended June 30, 2008 the Company made payments pursuant to a premises lease agreement with a corporation having a shareholder in common with a director of the company (see Note 13).

In 2006, the Company entered into a premises lease agreement for office space in Ottawa with a corporation in which Christopher Crupi is a shareholder and was formerly a director. The Company pays a monthly rent of approximately \$7,000 (Canadian) for 2008 which the Company believes represents the fair market value for similar leased space.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Included in this proxy statement, annexes and associated documents are "forward-looking" statements, as well as historical information. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors. Forward-looking statements include those that use forward-looking terminology, such as the words "anticipate," "believe," "estimate," "expect," "intend," "may," "project," "plan," "will," "shall," "should," and similar expressions, including when used in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. All forward-looking statements attributable to us are expressly qualified in their entirety by these and other factors.

To assist you in an evaluation of the proposals which will be voted upon at the annual meeting, we are providing the following financial information:

|                              | <b>Quarter ended</b> | <b>Year Ended</b> | <b>Year Ended</b> | <b>Year Ended</b> |
|------------------------------|----------------------|-------------------|-------------------|-------------------|
|                              | <b>September 30</b>  | <b>June 30,</b>   | <b>June 30,</b>   | <b>June 30,</b>   |
|                              | <b>2008</b>          | <b>2008</b>       | <b>2007</b>       | <b>2006</b>       |
|                              | <i>(Unaudited)</i>   | <i>(Audited)</i>  | <i>(Audited)</i>  | <i>(Audited)</i>  |
| Revenue                      | \$ 97,277            | \$ 457,562        | \$ 268,605        | \$ 6,860          |
| Expenses                     | \$ 3,158,655         | \$ 18,867,523     | \$ 15,938,494     | \$ 1,881,322      |
| Cash                         | \$ 1,211,497         | \$ 3,199,848      | \$ 16,231,388     | \$ 465,791        |
| Total Assets                 | \$ 19,496,183        | \$ 11,932,328     | \$ 22,189,838     | \$ 3,848,669      |
| Current Liabilities          | \$ 1,605,956         | \$ 1,714,620      | \$ 779,345        | \$ 429,246        |
| Total Liabilities            | \$ 1,605,956         | \$ 1,714,620      | \$ 779,345        | \$ 429,246        |
| Working Capital<br>(Surplus) | \$ 2,577,595         | \$ 4,119,068      | \$ 18,137,737     | \$ 443,320        |
| Accumulated Deficit          | \$ 39,017,464        | \$ 35,956,085     | \$ 17,546,124     | \$ 1,876,225      |

### Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Comparison of Operating Results for the Three Months ended September 30, 2008 and 2007 and from Inception, (March 25, 2005).

##### Revenues

We are an exploratory mining company with no revenues from operations to date. All of our revenues to date represent interest income which we have earned as a result of our cash holdings. Our cash holdings were generated from the sale of our securities. Interest income for the three months ended September 30, 2008 was \$97,277 as compared to \$185,062 for the three

months ended September 30, 2007. Since inception (March 29, 2005), we have generated \$830,304 in interest income. The interest income has been generated as a result of various financings which we have undertaken. Monies are deposited in interest bearing accounts until such time as needed for drilling and general working capital purposes.

Our interest income continues to decline as a result of our diminishing cash holdings. Unless we secure additional capital financing, of which there can be no assurance, we anticipate that this trend will continue.

## Operating Expenses

For the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, our total operating expenses were \$3,158,655 as compared to \$6,663,049. Total expenses since inception through September 30, 2008 were \$39,847,768.

Our total operating expenses for the comparative quarters in September 2008 as compared to September 2007 declined approximately 53%. The two most significant line item expenses directly related to this decrease in expenses is attributable to lower exploration costs and lower costs attributable to stock based compensation.

Exploration and geology costs totaled \$1,449,884 and \$339,595 for the three months ended September 30, 2008 as compared to \$2,048,446 and \$80,194 for the three months ended September 30, 2007.

The significant decrease in our exploration expenses is related to management's decision to reduce ongoing drilling activities until such time as additional working capital can be secured. In addition, management has determined that in the short term, their ongoing exploration activities should focus on reviewing geological data to further identify optimal drilling targets. The renewed emphasis on geology as compared to drilling resulted in a 450% increase in geology costs during this most recently completed fiscal quarter.

Total exploration and geology costs since inception were \$13,917,961 and \$2,202,650 respectively.

We expect that we will continue to incur a minimum of \$75,000 on geology costs for the next three months. Any further drilling on the property will be subject to the results of our geological results as we attempt to identify proven mineral reserves of both gold and silver, of which there can be no assurance.

We have in the past relied heavily on stock based compensation in order to preserve cash for drilling expenses. Stock based compensation has proven to be an attractive means to compensate some of our key employees, directors, consultants and geologists. Management believes that by utilizing the Company's common stock as incentive for quality work, the return on investment will in the long run, be more beneficial to the Company than simply cash compensation.

We did however experience a significant decline in stock based compensation for the three months ended September 30, 2008 as compared to the comparable period in 2007, declining from 3,590,907 to \$346,566. The primary reason for this decline was, our stock price has declined significantly. On October 1, 2007 our common stock was trading at \$2.59 per share as compared to \$0.65 on September 30, 2008.

Office and administrative expenses increased from \$76,889 to \$293,474. The primary reasons for this significant increase in costs were the result of fees and costs associated with the closing of our office in Peru and approximately \$160,000 in costs and expenses incurred as with respect to securing tax refunds from the Mexican government.

We also witnessed a significant decline in corporate communication fees which declined from \$207,066 to \$68,230 for the three and nine months ended September 30, 2008. Total corporate communication fees since inception were \$954,828.

Professional fees for the three months ended September 30, 2008 decreased from \$266,883 to \$234,976. Professional fees are related to our dual listings on the American Stock Exchange, Toronto Stock Exchange as well as regulatory compliance. In addition, we incurred significant legal fees with respect to our planned operations and funding activities with Mexoro Minera and the acquisition of the remaining 30% equity in the San Miguel joint venture with Tara Gold Resources.

## Net Income (loss)

Our Net Loss for the three months ended September 30, 2008 was \$(3,061,378) as compared to a net loss of \$(6,477,987) in 2007. Due to foreign currency translation adjustments, our total comprehensive loss for the three months ended September 30,

2008 was \$(3,450,831) as compared to \$(6,463,075). Our Net Loss per Share was \$(0.06) as compare to a Net Loss per Share of \$(0.14) for the comparable periods in 2007. Until such time as we are able to identify mineral deposits which we believe can be extracted in a commercially reasonable manner, of which there can be no assurance, we will continue to incur ongoing losses.

## Liquidity and Capital Resources

### Assets and Liabilities

#### September 30, 2008 as compared to June 30, 2008

As of September 30, 2008, we had cash totaling \$1,211,497 as compared to \$3,199,848 as of June 30, 2008. This decline of approximately \$2 million is directly attributable to ongoing expenses with no revenues from operations as well as the limited success in securing additional financing. Amounts receivable totaled \$1,380,322 as compared to \$1,384,492 and represent primarily value added tax and refunds receivable from the Mexican government. Notes receivable including accrued interest totaled \$1,402,981 as compared to \$870,000.

Prepaid expenses and deposits declined from \$379,348 to \$187,551. This decline is primarily attributable to stock based compensation which has been earned since the date of issuance.

Total current assets were \$3,825,192 as compared to \$5,833,688.

Our long term assets at September 30, 2008 totaled \$15,313,832 as compared to \$6,098,640. Long term assets consist of our mineral properties located within the Sierra Madre gold district in Mexico which we valued at \$13,679,197 as compared to \$4,738,747 as of June 30, 2008. The Company has capitalized the acquisition costs of these properties. We also have fixed assets consisting of property and equipment totaling \$592,960 as compared to \$354,996 net of depreciation.

Our mineral properties were valued as of September 30, 2008 at \$13,679,197 as compared to \$4,738,747. The significant increase in the value of our mineral properties from the quarter ended September 30, 2007 is directly attributable to an increase in the size of our holdings.

Total assets at September 30, 2008 were \$19,139,024 as compared to \$11,932,328. This represents an increase of approximately 60% which is primarily attributable to our acquisition of the remaining 30% interest in our joint venture.

Our current liabilities as of September 30, 2008 totaled \$1,605,956 as compared to \$1,714,620 at June 30, 2008.

We have a working capital surplus at March 31, 2008 (current assets less current liabilities) of \$2,219,236 as compared to a working capital surplus of \$4,119,068 as of June 30, 2008, representing a decline of approximately 47%. We anticipate that we will be able to meet our currently existing ongoing contractual commitments for any property or mineral rights and have sufficient financial resources to finance necessary exploration and geological endeavors.

Since our inception, we have funded our activities by issuing stock. Although we will continue periodically to seek external sources of funds, there can be no assurance that we will be able to raise sufficient capital to fund our operations. If we do raise equity capital, depending on the number of shares issued and the issue price of the shares, current shareholders' interests may be diluted.

#### *Plan of Operation - Exploration*

Our plan of operation for the next twelve months is to focus our exploratory efforts on the San Miguel groupings. It is very difficult to forecast with any degree of certainty the extent of our drilling program for 2009. Unless we receive additional financing or enter into some type of joint venture agreement whereby exploratory expenses will be borne by both parties, we will have to significantly reduce our exploratory program to preserve capital.

Further exploration programs will also be dependent upon drill rig availability and weather. We have returned both drill rigs pending further assay results in an attempt to maximize further drilling opportunities and identify a proven reserve.



In order to enhance shareholder value, increase the number of mineral concessions which we own and to further increase the likelihood of identifying a joint venture partner we have entered into an agreement with Tara Gold Resources Corp. ( Tara Gold ) to acquire all of the remaining equity ownership of the Joint Venture previously entered into between the parties on February 7, 2007.

In consideration for the acquisition of Tara Gold's interest, Paramount issued to Tara Gold a total of 7,350,000 shares of its legended common stock. Also, in connection with the closing of the transaction, all invoices previously submitted by Paramount for Tara Gold's contribution to the exploration and development of the San Miguel property have been cancelled. An additional 300,000 Paramount common shares (the Consultant Shares) were issued to a consultant who facilitated the closing of this transaction. In consideration for the transfer of the mining concessions, Paramount will pay to Tara Gold \$100,000 MXN.

Closing of the transaction will be subject to approval of the stock issuance by both the American Stock Exchange and the Toronto Stock Exchange as well as registering the transaction with the Bureau of Mines in Mexico. In the event that this transaction does not close, Tara Gold will be obligated to reimburse us for expenses we incurred representing Tara Gold's proportionate contribution to the Joint Venture. As collection is not reasonably assured, as of September 30, 2008, we have not recorded amounts receivable from Tara Gold. Any amounts recovered will be recorded as a recovery of exploration expenditures in the period received.

In addition to the Tara Gold acquisition, on June 19, 2008 we signed a letter of intent with Garibaldi Resources Corp. for grant of an option and joint venture to acquire approximately 17,000 hectares of property adjoining our San Miguel interest. We have made an initial \$100,000 payment under this agreement. In order to earn a 50% interest, we will be required to make an additional payment of \$400,000, issue 600,000 shares of our common stock and spend 700,000 in exploration expenses. There are also provisions in the Letter of Intent which give us the opportunity to increase our interest in the joint venture to 70%. The foregoing will be subject to execution of a definitive agreement.

### **Quantitative and Qualitative Disclosure About Market Risk**

Our major commodity price risk exposure relates to the then current market value of any silver or gold reserves which we choose to exploit. A dramatic drop in the price of gold or silver would make commercial exploitation of any of our properties less likely than if prices remained at their current level.

We are also subject to currency fluctuations between the United States, Mexico and Canada. We do not plan on entering into any hedging transactions. Rather, management will continue to evaluate the market risks and address these issues should they become material to the Company's ongoing operations.

### ***Accounting Implications of the Stock Option Repricing***

Shareholders should note that the repricing of all the outstanding common stock options, if approved by the shareholders, will result in an additional compensation expense of \$250,000 to be recorded in the current quarter of repricing. In addition a corresponding increase (credit) of \$250,000 to contributed surplus will be recorded in the current period of repricing. There is no retroactive effect or restatement of prior periods. The calculation was based on the provisions of SFAS 123 (see example in paragraph A149) using the Black Scholes model with an assumed fair market value of \$0.40 per share on the date of repricing and an exercise price of \$0.50. Readers are cautioned that if the fair market value per share is higher or lower than \$0.40 per share on the date of repricing the compensation expense will be higher or lower and this difference may be material. There are no other accounting implications of the proposed stock option repricing.

### **Our Auditors**

We have recommended that HLB Cinnamon Jang Willoughby & Company (HLB) be appointed as our independent public accounting firm. HLB was our independent public accounting firm for the year ended June 30, 2008. We do not expect a representative of HLB will attend our annual shareholder meeting. However, a representative of HLB will make themselves available via conference call to make a statement if they so desire and to answer shareholder questions regarding our financial statements, accounting implications as a result of the repricing of our stock options and such other matters as may be brought before them by our shareholders. We have included in our discussion under proposal two a breakdown of the fees we have paid to HLB.



## PROPOSAL ONE

### ELECTION OF DIRECTORS

At the annual meeting, seven directors will be elected to serve a one year term or until the next annual shareholders meeting and until such director's successor shall have been elected and qualified.

Our Board has nominated Christopher Crupi, Charles Reed, Michel Yvan Stinglhamber, Daniel Hachey, John Carden, Ian Talbot and Robert Dinning. All nominees are currently members of the Board.

Each nominee has expressed his willingness to serve as a director if elected, and we know of no reason why any nominee would be unable to serve. If a nominee becomes unavailable before the election, the proxies may be voted for one or more substitute nominees designated by the Board, or the Board may decide to reduce the number of directors.

Set forth below is certain information with respect to each nominee for director.

#### **Christopher Crupi**

Mr. Crupi is a chartered accountant. He serves as our President, Chief Executive Officer and Director. Mr. Crupi founded the Company in 2005 and oversees the administrative and operations activities of the Company. From 2000 to 2004, Mr. Crupi was a Vice President of PricewaterhouseCoopers LLP. Mr. Crupi received his Bachelor of Commerce degree from the University of Ottawa in 1992. Mr. Crupi received his Chartered Accountant designation in 1995. Mr. Crupi is also a director of Industrial Minerals Inc., an OTC traded company.

#### **Charles William Reed**

Mr. Reed serves as our Vice President and Director. Mr. Reed has been our Vice President since 2005. Mr. Reed is our manager of exploration in Mexico. Mr. Reed is a consultant to the Company and has committed 50% of his time to his duties at Paramount. In addition to his duties at Paramount, Mr. Reed is also Chief Geologist of AmMex Gold and Silver Corp. Mr. Reed has significant mining experience in Mexico, as he was formerly Chief Geologist - Mexico for Minera Hecla S. A. de C. V. ( Hecla ), a subsidiary of Hecla Mining (NYSE:HL) from 1998 to 2004, and Regional Geologist, Mexico and Central America for Echo Bay Exploration from 1993 to 1998. While at Hecla, Mr. Reed supervised detailed exploration at the Noche Buena project, Sonora, and the San Sebastian silver and gold mine, Durango. He also discovered and drilled the Don Sergio vein that was later put into production. Mr. Reed received his Bachelor of Science Degree, Mineralogy, from the University of Utah in 1969 and is a Registered Professional Geologist in the State of Utah. He also completed an Intensive Spanish Program at Institute De Lengua Espanola, San Jose, Costa Rica in 1969.

#### **John Carden, Ph.D.**

Dr. Carden joined the Company as a director in 2006. Dr. Carden has more than twenty years experience in exploration management, teaching, and research. Since 2001 Dr. Carden has been a geologic consultant for several junior resource companies. Dr. Carden is currently a director of Corex Gold Corporation and Magnum Uranium Corp., each TSX Venture Exchange listed companies. From 1998 to 2001, Dr. Carden was the President of Latitude Minerals Corporation, a publicly traded company on the Canadian Venture Exchange, and Director of U.S. Exploration for Echo Bay Mining from 1992 to 1998. Dr. Carden is a licensed Professional Geologist in the State of Washington. Dr. Carden received both his Bachelor of Science and Master of Science in geology from Kent State University in 1970 and 1971, respectively, and his doctorate in geology from Geophysical Institute, University of Alaska in 1978.

#### **Daniel Hachey**

Mr. Hachey joined the Company as a director in 2006. Mr. Hachey has a strong capital markets background with twenty years of experience in investment banking largely in the area of public equity financing including initial public offerings and private placements. Currently, Mr. Hachey is President and CEO of Greenwich Global Capital Inc., a public capital pool company listed on the TSX Venture Exchange. From 2003 to 2003, Mr. Hachey was President and CEO of Valencia Ventures Inc., a publicly-traded mining company listed on the TSX Venture Exchange. From 2001 to 2003, he led the Mining Investment Banking Group at Research Capital Corp.. From 1998 to 2001, Mr. Hachey was at HSBC and leaving as Senior Vice President and Director, Head of Technology Group

(investment banking). Mr. Hachey received a Bachelor of Science degree from Concordia University in 1982 and a Master of Business Administration degree in finance from McGill University in 1986.

### **Michel Yvan Stinglhamber**

Mr. Stinglhamber joined the Company as a director in May 2007. Mr. Stinglhamber has significant experience in the Mexican mining industry. He currently represents Umicore Belgium in Mexico and as a director for Unimet SA de CV, a wholly owned subsidiary of Umicore Belgium which is active in the fields of precious metals exploration. Mr. Stinglhamber is also the Chairman of the Mining Group-Compania Minera Misiones SA de CV located in Mexico. He is also on the Board of Directors of Marina Costa Baja in Mexico.

Since 1991, Mr. Stinglhamber has been involved in a number of mining ventures in Mexico. He was the president of the Belgo Luxemburg Mexican Chamber of Commerce in 1987, and in 2002, was awarded the Belgian decoration of Officer of the Crown .

### **Ian Talbot**

Mr. Talbot joined the Company as a director effective May 31, 2007. He is an attorney and has significant experience with both mining and exploration stage companies. He is the president and CEO of Arcus Development Group Inc. and Rimfire Minerals Corporation, both TSX Exchange listed junior mineral exploration companies. In addition, effective November 1, 2008, Mr. Talbot became the Chief Operating Officer for Strategic Metals Ltd., Atac Resources Ltd. and Rockhaven Resources Ltd., all junior mineral exploration companies listed on the TSX Venture Exchange.

Between 2002 and 2006, Mr. Talbot was employed by BHP Billiton World Exploration Inc. as senior legal counsel. Prior to joining BHP Billiton, Mr. Talbot practiced mining and securities law with several Vancouver, British Columbia based law firms. He received a Bachelor of Laws degree from the University of British Columbia in 1989 and a Bachelor of Science (geology) degree from Brandon University in 1984.

### **Robert Dinning**

Mr. Dinning joined Paramount in March 2008 as a director. Mr. Dinning is a Chartered Accountant, and life time member of the Alberta Institute of Chartered Accountants. Mr. Dinning has operated a consulting practice since 1977. He has an extensive background in corporate finance, operating in the mining and high tech industries. Mr. Dinning has been an officer and director of various public and private companies for the past 35 years, including various Companies in both the United States and Canada. Mr. Dinning has since 2000 held various positions with Apolo Gold & Energy Corp., a Vancouver, British Columbia based company focused on precious metal mining opportunities in Central and South America and currently serves as Apolo's Chief Financial Officer, Secretary and as a Director. Mr. Dinning also serves as the Chief Executive Officer, Chief Financial Officer, Secretary and as a director of Industrial Minerals Inc., an Ottawa, Ontario based, exploratory mining company. Mr. Dinning's principal place of business is located at 12-1900 Indian River Cr North Vancouver B.C. Canada V7L 2R1.

**The Board unanimously recommends that you vote ``FOR'' the appointment of each of the named directors.**

## PROPOSAL TWO

### RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board has selected the firm of HLB Cinnamon Jang Willoughby & Company as our independent registered public accounting firm for the year ending June 30, 2009, subject to ratification by our stockholders at the annual meeting. HLB Cinnamon Jang Willoughby & Company was our independent registered public accounting firm the year ended June 30, 2008 and 2007.

HLB Cinnamon Jang Willoughby & Company has been our independent registered public accounting firm since 2005.

**AUDIT FEES.** The aggregate fees billed for professional services rendered was \$58,000 and \$60,000 for the audit of our annual financial statements for the fiscal years ended June 30, 2008 and 2007, respectively, and \$18,000 and \$30,000 for the reviews of the financial statements included in our Forms 10-Q for the fiscal years ended 2008 and 2007 respectively.

**TAX FEES.** No fees were billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning services.

**ALL OTHER FEES.** Other than the services described above, there were no other services provided by our principal accountants for the periods indicated.

Representatives of HLB Cinnamon Jang Willoughby & Company are not expected to be present in person at the annual meeting. However, they will be available to respond to questions via conference call.

**The Board unanimously recommends that you vote ``FOR'' the ratification of the appointment of HLB Cinnamon Jang Willoughby & Company as our independent registered public accounting firm for the years ending June 30, 2009.**

**PROPOSAL THREE**

**AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF OUR AUTHORIZED SHARES OF COMMON STOCK.**

**INCREASE IN THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

Our Articles of Incorporation currently authorize the issuance of 100 million shares of common stock. On October 2, 2008 our Board of Directors unanimously approved a proposal to amend our Articles of Incorporation to increase the number of authorized shares of common stock from 100 million to 200 million shares of common stock. As of the Record Date, 57,513,632 shares of common stock were outstanding.; 4,734,500 shares of common stock were reserved for issuance upon the exercise of outstanding stock options and 7,994,657 shares of common stock were reserved for issuance upon the exercise of outstanding warrants

Since inception, substantially all of our necessary funding has come from the proceeds of the sale of common stock. We have also issued shares of our common stock to acquire mineral rights and mining interests. In order to continue our drilling program and fund ongoing operations, we will need to secure additional capital. This will in all likelihood require us to issue additional shares of common stock. Given current market conditions and the decline in the price of our common stock, we believe that it is necessary to increase the number of shares of common stock that we are authorized to issue to facilitate capital formation, acquire mining concessions and employ and retain qualified personnel.

The additional shares of common stock would have rights identical to the shares of common stock currently outstanding or reserved for issuance. Holders of our common stock are entitled to one vote for each share of common stock held and are entitled to receive such dividends as may be declared from time to time by the Board of Directors. In addition, upon a liquidation, dissolution or winding up of our affairs, the holders of common stock are entitled to receive a pro rata portion of our net assets which remain, if any, after the payment of any debts, obligations and liquidation preferences. There are no preemptive rights associated with any of our stock.

The Board of Directors believes that the availability of the proposed amount of additional authorized shares of common stock will provide us with the flexibility to issue common stock in connection with equity financing, stock options, warrants, possible future acquisitions, stock splits or other appropriate general corporate purposes. If the proposal is approved, the additional shares will be available for issuance without further authorization of the shareholders, unless such action is required by applicable law or the rules of the American Stock Exchange. At this time, we have no plans, understandings or agreements for the issuance or use of the proposed additional shares of common stock.

The issuance of additional shares of common stock or the rights to acquire such shares would have the effect of diluting our earnings per share in the event that we become profitable and will dilute the voting power of current shareholders who do not acquire sufficient additional shares to maintain their percentage of share ownership.

A copy of the proposed amendment to our articles of incorporation is attached hereto and marked Exhibit A.

**The Board unanimously recommends that you vote ``FOR'' the ratification of the amendment to our certificate of incorporation increasing the number of authorized shares of common stock to 200 million shares of \$0.001 par value common stock.**





## PROPOSAL FOUR

### RATIFICATION OF THE 2008/09 STOCK INCENTIVE AND EQUITY COMPENSATION PLAN

#### Introduction

The Board of Directors of Paramount believe that the proposed 2008/09 Stock Incentive and Equity Compensation Plan (the Plan ) will be effective in attracting directors, executives and employees to the Company by providing incentives and rewards to those directors, executives, employees and consultants responsible for the Company's continued growth. The Board further believes that incentive stock options and nonqualified stock options granted under the Plan would provide a form of incentive that aligns the economic interests of management, employees, consultants and those of our stockholders.

The Board desires a plan that gives it flexibility to determine what types of awards are beneficial to the Company, its employees, directors and stockholders as changes occur with respect to compensation trends, accounting treatment of awards, tax treatment of awards to the Company or its employees or directors, or its cash flow needs.

The Plan will provide the flexibility that the Board desires. In addition to incentive stock options and nonqualified stock options, the Plan will allow the Board or its compensation committee, as the administrator of the Plan, to award stock options, restricted shares and stock appreciation rights to employees, directors and consultants. We may also issue registered shares if we register the Plan on Form S-8 with the SEC.

The Board of Directors of Paramount has unanimously approved the adoption of the Plan. A copy of the Plan is included herewith and marked Exhibit B.

#### Material Features of the Plan

The material features of the Plan are summarized below. The summary is qualified in its entirety by reference to the specific provisions of the Plan, the full text of which is set forth as Exhibit A to this proxy statement.

#### Administration

The Plan will be administered by the Compensation Committee of the Board of Directors. The Committee will have the authority to determine, within the limits of the express provisions of the Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards or grants.

#### Types of Awards

Awards under the Plan may include restricted shares of common stock, registered shares of Common Stock, (if a registration statement has been filed) nonqualified stock options, incentive stock options ( ISOs ) and stock appreciation rights ( SARs ). Restricted Shares are shares of common stock issued to a recipient subject to such terms and conditions, including, without limitation, forfeiture and to such restrictions against sale, transfer or other disposition, as the Committee may determine at the time of issuance. A SAR is the right to receive cash, common stock or both based on the increase in the market value of the shares of common stock covered by such SAR from the initial date of the performance period for such SAR to the date of exercise. If the Committee elects to pay an amount to a participant in common stock, such common stock shall be valued at fair market value (as defined in the Plan) as the day of exercise of the SAR. We may only issue registered securities if the Company files a Registration Statement with the Securities and Exchange Commission.

The Committee may determine that all or a portion of an award may be deferred, that it may be vested at such times and upon such terms as the Committee may select, or that a recipient must be an employee or director at the time the award is paid or exercised. The Plan provides that ISOs may be granted to a recipient during a calendar year only if the aggregate fair market value (determined as of the time an ISO is granted) of common stock with respect to which ISOs are exercisable for the first

time by such recipient during any calendar year under the Plan and any other incentive stock option plans maintained by the Company does not exceed \$100,000.

### **Eligible Recipients of Awards**

The Committee may grant awards to any of the Company's employees, to a member of the Board of Directors and to our consultants.

### **Restrictions on Awards to Insiders**

No Award under the Plan shall be granted if the aggregate number of shares of common stock (i) issued to insiders (as that term is defined in the Plan) of the Company within any one year period, or (ii) issuable to insiders at any time, under the Plan and any other security based compensation arrangement of the Company could exceed 10% of the Company's shares of common stock issued and outstanding, on a non-diluted basis, at the time of the grant of the Award.

### **Term of Options**

The term of each stock option shall be fixed by the Committee but no stock option shall be exercisable more than ten (10) years after the date the stock option is granted. If any stock options are set to expire during any black-out period which would prohibit the option holder from exercising the stock option during the black-out period, then in that event the option term shall be extended for an additional ten (10) days beyond the end of any black-out period to permit the holder to exercise the stock option.

### **Option Price**

The option price per share of common stock purchasable under either an ISO or non-qualified stock option shall be determined by the Committee at the time of grant but shall not be less than 100% of the fair market value (as defined in the Plan) of the share of common stock at the time of grant. Notwithstanding the foregoing, if an option is modified, extended or renewed and, thereby, deemed to be the issuance of a new option under the Internal Revenue Code, the exercise price of an option may continue to be the original exercise price even if less than the fair market value of the common stock at the time of such modification, extension or renewal.

### **Market Appreciation of Stock Appreciation Rights**

The Plan provides for Tandem and Non-Tandem Stock Appreciation Rights. A Tandem Stock Appreciation Right shall mean the right to surrender to the Company all (or a portion) of a stock option in exchange for an amount in cash or stock equal to the excess of (i) the fair market value (as that term is defined in the Plan), on the date such stock option (or such portion thereof) is surrendered, of the common stock covered by such stock option (or such portion thereof), over (ii) the aggregate exercise price of such stock option (or such portion thereof). A Non-Tandem Stock Appreciation Right shall mean the right to receive an amount in cash or stock equal to the excess of (x) the fair market value of a share of common stock on the date such right is exercised, over (y) the aggregate exercise price of such right, other than on surrender of a stock option.

### **Stock Award Pricing**

The Committee shall determine the price, if any, to be paid by the recipient of an award of restricted stock and registered stock under the Plan.

### **Assignability**

No award granted pursuant to the Plan is transferable or assignable by its recipient other than by will or the laws of descent and distribution.

### **Shares Subject to the Plan**

An aggregate of 4,000,000 (4 million) shares of common stock is reserved for issuance under the Plan representing 7.1% of the Company's issued and outstanding shares of common stock as of September 30, 2008. Shares of common stock to be delivered or purchased under the Plan may be either authorized but unissued common stock or treasury shares.

### **Anti-Dilution Protection**

In the event of any changes in the capital structure of the Company, including a change resulting from a stock dividend or stock split, or combination or reclassification of shares, the Board of Directors is empowered to make such equitable adjustments with respect to awards or any provisions of the Plan as it deems necessary and appropriate, including, if necessary, any adjustments in the maximum number of shares of common stock subject to the Plan or in the number of shares of common stock subject to an outstanding award.

### **Merger, Consolidation, Reorganization, Liquidation, Etc.**

If after the date of the adoption of the Plan, the Company becomes a party to any corporate merger, consolidation, major acquisition of property for stock, reorganization, or liquidation, the Board of Directors is authorized under the Plan to make such arrangements it deems advisable with respect to outstanding awards, which shall be binding upon the recipients of such awards, including, but not limited to, the substitution of new awards for any awards then outstanding, the assumption of any such awards, and the termination of or payment for such awards.

### **Market Value Restrictions**

The amounts of certain awards are based on the fair market value of a share of common stock at a specified point in time. The exercise price per share of common stock under each nonqualified stock option or ISO granted under the Plan, which is paid to the Company at the time of the exercise, shall be determined by the Committee, but may not be less than the fair market value of such common stock on the date of grant of such option. Fair market value of a share of common stock as of a given date is defined by the Plan to be as of any given date: (i) if the Common Stock is listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq National Market or Nasdaq SmallCap Market, the closing price of the Common Stock on the trading market for the Common Stock, as selected by the Committee, on the trading date preceding the given date, as reported by the exchange or Nasdaq, as the case may be, (ii) if the Common Stock is not listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq National Market or Nasdaq SmallCap Market, but is traded in the over-the-counter market, the closing bid price for the Common Stock on such date, as reported by the OTC Bulletin Board or the National Quotation Bureau, Incorporated or similar publisher of such quotations;

### **No Repricing**

Except for adjustments made pursuant to the anti-dilution provisions of the Plan, or by reason of a merger, consolidation, major acquisition of property for stock, reorganization or liquidation, the exercise or purchase price under any outstanding award granted under the Plan may not be decreased after the date of grant, nor may any outstanding award granted under the Plan be surrendered to the Company as consideration for the grant of a new award with a lower exercise or purchase price in the absence of the approval of the holders of a majority of the shares of our common stock present in person or by proxy at a duly constituted meeting of our shareholders.

### **Termination of Employment**

Generally, unless otherwise determined by the Committee at grant, if a Participant is terminated for cause, any Stock Option held by such Participant shall thereupon terminate and expire as of the date of termination. Unless otherwise determined by the Committee at grant, any Stock Option held by a Participant:

(i)

on death or termination of employment or consultancy by reason of disability or retirement may be exercised, to the extent exercisable at the Participant's death or termination, by the legal representative of the estate or Participant as the case may be at any time within a period of one (1) year from the date of such death or termination;

(ii)

on termination of employment or consultancy by involuntary termination without cause or for good reason may be exercised, by the Participant at any time within a period of ninety (90) days from the date of such termination; or

(iii)

on termination of employment or consultancy by voluntary termination but without good reason and occurs prior to, or more than ninety (90) days after, the occurrence of an event which would be grounds for termination by the Company for cause, any Stock Option held by such Participant may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of thirty (30) days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option.

## **Amendments to the Plan**

The Board may at any time amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate the Plan entirely. Provided, however, that, unless otherwise required by law or specifically provided in the Plan, the rights of a Participant with respect to Awards granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant and, provided further, without the approval of the stockholders of the Company, if and to the extent required by the applicable provisions of Rule 16b-3 of the 1934 Act or, if and to the extent required, under the applicable provisions of the Code, no amendment may be made which would, among other things: increase the aggregate number of Common Shares that may be issued under the Plan; change the classification of Participants eligible to receive Awards under the Plan; decrease the minimum option price of any Stock Option; extend the maximum option period; change any rights under the Plan with regard to non-employee directors; or require stockholder approval in order for the Plan to continue to comply with the applicable provisions.

## **Awards to be Granted Under the Plan**

The exact types and amounts of any awards to be made by the Committee to any eligible employees or directors pursuant to the Plan are not presently determinable. As a result of the discretionary nature of the Plan, it is not possible to state who the participants in such Plan will be, the number of options or other awards to be received by any person or group, or the benefits that would have been received by certain persons or groups under the Plan during the last fiscal year if the Plan had been in effect during the year.

## **Federal Income Tax Consequences**

The federal income tax consequences of the issuance and/or exercise of awards under the Plan are as described below. The following information is not a definitive explanation of the tax consequences of the awards, and recipients should consult with their own tax advisors with respect to the tax consequences inherent in the ownership and/or exercise of the awards, and the ownership and disposition of any underlying securities. Tax consequences will also vary depending upon the jurisdiction where the recipient of the award may reside.

## **Restricted Shares**

A recipient will not be taxed at the date of an award of Restricted Shares, provided that the Restricted Shares are subject to substantial risk of forfeiture, but will be taxed at ordinary income rates on the fair market value of any restricted shares as of the date that the restrictions lapse, unless the recipient, within 30 days after transfer of such Shares to the recipient, elects under Section 83(b) of the Internal Revenue Code to include in income the fair market value of the Restricted Shares as of the date of such transfer. The Company will be entitled to a corresponding deduction. Any disposition of shares after restrictions lapse will be subject to the regular rules governing long-term and short-term capital gains and losses, with the basis for this purpose equal to the fair market value of the shares at the end of the restricted period (or on the date of the transfer of the restricted shares, if the employee elects to be taxed on the fair market value upon such transfer). Dividends received by a recipient during the restricted period will be taxable to the recipient at ordinary income tax rates and will be deductible by the Company, unless the recipient has elected to be taxed on the fair market value of the restricted shares upon transfer, in which case they will thereafter be taxable to the recipient as dividends and will not be deductible by the Company.

## **Incentive Stock Options**

A recipient who is granted an ISO will not recognize any taxable income for federal income tax purposes on either the grant or the exercise of the ISO. If the recipient disposes of the shares purchased pursuant to the ISO more than two years after the date of grant and more than one year after the transfer of the shares to him (the required statutory holding period), (a) the recipient will recognize long-term capital gain or loss, as the case may be, equal to the difference between the selling price and the option price; and (b) the Company will not be entitled to a deduction with respect to the shares of stock so issued.



If the holding period requirements are not met, any gain realized upon disposition will be taxed as ordinary income to the extent of the excess of the lesser of (i) the excess of the fair market value of the shares at the time of exercise over the option price, or (ii) the gain on the sale. The Company will be entitled to a deduction in the year of disposition in an amount equal to the ordinary income recognized by the recipient. Any additional gain will be taxed as short-term or long-term capital gain depending upon the holding period for the stock. A sale for less than the

option price results in a capital loss. Generally, if an ISO is not exercised within three months following a participant's termination of employment, the ISO will be treated as a nonqualified stock option.

Ordinarily, the excess of the fair market value of the shares on the date of exercise over the option price is an alternative minimum tax addition. A corresponding alternative minimum tax subtraction is allowed in the year in which the shares are disposed. See *Alternative Minimum Tax*, below.

### **Nonqualified Stock Options**

The recipient of a nonqualified stock option under the Plan will not recognize any income for federal income tax purposes on the grant of the option. Generally, on the exercise of the option, the recipient will recognize taxable ordinary income equal to the excess of the fair market value of the shares on the exercise date over the option price for the shares. The Company generally will be entitled to a deduction on the date of exercise in an amount equal to the ordinary income recognized by the recipient. Upon disposition of the shares purchased pursuant to the stock option, the recipient will recognize long-term or short-term capital gain or loss, as the case may be, equal to the difference between the amount realized on such disposition and the basis for such shares, which basis includes the amount previously recognized by the recipient as ordinary income.

### **Stock Appreciation Rights**

A recipient who is granted stock appreciation rights will not recognize any taxable income on the receipt of the SARs. Upon the exercise of an SAR, (a) the recipient will recognize ordinary income equal to the amount received (the increase in the fair market value of one share of our common stock from the date of grant of the SAR to the date of exercise) and (b) we will be entitled to a deduction on the date of exercise in an amount equal to the ordinary income recognized by the recipient.

### ***Tandem Stock Appreciation Rights***

Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option (a *Reference Stock Option*) granted under the Plan (*Tandem Stock Appreciation Rights*). In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Reference Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Reference Stock Option.

A Tandem Stock Appreciation Right or applicable portion thereof granted with respect to a Reference Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the Reference Stock Option, except that, unless otherwise determined by the Committee, in its sole discretion, at the time of grant, a Tandem Stock Appreciation Right granted with respect to less than the full number of shares covered by the Reference Stock Option shall not be reduced until and then only to the extent the exercise or termination of the Reference Stock Option causes the number of shares covered by the Tandem Stock Appreciation Right to exceed the number of shares remaining available and unexercised under the Reference Stock Option.

Upon the exercise of a Tandem Stock Appreciation Right, a Participant shall be entitled to receive up to, but no more than, an amount in cash and/or Common Shares equal in value to the excess of the fair market value of one Common Share over the option price per share specified in the Reference Stock Option multiplied by the number of shares in respect of which the Tandem Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

### ***Non-Tandem Stock Appreciation Rights***

Stock Appreciation Rights may also be granted without reference to any Stock Options granted under the Plan (*Non-Tandem Stock Appreciation Rights*). The term of each Non-Tandem Stock Appreciation Right shall be fixed by the Committee, but shall not be greater than ten (10) years after the date the right is granted.

Non-Tandem Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at grant. Subject to such terms and conditions, Non-Tandem Stock Appreciation Rights may be exercised in whole or in part at any time during the option term, by giving written notice of exercise to the Company specifying the number of Non-Tandem Stock Appreciation Rights to be exercised.

Upon the exercise of a Non-Tandem Stock Appreciation Right, a Participant shall be entitled to receive, for each right exercised, up to, but no more than, an amount in cash and/or Common Shares equal in value to the excess of the fair market value of one Common Share on the date the right is exercised over the fair market value of one (1) Common Share on the date the right was awarded to the Participant.

**Alternative Minimum Tax**

In addition to the federal income tax consequences described above, a recipient may be subject to the alternative minimum tax (AMT), which is payable only to the extent it exceeds the recipient's regular tax liability. The AMT is assessed on the recipient's alternative minimum taxable income in excess of an exemption amount that varies by filing status. For purposes of computing the AMT, the alternative minimum taxable income is equal to taxable income (1) increased by tax preference items and (2) increased or reduced by certain AMT adjustments. Federal law currently provides for a minimum tax credit that may be applied against the recipient's regular tax liability in years following a year in which the recipient is subject to AMT. The minimum tax credit is limited to the excess, if any, of the regular tax over the tentative AMT for the year. Any credit not used because of the limitation may be carried forward indefinitely.

**EQUITY COMPENSATION PLAN INFORMATION (1)**

| <b>Category</b>  | <b>No of Securities to be issued upon exercise of outstanding options</b> | <b>Weighted Average exercise price of outstanding options</b> | <b>No. of Securities remaining available for future issuance</b> |
|--|---|---|--|
| Equity Compensation Plans Approved by Security Holders     | 1,310,000   | \$2.18  | 310,000  |
| Equity Compensation Plans not Approved by Security Holders | 3,119,500   | \$2.49  | 165,500  |
| <b>TOTAL</b>   | <b>4,429,500</b>  |   |  |

(1)

The above table represents information about securities previously authorized for issuance under our various equity compensation plans. All remaining shares which are available for issuance will remain available for future issuance.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PLAN IN SUBSTANTIALLY THE SAME FORM AS INCLUDED AS AN EXHIBIT TO THIS PROXY STATEMENT.**



## PROPOSAL FIVE

### **RATIFICATION OF A PROPOSAL BY OUR BOARD OF DIRECTORS TO RESET THE EXERCISE PRICE OF ALL OUTSTANDING COMMON STOCK OPTIONS**

Our shareholders will be asked to ratify a resolution adopted by our Board of Directors to amend our outstanding common stock options pursuant to the following terms and conditions:

If this proposal is agreed to, our Board of Directors will reconvene for a meeting no later than 30 days following the adoption of this resolution. At that meeting we will amend the exercise price of outstanding options granted to our current directors, employees and consultants such that the new exercise price will be equal to the greater of \$.50 per share or the closing bid price of our common stock as reported by the American Stock Exchange on the effective date on which our Board chooses to reprice the outstanding options.

We intend to amend a total of 3,549,500 outstanding options. We will not be issuing new options. Rather, the exercise price of all outstanding options will be amended as set forth below. The exercise price of our outstanding options range from \$2.17 per share to \$2.42 per share. If the proposal is approved, the exercise price of our outstanding options will equal the greater of \$.50 per share or the closing bid price of our shares of common stock on the date of grant. We are not changing the option expiration dates.

The proposed change in the exercise price of the outstanding options will not change any rights or preferences of holders of our common stock. However, if the options are subsequently exercised at the revised exercise price, the exercise of the options will have a dilutive effect on the shareholders.

Our compensation committee believes that repricing the exercise price of our outstanding options is critical to retaining the services of key employees, consultants as well as retaining the services of the current board members. Our entire Board of Directors has endorsed this proposal.

Our geologists, consultants, employees as well as our Board members have always believed in our drilling program and the ultimate success of the Company. As a result, these people have agreed to accept substantially less than the fair market value for their services. These people believe in our project and business plan and as a result, chose to be equity participants in our business. The overall decline in the stock market as well as the deteriorating economy has made it extremely difficult for these individuals to rely almost exclusively, especially in the case of our board members as stock options as a form of compensation. We believe that these people should not be penalized for matters outside of our control.

Drilling results on our properties have proven to be promising. As such, we intend to go to the financial community in search of additional equity financing. If we are successful in securing additional funding, we want to devote as much of this funding as possible to expanding our drilling program. If we were to pay our employees, including our board members, the fair market value for their services in cash, a large percentage of any equity funding would be diverted to employee compensation as opposed to expanding our drilling program. If we cannot expand our drilling program, the likelihood of demonstrating proven reserves and securing a joint venture partner or securing the sale of the properties will be diminished. This will have a significant adverse affect on our business operations and will in all likelihood further depress the price of our common stock.

We do not believe that hiring new employees and offering these employees a new compensation package is helpful in moving forward with our business plan. Rather, our ongoing program will be delayed while these employees acclimate themselves to our operations and procedures. Even assuming we could recruit new employees, of which there can be no assurance, the exercise price of any options which we may grant, will in all likelihood, be no less favorable than the new exercise price which we are suggesting for current option holders.

We are not repricing our options to provide additional compensation to our employees. Rather, repricing our securities will enable us to move forward with our business plan with a qualified team of professionals. We will not reprice any options that

have been granted to employees no longer employed by the Company.

We believe that the significant decline in the price of our common stock since the grant of the options is primarily due to market conditions beyond our control. We are not rewarding employees or management for poor business decisions. Rather, just the opposite. Since successfully completing our primary funding in March 2007, our focus has been and continues to be expanding our drilling program, securing a 100% equity interest in our joint

venture and acquiring ownership stakes in mineral rich properties in areas which we believe which will enhance our likelihood in identifying a joint venture partner to commercially exploit our mineral reserves.

There are no arrears with respect to any of our outstanding securities and the repricing of the outstanding options will not result in a breach of any outstanding contractual commitments we have incurred.

Except with respect to the modification of the exercise price of the options, there are no other changes in the options or the equity compensation plans from which we authorized the issuance of the outstanding options.

The following table sets forth the outstanding options currently owned by our officers and directors

| Name  | Exercisable   | Unexercisable | Current Exercise Price | New Exercise Price(1) | Expiration Date |
|---|---------------|---------------|------------------------|-----------------------|-----------------|
| Christopher Crupi                           | 400,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
|   | 400,000       | -0-           | \$2.06                 | \$0.50                | 10/31/11        |
| Charles Reed                                | 400,000       | -0-           | \$2.06                 | \$0.50                | 10/31/11        |
| Lucie Letellier                             | 150,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| William Reed                                | 400,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| Daniel Hachey                               | 180,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| Daniel Hachey                               | 200,000       | -0-           | \$2.17                 | \$0.50                | 11/30/11        |
| Daniel Hachey                               | 100,000       | -0-           | \$2.37                 | \$0.50                | 1/24/11         |
| John Carden                                 | 180,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| Ian Talbot                                  | 195,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| Michael Clancy                              | 75,000        | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| Robert Dinning                              | 50,000        | -0-           | \$2.25                 | \$0.50                | 8/22/12         |
| Michel Stinglhamber                         | 180,000       | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| (All officers as a group 4)                 | 1,025,000     | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| (Non Officer Directors as a Group(5)        | 1,085,000     | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| (All officers and Directors)                | 2,110,000     | -0-           | \$2.42                 | \$0.50                | 8/22/12         |
| <i>Non Executive Officer Employee Group</i> | 1,439,500 (2) | -0-           |                        |                       |                 |
| Total                                       | 3,549,500     |               |                        |                       |                 |

1.



Assumes that the fair market value of the date of grant is less than \$.50 share.

2.

Issued at various dates and various strike prices, all options expire 8/22/12. All options will be repriced for current employees.

**The Board unanimously recommends that you vote ``FOR'' the ratification of the Board's resolution to reprice the exercise price of currently outstanding stock options.**

#### **OTHER MATTERS**

The Board does not know of any other matter that may be brought before the annual meeting. However, if any such other matters are properly brought before the meeting, the proxies may use their own judgment to determine how to vote your shares.

#### **TO VOTE BY MAIL**

If you wish to vote by mail, please mark, sign and date your proxy card and return it in the postage paid envelope we have provided or return it to Paramount at 346 Waverley Street Ottawa. Ontario Canada K2P 0W5

**FORM OF CERTIFICATE OF AMENDMENT**

**State of Delaware**

**Certificate of Amendment**

**Of Certificate of Incorporation**

**Of Paramount Gold and Silver Corp.**

Paramount Gold and Silver Corp., a corporation organized and existing under and by virtue of the General Corporation Law (the "GCL") of the State of Delaware (the "Corporation");

FIRST: That at a meeting of the Board of Directors of the Corporation, resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said Corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said Corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of this Corporation be amended by changing the Article thereof numbered Fourth so that, as amended, said Article shall be and read as follows: The amount of the total authorized capital stock of the Corporation is 200,000,000 shares of \$0.001 par value common stock.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, at the annual meeting of the stockholders of said Corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the state of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the state of Delaware.

IN WITNESS WHEREOF, said Corporation has caused this certificate to be signed by the undersigned, an authorized officer, this \_\_\_ day of \_\_\_\_\_, 2008

By: \_\_\_\_\_

**PARAMOUNT GOLD AND SILVER CORP.**  
**2008/09 STOCK INCENTIVE AND EQUITY COMPENSATION PLAN**

B-1

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**PARAMOUNT GOLD AND SILVER CORP.**

**2008/09 STOCK INCENTIVE AND EQUITY COMPENSATION PLAN**

**ARTICLE I**

**PURPOSE**

The purpose of this Paramount Gold and Silver Corp. 2008/09 Stock Incentive and Compensation Plan (the "Plan") is to enhance the profitability and value of Paramount Gold and Silver Corp. (the "Company") for the benefit of its stockholders by enabling the Company (i) to offer employees and consultants of the Company and its Affiliates stock based incentives and other equity interests in the Company, thereby creating a means to raise the level of stock ownership by employees and consultants in order to attract, retain and reward such employees and consultants and strengthen the mutuality of interests between employees or consultants and the Company's stockholders and (ii) to offer equity based awards to non-employee directors thereby attracting, retaining and rewarding such non-employee directors and strengthening the mutuality of interests between non-employee directors and the Company's stockholders.

**ARTICLE II**

**DEFINITIONS**

For purposes of this Plan, the following terms shall have the following meanings:

2.1 "Affiliate" shall mean, other than the Company, each of the following: (i) any Subsidiary; (ii) any Parent; (iii) any corporation, trade or business (including, without limitation, a partnership or limited liability company) which is directly or indirectly controlled fifty percent (50%) or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) by the Company or one of its Affiliates; and (iv) any other entity, approved by the Committee as an Affiliate under the Plan, in which the Company or any of its Affiliates has a material equity interest.

2.2 "Award" shall mean any award under this Plan of any Stock Option, Stock Appreciation Right or Restricted Stock. All Awards shall be confirmed by, and subject to the terms of, a written agreement executed by the Company and the Participant.

2.3 "Black-out Period" means any black-out period self-imposed by the Company that restricts the purchase and sale of the Company's securities by designated persons for a period of time; for greater certainty a "Black-out Period" includes any quarterly or special black-out period self-imposed by the Company but excludes any cease trade order imposed against the Company or an Insider.

2.4 "Board" shall mean the Board of Directors of the Company.

2.5 "Cause" shall mean, with respect to a Participant's Termination of Employment or Termination of Consultancy, unless otherwise determined by the Committee at grant, or, if no rights of the Participant are reduced, thereafter: (i) in the case where there is no employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award (or where there is such an agreement but it does not define "cause" (or words of like import)), termination due to a Participant's dishonesty, fraud, insubordination, willful misconduct, refusal to perform services (for any reason other than illness or incapacity) or materially unsatisfactory performance of his or her duties for the Company as determined by the Committee in its sole discretion; or (ii) in the case where there is an employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award that defines "cause" (or words of like import), as defined under such agreement; provided, however, that with regard to any agreement that conditions "cause" on occurrence of a change in control, such definition of "cause" shall not apply until a change in control actually takes place and then only with regard to a termination thereafter. With respect to a Participant's Termination of Directorship, Cause

shall mean an act or failure to act that constitutes "cause" for removal of a director under applicable state corporate law.

B-2

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2.6 "Change in Control" shall have the meaning set forth in Article XI.

2.7 "Code" shall mean the Internal Revenue Code as amended. Any reference to any section of the Code shall also be a reference to any successor provision and any Treasury regulation thereunder.

2.8 "Committee" shall mean a committee of the Board that may be appointed from time to time by the Board. To the extent determined appropriate by the Board, or to the extent required under Rule 16b-3 and Section 162(m) of the Code, such committee shall consist of one or more non-employee directors, each of whom shall be a non-employee director as defined in Rule 16b-3 and an outside director as defined under Section 162(m) of the Code. To the extent that no Committee exists which has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board. If for any reason the appointed Committee does not meet the requirements of Rule 16b-3 or Section 162(m) of the Code, such noncompliance with the requirements of Rule 16b-3 or Section 162(m) of the Code shall not affect the validity of the awards, grants, interpretations or other actions of the Committee. Notwithstanding the foregoing, with respect to the application of the Plan to non-employee directors, Committee shall mean the Board.

2.9 "Common Stock" shall mean the Company's common stock, \$0.001 par value per share, of the Company.

2.10 "Company" shall mean Paramount Gold and Silver Corp., a Delaware corporation.

2.11 "Consultant" shall mean any advisor or consultant to the Company or an Affiliate who is eligible pursuant to Article V to be granted Awards under this Plan.

2.12 "Disability" shall mean total and permanent disability, as defined in Section 22(e)(3) of the Code.

2.13 "Eligible Employees" shall mean the employees or Consultants of the Company and its Affiliates who are eligible pursuant to Article V to be granted Awards under this Plan. Notwithstanding the foregoing, with respect to the grant of Incentive Stock Options, Eligible Employees shall mean the employees of the Company, its directors, whether employee directors or non employee directors, its Subsidiaries and its Parents who are eligible pursuant to Article V to be granted Stock Options under the Plan.

2.14 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.15 "Fair Market Value" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any given date: (i) if the Common Stock is listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq National Market or Nasdaq SmallCap Market, the closing price of the Common Stock on the trading market for the Common Stock, as selected by the Committee, on the trading date preceding the given date, as reported by the exchange or Nasdaq, as the case may be, (ii) if the Common Stock is not listed on a national securities exchange, foreign stock exchange or quoted on the Nasdaq National Market or Nasdaq SmallCap Market, but is traded in the over-the-counter market, the closing bid price for the Common Stock on such date, as reported by the OTC Bulletin Board or the National Quotation Bureau, Incorporated or similar publisher of such quotations; and (iii) if the fair market value of the Common Stock cannot be determined pursuant to clause (i) or (ii) above, such price as the Committee shall determine, in good faith, based on reasonable methods set forth under Section 422 of the Code and the regulations thereunder including. For purposes of the grant of any Award, the applicable date shall be the date on which the Award is granted or, in the case of a Stock Appreciation Right, the date a notice of exercise is received by the Committee or, if the sale of Common Stock shall not have been reported or quoted on such date, the first day prior thereto on which the sale of Common Stock was reported or quoted. If the Fair Market Value is determined by a closing price on a foreign stock exchange that reports in a currency other than US dollars, the Fair Market Value shall be converted into US dollars at the most recently published applicable noon exchange rate of the Federal Reserve Bank of New York at the time of the conversion.

2.16 "Good Reason" with respect to a Participant's Termination of Employment or Termination of Consultancy shall mean (i) in the case where there is no employment agreement, consulting agreement, change in control agreement or similar agreement

in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award (or where there is such an agreement but it does not define "Good Reason" (or words of like import)), or where "Good Reason" is not otherwise determined by the Committee at grant, or, if no rights of the Participant are reduced, thereafter, a voluntary termination due to "good reason," as the Committee, in its sole discretion, decides to treat as a Good Reason termination, or (ii) in the case where there is an employment

B-3

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agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award that defines "good reason" (or words of like import), as defined under such agreement; provided, however, that with regard to any agreement that conditions "good reason" on occurrence of a change in control, such definition of "good reason" shall not apply until a change in control actually takes place and then only with regard to a termination thereafter.

2.17 "Incentive Stock Option" shall mean any Stock Option awarded under this Plan intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

2.18 "Insider" means an insider, as such term is defined in The Toronto Stock Exchange Company Manual, as amended, of the Company.

2.19 "Limited Stock Appreciation Right" shall mean an Award of a limited Tandem Stock Appreciation Right or a Non-Tandem Stock Appreciation Right made pursuant to Section 8.5 of this Plan.

2.20 "Non-Qualified Stock Option" shall mean any Stock Option awarded under this Plan that is not an Incentive Stock Option.

2.21 "Non-Tandem Stock Appreciation Right" shall mean a Stock Appreciation Right entitling a Participant to receive an amount in cash or Common Stock (as determined by the Committee in its sole discretion) equal to the excess of: (i) the Fair Market Value of a share of Common Stock as of the date such right is exercised, over (ii) the aggregate exercise price of such right.

2.22 "Parent" shall mean any parent corporation of the Company within the meaning of Section 424(e) of the Code.

2.23 "Participant" shall mean the following persons to whom an Award has been made pursuant to this Plan: Eligible Employees of, and Consultants to, the Company and its Affiliates and non-employee directors of the Company; provided, however, that non-employee directors shall be Participants for purposes of the Plan solely with respect to Awards pursuant to Article IX.

2.24 "Restricted Stock" shall mean an award of shares of Common Stock under the Plan that is subject to restrictions under Article VII.

2.25 "Restriction Period" shall have the meaning set forth in Subsection 7.3(a) with respect to Restricted Stock for Eligible Employees.

2.26 "Retirement" with respect to a Participant's Termination of Employment or Termination of Consultancy, shall mean a Termination of Employment or Termination of Consultancy without Cause from the Company by a Participant who has attained (i) at least age eighty (80). With respect to a Participant's Termination of Directorship, Retirement shall mean the failure to stand for reelection or the failure to be reelected after a Participant has attained age eighty (80).

2.27 "Rule 16b-3" shall mean Rule 16b-3 under Section 16(b) of the Exchange Act as then in effect or any successor provisions.

2.28 "Section 162(m) of the Code" shall mean the exception for performance-based compensation under Section 162(m) of the Code and any Treasury regulations thereunder.

2.29 "Stock Appreciation Right" shall mean the right pursuant to an Award granted under Article VIII. A Tandem Stock Appreciation Right shall mean the right to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount in cash or stock equal to the excess of (i) the Fair Market Value, on the date such Stock Option (or such portion thereof) is surrendered, of the Common Stock covered by such Stock Option (or such portion thereof), over (ii) the aggregate



exercise price of such Stock Option (or such portion thereof). A Non-Tandem Stock Appreciation Right shall mean the right to receive an amount in cash or stock equal to the excess of (x) the Fair Market Value of a share of Common Stock on the date such right is exercised, over (y) the aggregate exercise price of such right, other than on surrender of a Stock Option.

2.30 "Stock Option" or "Option" shall mean any Option to purchase shares of Common Stock granted to Eligible Employees or Consultants pursuant to Article VI.

B-4

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2.31 "Subsidiary" shall mean any corporation that is defined as a subsidiary corporation in Section 424(f) of the Code.

2.32 "Ten Percent Stockholder" shall mean a person owning Common Stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, its Subsidiaries and/or its Parents in the manner provided under Section 422 of the Code.

2.33 "Termination of Consultancy" shall mean, with respect to an individual, that the individual is no longer acting as a Consultant to the Company or an Affiliate. In the event an entity shall cease to be an Affiliate, there shall be deemed a Termination of Consultancy of any individual who is not otherwise a Consultant of the Company or another Affiliate at the time the entity ceases to be an Affiliate. In the event that a Consultant becomes an Eligible Employee upon the termination of his consultancy, the Committee, in its sole and absolute discretion, may determine that no Termination of Consultancy shall be deemed to occur until such time as such Consultant is no longer a Consultant or an Eligible Employee.

2.34 "Termination of Directorship" shall mean, with respect to a non-employee director, that the non-employee director has ceased to be a director of the Company.

2.35 "Termination of Employment," except as provided in the next sentence, shall mean (i) a termination of service (for reasons other than a military or personal leave of absence granted by the Company) of a Participant from the Company and its Affiliates; or (ii) when an entity which is employing a Participant ceases to be an Affiliate, unless the Participant thereupon becomes employed by the Company or another Affiliate. In the event that an Eligible Employee becomes a Consultant upon the termination of his employment, the Committee, in its sole and absolute discretion, may determine that no Termination of Employment shall be deemed to occur until such time as such Eligible Employee is no longer an Eligible Employee or a Consultant. The Committee may otherwise define Termination of Employment in the Option grant or, if no rights of the Participant are reduced, may otherwise define Termination of Employment thereafter, including, but not limited to, defining Termination of Employment with regard to entities controlling, under common control with or controlled by the Company rather than just the Company and its Affiliates and/or entities that provide substantial services to the Company or its Affiliate to which the Participant has transferred directly from the Company or its Affiliates at the request of the Company.

2.36 "Transfer" or "Transferred" shall mean anticipate, alienate, attach, sell, assign, pledge, encumber, charge or otherwise transfer.

### **ARTICLE III**

#### **ADMINISTRATION**

3.1 THE COMMITTEE. The Plan shall be administered and interpreted by the Committee or if no Committee, by the Board of Directors.

3.2 AWARDS. The Committee shall have full authority to:

(a) to select the Eligible Employees and Consultants to whom Stock Options, Stock Appreciation Rights, Restricted Stock or Registered Stock may from time to time be granted hereunder;

(b) to determine whether and to what extent Stock Options, Stock Appreciation Rights, Restricted Stock, Registered Stock or any combination thereof are to be granted hereunder to one or more Eligible Employees or Consultants;

(c) to determine, in accordance with the terms of this Plan, the number of shares of Common Stock to be covered by each Award to an Eligible Employee or Consultant granted hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of this Plan, of any Award granted hereunder to an Eligible Employee or Consultant (including, but not limited to, the exercise or purchase price (if any), any restriction or

limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, regarding any Stock Option or other Award, and the shares of Common Stock relating thereto, based on such factors, if any, as the Committee shall determine, in its sole discretion);

B-5

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(e)

Intentionally Deleted.

(f)

Intentionally Deleted.

(g) to modify, extend or renew a Stock Option, subject to Article XII hereof, provided, however, that if a Stock Option is modified, extended or renewed and thereby deemed to be the issuance of a new Stock Option under the Code or the applicable accounting rules, the exercise price of such Stock Option may continue to be the original exercise price even if less than the Fair Market Value of the Common Stock at the time of such modification, extension or renewal;

(h) to determine whether a Stock Option is an Incentive Stock Option or Non-Qualified Stock Option, whether a Stock Appreciation Right is a Tandem Stock Appreciation Right or Non-Tandem Stock Appreciation Right or whether an Award is intended to satisfy Section 162(m) of the Code;

(i) to determine whether to require an Eligible Employee or Consultant, as a condition of the granting of any Award, to not sell or otherwise dispose of shares acquired pursuant to the exercise of an Option or as an Award for a period of time as determined by the Committee, in its sole discretion, following the date of the acquisition of such Option or Award; and

(j) Intentionally Deleted.

(k) to grant Awards under the Plan as a conversion from, and replacement of, comparable stock options, stock appreciation rights or restricted stock held by employees of another entity who become Eligible Employees of, or Consultants to, the Company or an Affiliate as the result of a merger or consolidation of the employing entity with the Company or an Affiliate, or as the result of the acquisition by the Company of property or stock of the employing corporation. The Company may direct that replacement Awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances, including, without limitation that Non-Qualified Stock Options shall be granted in lieu of Incentive Stock Options.

**3.3 GUIDELINES.** Subject to the terms and conditions of the Plan, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan and perform all acts, including the delegation of its administrative responsibilities, as it shall, from time to time, deem advisable; to construe and interpret the terms and provisions of this Plan and any Award issued under this Plan (and any agreements relating thereto); and to otherwise supervise the administration of this Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in this Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to carry this Plan into effect, but only to the extent any such action would be permitted under the applicable provisions of Rule 16b-3 (if any) and the applicable provisions of Section 162(m) of the Code (if any). The Committee may adopt special guidelines and provisions for persons who are residing in, or subject to the taxes of countries other than the United States to comply with applicable tax and securities laws. If, or to the extent applicable, this Plan is intended to comply with Section 162(m) of the Code and the applicable requirements of Rule 16b-3 and shall be limited, construed and interpreted in a manner so as to comply therewith.

**3.4 DECISIONS FINAL.** Any decision, interpretation or other action made or taken in good faith by or at the direction of the Company, the Board, or the Committee (or any of its members) arising out of or in connection with the Plan shall be within the absolute discretion of all and each of them, as the case may be, and shall be final, binding and conclusive on the Company and all employees and Participants and their respective heirs, executors, administrators, successors and assigns. The Committee shall not be bound to any standards of uniformity or similarity of action, interpretation or conduct in the discharge of its duties hereunder, regardless of the apparent similarity of the matters coming before it.

3.5 RELIANCE ON COUNSEL. The Company, the Board or the Committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligations or duties hereunder, or with respect to any action or proceeding or any question of law, and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advice of such counsel.

3.6 PROCEDURES. If the Committee is appointed, the Board may designate one of the members of the Committee as chairman and the Committee shall hold meetings, subject to the By-Laws of the Company, at such times and places as it shall deem advisable. A majority of the Committee members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination

B-6

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reduced to writing and signed by all Committee members in accordance with the By-Laws of the Company shall be fully effective as if it had been made by a vote at a meeting duly called and held. The Committee shall keep minutes of its meeting and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

**3.7 DESIGNATION OF CONSULTANTS--LIABILITY.**(a) The Committee may designate employees of the Company and professional advisors to assist the Committee in the administration of the Plan and may grant authority to employees to execute agreements or other documents on behalf of the Committee.

(b) The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent. Expenses incurred by the Committee or Board in the engagement of any such counsel, consultant or agent shall be paid by the Company. The Committee, its members and any person designated pursuant to paragraph (a) above shall not be liable for any action or determination made in good faith with respect to the Plan.

To the maximum extent permitted by applicable law, no officer of the Company or member or former member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under it. To the maximum extent permitted by applicable law and the Certificate of Incorporation and By-Laws of the Company and to the extent not covered by insurance, each employee of the Company and member or former member of the Committee or of the Board shall be indemnified and held harmless by the Company against any cost or expense (including reasonable fees of counsel reasonably acceptable to the Company) or liability (including any sum paid in settlement of a claim with the approval of the Company), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with the Plan, except to the extent arising out of such officer's, member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the employees, officers, directors or members or former officers, directors or members may have under applicable law or under the Certificate of Incorporation or By-Laws of the Company or Affiliate. Notwithstanding anything else herein, this indemnification will not apply to the actions or determinations made by an individual with regard to Awards granted to him or her under this Plan.

## **ARTICLE IV**

### **SHARE AND OTHER LIMITATIONS**

**4.1 SHARES.**(a) **GENERAL LIMITATION.** The aggregate number of shares of Common Stock which may be issued or used for reference purposes under this Plan or with respect to which other Awards may be granted shall not exceed 4,000,000 (four million) shares (subject to any increase or decrease pursuant to Section 4.2) which may be either authorized and unissued Common Stock or Common Stock held in or acquired for the treasury of the Company.

If any Option or Stock Appreciation Right granted under this Plan expires, terminates or is canceled for any reason without having been exercised in full or, with respect to Options, the Company repurchases any Option pursuant to Section 6.3(f), the number of shares of Common Stock underlying the repurchased Option, and/or the number of shares of Common Stock underlying any unexercised Stock Appreciation Right or Option shall again be available for the purposes of Awards under the Plan. If a Tandem Stock Appreciation Right or a Limited Stock Appreciation Right is granted in tandem with an Option, such grant shall only apply once against the maximum number of shares of Common Stock which may be issued under this Plan. In determining the number of shares of Common Stock available for Awards other than Awards of Incentive Stock Options, if Common Stock has been delivered or exchanged by a Participant as full or partial payment to the Company for the exercise price or for withholding taxes, in connection with the exercise of a Stock Option or the number shares of Common Stock otherwise deliverable has been reduced for full or partial payment for the exercise price or for withholding taxes, the number of shares of Common Stock delivered, exchanged or reduced shall again be available for purposes of Awards under this Plan.

In the event Awards are granted to employees or Consultants pursuant to Section 3.2(1), the aggregate number of shares of Common Stock available under the Plan for Awards other than Incentive Stock Options shall be increased by the number of

shares of Common Stock which may be issued or used for reference with respect to those Awards granted pursuant to Section 3.2(1). The maximum number of shares of Common Stock which may be

B-7

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issued under this Plan with respect to Incentive Stock Options shall not be increased (subject to any increase or decrease pursuant to Section 4.2).

Notwithstanding anything else contained herein to the contrary, the Committee shall be prohibited from granting any Award if the aggregate number of shares of Common Stock (i) issued to Insiders of the Company within any one year period, or (ii) issuable to Insiders at any time, under this Plan and any other security based compensation arrangement of the Company, could exceed 10% of the Company's shares of Common Stock issued and outstanding, on a non-diluted basis, at the time of the grant of the Award.

4.2 CHANGES.(a) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company or its Affiliates, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting Common Stock, the dissolution or liquidation of the Company or its Affiliates, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(b) In the event of any such change in the capital structure or business of the Company by reason of any stock dividend or distribution, stock split or reverse stock split, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, distribution with respect to its outstanding Common Stock or capital stock other than Common Stock, sale or transfer of all or part of its assets or business, reclassification of its capital stock, or any similar change affecting the Company's capital structure or business and the Committee determines an adjustment is appropriate under the Plan, then the aggregate number and kind of shares which thereafter may be issued under this Plan, the number and kind of shares or other property (including cash) to be issued upon exercise of an outstanding Option or other Awards granted under this Plan and the purchase price thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under this Plan or as otherwise necessary to reflect the change, and any such adjustment determined by the Committee shall be binding and conclusive on the Company and all Participants and employees and their respective heirs, executors, administrators, successors and assigns.

(c) Fractional shares of Common Stock resulting from any adjustment in Options or Awards pursuant to Section 4.2(a) or (b) shall be aggregated until, and eliminated at, the time of exercise by rounding-down for fractions less than one-half (1/2) and rounding-up for fractions equal to or greater than one-half (1/2). No cash settlements shall be made with respect to fractional shares eliminated by rounding. Notice of any adjustment shall be given by the Committee to each Participant whose Option or Award has been adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

(d) In the event of a merger or consolidation in which the Company is not the surviving entity or in the event of any transaction that results in the acquisition of substantially all of the Company's outstanding Common Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all of the Company's assets (all of the foregoing being referred to as "Acquisition Events"), then the Committee may, in its sole discretion, terminate all outstanding Options and Stock Appreciation Rights of Eligible Employees and Consultants, effective as of the date of the Acquisition Event, by delivering notice of termination to each such Participant at least twenty (20) days prior to the date of consummation of the Acquisition Event; provided, that during the period from the date on which such notice of termination is delivered to the consummation of the Acquisition Event, each such Participant shall have the right to exercise in full all of his or her Options and Stock Appreciation Rights that are then outstanding (without regard to any limitations on exercisability otherwise contained in the Option or Award Agreements) but contingent on occurrence of the Acquisition Event, and, provided that, if the Acquisition Event does not take place within a specified period after giving such notice for any reason whatsoever, the notice and exercise shall be null and void.

(e) If an Acquisition Event occurs, to the extent the Committee does not terminate the outstanding Options and Stock Appreciation Rights pursuant to this Section 4.2(d), then the provisions of Section 4.2(b) shall apply.





## ARTICLE V

### ELIGIBILITY

5.1 All employees, directors, and Consultants to the Company and its Affiliates are eligible to be granted Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock and Registered Stock, subject to any filing requirements, under this Plan. All employees of the Company, its Subsidiaries and its Parents are eligible to be granted Incentive Stock Options under the Plan. Eligibility under this Plan shall be determined by the Committee.

## ARTICLE VI

### STOCK OPTION GRANTS

6.1 OPTIONS. Each Stock Option granted hereunder shall be one of two types: (i) an Incentive Stock Option intended to satisfy the requirements of Section 422 of the Code or (ii) a Non-Qualified Stock Option.

6.2 GRANTS. The Committee shall have the authority to grant to any Eligible Employee one or more Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights). The Committee shall have the authority to grant to any Consultant one or more Non-Qualified Stock Options (with or without Stock Appreciation Rights). To the extent that any Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify, shall constitute a separate Non-Qualified Stock Option. Notwithstanding any other provision of this Plan to the contrary or any provision in an agreement evidencing the grant of a Stock Option to the contrary, any Stock Option granted to an Eligible Employee of an Affiliate (other than an Affiliate which is a Parent or a Subsidiary) or to any Consultant shall be a Non-Qualified Stock Option.

6.3 TERMS OF OPTIONS. Options granted under this Plan shall be subject to the following terms and conditions, shall be subject to Section 3.2 hereof and the other provisions of this Plan, and shall be in such form and contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem desirable:

(a) OPTION PRICE. The option price per share of Common Stock purchasable under either an Incentive Stock Option or Non-Qualified Stock Option shall be determined by the Committee at the time of grant but shall not be less than 100% of the Fair Market Value of the share of Common Stock at the time of grant. Notwithstanding the foregoing, if an Option is modified, extended or renewed and, thereby, deemed to be the issuance of a new Option under the Code, the exercise price of an Option may continue to be the original exercise price even if less than the Fair Market Value of the Common Stock at the time of such modification, extension or renewal.

(b) OPTION TERM. The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten (10) years after the date the Option is granted. If any Stock Options are set to expire during any Black-out Period which would prohibit the option holder from exercising the Stock Option during that Black-out Period, then in that event the option term shall be extended for an additional ten (10) business days beyond the end of any Black-out Period to permit the option holder to exercise the Stock Option (the Black-out Expiration Term). The Black-out Expiration Term is fixed and shall not be subject to the discretion of the Board of Directors or the Committee.

(c) EXERCISABILITY. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at grant. If the Committee provides, in its discretion, that any Stock Option is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee may waive such limitations on the exercisability at any time at or after grant in whole or in part (including, without limitation, that the Committee may waive the installment exercise provisions or accelerate the time at which Options may be exercised), based on such factors, if any, as the Committee shall determine, in its sole discretion.

(d) METHOD OF EXERCISE. Subject to whatever installment exercise and waiting period provisions apply under subsection (c) above, Stock Options may be exercised in whole or in part at any time during the Option term, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. At or after grant, payment in full or in part may be made at the election of the optionee as follows: (i) in cash or by check, bank draft or money order payable to the order of the Company; (ii) if the Common Stock is traded on a national securities exchange, the Nasdaq Stock Market, Inc. or quoted on a national quotation system

B-9

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sponsored by the National Association of Securities Dealers, through a cashless exercise procedure whereby the Participant delivers irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the purchase price, (iii) in the form of Common Stock owned by the Participant (and for which the Participant has good title free and clear of any liens and encumbrances) or (iv) in the form of Restricted Stock; provided, however, that in each case, such payment is equivalent to on the Fair Market Value of the Common Stock on the payment date as determined by the Committee (without regard to any forfeiture restrictions applicable to such Restricted Stock). No shares of Common Stock shall be issued until full payment, (and if payment is by installments all payments have been received), as provided herein, therefor has been made or provided for. If payment in full or in part has been made in the form of Restricted Stock, an equivalent number of shares of Common Stock issued on exercise of the Option shall be subject to the same restrictions and conditions, during the remainder of the Restriction Period, applicable to the Restricted Stock surrendered therefor.

(e) INCENTIVE STOCK OPTION LIMITATIONS. To the extent that the aggregate Fair Market Value (determined as of the time of grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Eligible Employee during any calendar year under the Plan and/or any other stock option plan of the Company or any Subsidiary or Parent exceeds \$100,000, such Options shall be treated as Options which are not Incentive Stock Options. In addition, if an Eligible Employee does not remain employed by the Company, any Subsidiary or Parent at all times from the time the Option is granted until three (3) months prior to the date of exercise (or such other period as required by applicable law), such Option shall be treated as an Option which is not a Non-Qualified Stock Option.

Should the foregoing provision not be necessary in order for the Stock Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the stockholders of the Company.

(f) BUY OUT AND SETTLEMENT PROVISIONS. The Committee may at any time on behalf of the Company offer to buy out an Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time that such offer is made.

(g) FORM, MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS. Subject to the terms and conditions and within the limitations of the Plan, an Option shall be evidenced by such form of agreement or grant as is approved by the Committee, and the Committee may modify, extend or renew outstanding Options granted under the Plan (provided that the rights of a Participant are not reduced without his consent), or accept the surrender of outstanding Options (up to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised).

(h) DEFERRED DELIVERY OF COMMON SHARES. The Committee may in its discretion permit Participants to defer delivery of Common Stock acquired pursuant to a Participant's exercise of an Option in accordance with the terms and conditions established by the Committee.

6.4 TERMINATION OF EMPLOYMENT. The following rules apply with regard to Options upon the Termination of Employment or Termination of Consultancy of a Participant:

(a) TERMINATION BY REASON OF DEATH. If a Participant's Termination of Employment or Termination of Consultancy is by reason of death, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant's estate are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's death, by the legal representative of the estate, at any time within a period of one (1) year from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option.

(b) TERMINATION BY REASON OF DISABILITY. If a Participant's Termination of Employment or Termination of Consultancy is by reason of Disability, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's termination, by the Participant (or the legal representative of the Participant's estate if the Participant dies after

termination) at any time within a period of one (1) year from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option.

B-10

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(c) **TERMINATION BY REASON OF RETIREMENT.** If a Participant's Termination of Employment or Termination of Consultancy is by reason of Retirement, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant, or, if no rights of the Participant are reduced, thereafter, shall be fully vested and may thereafter be exercised by the Participant at any time within a period of one (1) year from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option; provided, however, that, if the Participant dies within such exercise period, any unexercised Stock Option held by such Participant shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of one (1) year (or such other period as the Committee may specify at grant or, if no rights of the Participant's estate are reduced, thereafter) from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option.

(d) **INVOLUNTARY TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.** If a Participant's Termination of Employment or Termination of Consultancy is by involuntary termination without Cause or for Good Reason, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of ninety (90) days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option.

(e) **TERMINATION WITHOUT GOOD REASON.** If a Participant's Termination of Employment or Termination of Consultancy is voluntary but without Good Reason and occurs prior to, or more than ninety (90) days after, the occurrence of an event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause (without regard to any notice or cure period requirements), any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of thirty (30) days from the date of such termination but in no event beyond the expiration of the stated term of such Stock Option.

(f) **OTHER TERMINATION.** Unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, if a Participant's Termination of Employment or Termination of Consultancy is for any reason other than death, Disability, Retirement, Good Reason, involuntary termination without Cause or voluntary termination as provided in subsection (e) above, any Stock Option held by such Participant shall thereupon terminate and expire as of the date of termination, provided that (unless the Committee determines a different period upon grant or, if no rights of the Participant are reduced, thereafter) in the event the termination is for Cause or is a voluntary termination without Good Reason within ninety (90) days after occurrence of an event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause (without regard to any notice or cure period requirement), any Stock Option held by the Participant at the time of occurrence of the event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause shall be deemed to have terminated and expired upon occurrence of the event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause.

## **ARTICLE VII**

### **STOCK AWARDS**

7.1 **STOCK AWARDS.** Shares of Restricted Stock or Registered Stock may be issued to Eligible Employees or Consultants either alone or in addition to other Awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock or Registered Stock will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient (subject to Section 7.2), the time or times within which such Awards may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the Awards.

7.2 **AWARDS AND CERTIFICATES.** The prospective Participant selected to receive a Stock Award shall not have any rights with respect to such Award, unless and until such Participant has delivered a fully executed copy of the applicable agreement evidencing the Award (the "Stock Award Agreement") to the Company and has otherwise complied with the

applicable terms and conditions of such Award. Further, such Award shall be subject to the following conditions:

(a) PURCHASE PRICE. The purchase price of Restricted Stock shall be fixed by the Committee.

B-11

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(b) **ACCEPTANCE.** Stock Awards must be accepted within a period of sixty (60) days (or such shorter period as the Committee may specify at grant) after the Award date, by executing a Stock Award Agreement and by paying whatever price (if any) the Committee has designated thereunder.

(c) **LEGEND.** If the Company should issue to a Plan Participant restricted shares of common stock, the Company may place an appropriate restrictive legend on the Shares so issued.

(d) **CUSTODY.** The Committee may require that any stock certificates evidencing restricted shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock Award, the Participant shall have delivered a duly signed stock power, endorsed in blank, relating to the Common Stock covered by such Award.

**7.3 RESTRICTIONS AND CONDITIONS ON RESTRICTED STOCK AWARDS.** The shares of Restricted Stock awarded pursuant to this Plan shall be subject to Article X and the following restrictions and conditions:

(a) **RESTRICTION PERIOD; VESTING AND ACCELERATION OF VESTING.** The Participant shall not be permitted to Transfer shares of Restricted Stock awarded under this Plan during a period set by the Committee (the "Restriction Period") commencing with the date of such Award, as set forth in the Restricted Stock Award agreement and such agreement shall set forth a vesting schedule and any events which would accelerate vesting of the shares of Restricted Stock. Within these limits, based on service, or other criteria determined by the Committee, the Committee may provide for the lapse of such restrictions in installments in whole or in part, or may accelerate the vesting of all or any part of any Restricted Stock Award.

(b) **RIGHTS AS STOCKHOLDER.** Except as provided in this subsection (b) and subsection (a) above and as otherwise determined by the Committee, the Participant shall have, with respect to the shares of Restricted Stock, all of the rights of a holder of shares of Common Stock of the Company including, without limitation, the right to receive any dividends, the right to vote such shares and, subject to and conditioned upon the full vesting of shares of Restricted Stock, the right to tender such shares. Notwithstanding the foregoing, the payment of dividends shall be deferred until, and conditioned upon, the expiration of the applicable Restriction Period, unless the Committee, in its sole discretion, specifies otherwise at the time of the Award.

(c) **LAPSE OF RESTRICTIONS.** If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, the certificates for such shares shall be delivered to the Participant. All legends shall be removed from said certificates at the time of delivery to the Participant except as otherwise required by applicable law.

(d) **TERMINATION OF EMPLOYMENT OR TERMINATION OF CONSULTANCY FOR RESTRICTED STOCK.** Subject to the applicable provisions of the Restricted Stock Award agreement and this Plan, upon a Participant's Termination of Employment or Termination of Consultancy for any reason during the relevant Restriction Period, all Restricted Stock still subject to restriction will vest or be forfeited in accordance with the terms and conditions established by the Committee at grant or thereafter.

## **ARTICLE VIII**

### **STOCK APPRECIATION RIGHTS**

**8.1 TANDEM STOCK APPRECIATION RIGHTS.** Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option (a "Reference Stock Option") granted under this Plan ("Tandem Stock Appreciation Rights"). In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Reference Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Reference Stock Option.

**8.2 TERMS AND CONDITIONS OF TANDEM STOCK APPRECIATION RIGHTS.** Tandem Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of this Plan, as shall be determined from



time to time by the Committee, including Article X and the following: (a) TERM. A Tandem Stock Appreciation Right or applicable portion thereof granted with respect to a Reference Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the Reference Stock Option, except that, unless otherwise determined by the Committee, in its sole discretion, at the time of grant, a Tandem Stock Appreciation Right granted with respect to less than the full number of shares covered by the Reference Stock

B-12

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Option shall not be reduced until and then only to the extent the exercise or termination of the Reference Stock Option causes the number of shares covered by the Tandem Stock Appreciation Right to exceed the number of shares remaining available and unexercised under the Reference Stock Option.

(b) EXERCISABILITY. Tandem Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Reference Stock Options to which they relate shall be exercisable in accordance with the provisions of Article VI and this Article VIII.

(c) METHOD OF EXERCISE. A Tandem Stock Appreciation Right may be exercised by an optionee by surrendering the applicable portion of the Reference Stock Option. Upon such exercise and surrender, the Participant shall be entitled to receive an amount determined in the manner prescribed in this Section 8.2. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related Tandem Stock Appreciation Rights have been exercised.

(d) PAYMENT. Upon the exercise of a Tandem Stock Appreciation Right a Participant shall be entitled to receive up to, but no more than, an amount in cash and/or Common Stock (as chosen by the Committee in its sole discretion) equal in value to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the Reference Stock Option multiplied by the number of shares in respect of which the Tandem Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment. If the Committee elects to pay such amount to a Participant in Common Stock, such Common Stock shall be valued at Fair Market Value on the day of exercise of the Tandem Stock Appreciation Right.

(e) DEEMED EXERCISE OF REFERENCE STOCK OPTION. Upon the exercise of a Tandem Stock Appreciation Right, the Reference Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Article IV of the Plan on the number of shares of Common Stock to be issued under the Plan.

8.3 NON-TANDEM STOCK APPRECIATION RIGHTS. Non-Tandem Stock Appreciation Rights may also be granted without reference to any Stock Options granted under this Plan.

8.4 TERMS AND CONDITIONS OF NON-TANDEM STOCK APPRECIATION RIGHTS. Non-Tandem Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of this Plan, as shall be determined from time to time by the Committee, including Article X and the following:

(a) TERM. The term of each Non-Tandem Stock Appreciation Right shall be fixed by the Committee, but shall not be greater than ten (10) years after the date the right is granted.

(b) EXERCISABILITY. Non-Tandem Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at grant. If the Committee provides, in its discretion, that any such right is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee may waive such limitation on the exercisability at any time at or after grant in whole or in part (including, without limitation, that the Committee may waive the installment exercise provisions or accelerate the time at which rights may be exercised), based on such factors, if any, as the Committee shall determine, in its sole discretion.

(c) METHOD OF EXERCISE. Subject to whatever installment exercise and waiting period provisions apply under subsection (b) above, Non-Tandem Stock Appreciation Rights may be exercised in whole or in part at any time during the option term, by giving written notice of exercise to the Company specifying the number of Non-Tandem Stock Appreciation Rights to be exercised.

(d) PAYMENT. Upon the exercise of a Non-Tandem Stock Appreciation Right a Participant shall be entitled to receive, for each right exercised, up to, but no more than, an amount in cash and/or Common Stock (as chosen by the Committee in its sole discretion) equal in value to the excess of the Fair Market Value of one share of Common Stock on the date the right is exercised over the Fair Market Value of one (1) share of Common Stock on the date the right was awarded to the Participant. If the Committee elects to pay such amount to a Participant in Common Stock, such Common Stock shall be valued at Fair Market Value as the day of exercise of the Non-Tandem Stock Appreciation Right.

B-13

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**8.5 LIMITED STOCK APPRECIATION RIGHTS.** The Committee may, in its sole discretion, grant Tandem and Non-Tandem Stock Appreciation Rights either as a general Stock Appreciation Right or as a Limited Stock Appreciation Right. Limited Stock Appreciation Rights may be exercised only upon a Change in Control (to the extent provided in an Award agreement granting such Limited Stock Appreciation Rights) or the occurrence of such other event as the Committee may, in its sole discretion, designate at the time of grant or thereafter. Upon the exercise of Limited Stock Appreciation Rights, except as otherwise provided in an Award agreement, the Participant shall receive in cash or Common Stock, as determined by the Committee, an amount equal to the amount (1) set forth in Section 8.2(d) with respect to Tandem Stock Appreciation Rights or (2) set forth in Section 8.4(d) with respect to Non-Tandem Stock Appreciation Rights.

**8.6 TERMINATION OF EMPLOYMENT OR TERMINATION OF CONSULTANCY.** The following rules apply with regard to Stock Appreciation Rights upon the Termination of Employment or Termination of Consultancy of a Participant:

(a) **TERMINATION BY DEATH.** If a Participant's Termination of Employment or Termination of Consultancy is by reason of death, any Stock Appreciation Right held by such Participant, unless otherwise determined by the Committee at grant or if no rights of the Participant's estate are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's death, by the legal representative of the estate, at any time within a period of one (1) year from the date of such death or until the expiration of the stated term of such Stock Appreciation Right, whichever period is the shorter.

(b) **TERMINATION BY REASON OF DISABILITY.** If a Participant's Termination of Employment or Termination of Consultancy is by reason of Disability, any Stock Appreciation Right held by such participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's termination, by the Participant (or the legal representative of the Participant's estate if the Participant dies after termination) at any time within a period of one (1) year from the date of such termination or until the expiration of the stated term of such Stock Appreciation Right, whichever period is the shorter.

(c) **TERMINATION BY REASON OF RETIREMENT.** If a Participant's Termination of Employment or Termination of Consultancy is by reason of Retirement, any Stock Appreciation Right held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, shall be fully vested and may thereafter be exercised by the Participant at any time within a period of one (1) year from the date of such termination or until the expiration of the stated term of such right, whichever period is the shorter; provided, however, that, if the Participant dies within such one (1) year period, any unexercised Non-Tandem Stock Appreciation Right held by such Participant shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of one (1) year (or such other period as the Committee may specify at grant or if no rights of the Participant are reduced, thereafter) from the date of such death or until the expiration of the stated term of such right, whichever period is the shorter.

(d) **INVOLUNTARY TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.** If a Participant's Termination of Employment or Termination of Consultancy is by involuntary termination without Cause or for Good Reason, any Stock Appreciation Right held by such participant, unless otherwise determined by the Committee at grant or if no rights of the participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of ninety (90) days from the date of such termination or until the expiration of the stated term of such right, whichever period is shorter.

(e) **TERMINATION WITHOUT GOOD REASON.** If a Participant's Termination of Employment or Termination of Consultancy is voluntary but without Good Reason and occurs prior to, or more than ninety (90) days after, the occurrence of an event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause (without regard to any notice or cure period requirements), any Stock Appreciation Right held by such Participant, unless greater or lesser exercise rights are provided by the Committee at the time of grant or, if no rights of the participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of thirty (30) days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Appreciation Right.

B-14

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(f) OTHER TERMINATION. Unless otherwise determined by the Committee at grant, or, if no rights of the Participant are reduced thereafter, if a Participant's Termination of Employment or Termination of Consultancy is for any reason other than death, Disability, Retirement, Good Reason, involuntary termination without Cause or voluntary termination as provided in subsection (e) above, any Stock Appreciation Right held by such Participant shall thereupon terminate or expire as of the date of termination, provided, that (unless the Committee determines a different period upon grant, or, if no rights of the Participant are reduced, thereafter) in the event the termination is for Cause or is a voluntary termination as provided in subsection (e) above, within ninety (90) days after occurrence of an event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause (without regard to any notice or cure period requirement), any Stock Appreciation Right held by the Participant at the time of the occurrence of the event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause shall be deemed to have terminated and expired upon occurrence of the event which would be grounds for Termination of Employment or Termination of Consultancy by the Company for Cause.

## **ARTICLE IX**

### **INTENTIONALLY DELETED**

## **ARTICLE X**

### **NON-TRANSFERABILITY**

Except as provided in the last sentence of this Article X, no Stock Option or Stock Appreciation Right granted to an Employee or Consultant shall be Transferable by the Participant otherwise than by will or by the laws of descent and distribution. All Stock Options and all Stock Appreciation Rights granted to an Employee or Consultant shall be exercisable, during the Participant's lifetime, only by the Participant. Tandem Stock Appreciation Rights shall be Transferable, to the extent permitted above, only with the underlying Stock Option. Shares of Restricted Stock under Article VII may not be Transferred prior to the date on which shares are issued, or, if later, the date on which any applicable restriction lapses. No Award shall, except as otherwise specifically provided by law or herein, be Transferable in any manner, and any attempt to Transfer any such Award shall be void, and no such Award shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such Award, nor shall it be subject to attachment or legal process for or against such person. All Stock Options granted to non-employee directors shall be Transferable solely to such non-employee director's principal employer (other than the Company or an Affiliate) at the time of grant if the terms of such non-employee director's employment so require. Notwithstanding the foregoing, the Committee may determine at the time of grant or thereafter, that a Non-Qualified Stock Option that is otherwise not transferable pursuant to this Article X is transferable in whole or part and in such circumstances, and under such conditions, as specified by the Committee.

## **ARTICLE XI**

### **CHANGE IN CONTROL PROVISIONS**

11.1 BENEFITS. In the event of a Change in Control of the Company (as defined below), except as otherwise provided by the Committee upon the grant of an Award, each Participant shall have the following benefits: (a) Unless otherwise provided in the applicable award agreement, all outstanding Options and the related Tandem Stock Appreciation Rights and Non-Tandem Stock Appreciation Rights of such Participant granted prior to the Change in Control shall be fully vested and immediately exercisable in their entirety. The Committee, in its sole discretion, may provide for the purchase of any such Stock Options by the Company for an amount of cash equal to the excess of the Change in Control Price (as defined below) of the shares of Common Stock covered by such Stock Options, over the aggregate exercise price of such Stock Options. For purposes of this Section 11.1, "Change in Control Price" shall mean the higher of (i) the highest price per share of Common Stock paid in any transaction related to a Change in Control of the Company, or (ii) the highest Fair Market Value per share of Common Stock at any time during the sixty (60) day period preceding a Change in Control.

(b) Unless otherwise provided in the applicable award agreement, the restrictions to which any shares of Restricted Stock of such Participant granted prior to the Change in Control are subject shall lapse as if the applicable Restriction Period had ended upon such Change in Control.

B-15

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(c) Notwithstanding anything else herein, the Committee may, in its sole discretion, provide for accelerated vesting of an Award upon a Termination of Employment during the Pre-Change in Control Period. Unless otherwise determined by the Committee, the "Pre-Change in Control Period" shall mean the one hundred eighty (180) day period prior to a Change in Control.

11.2 CHANGE IN CONTROL. A "Change in Control" shall be deemed to have occurred:

(a) upon any "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Common Stock of the Company, becoming the owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the combined voting power of the Company's then outstanding securities (including, without limitation, securities owned at the time of any increase in ownership);

(b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c), or (d) of this section) or a director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of Directors of the Company whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board of Directors;

(c) upon the merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person (other than those covered by the exceptions in (a) above) acquires more than forty percent (40%) of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control of the Company; or

(d) upon the stockholder's of the Company approval of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets other than the sale of all or substantially all of the assets of the Company to a person or persons who beneficially own, directly or indirectly, at least fifty percent (50%) or more of the combined voting power of the outstanding voting securities of the Company at the time of the sale.

## ARTICLE XII

### TERMINATION OR AMENDMENT OF THE PLAN

12.1 TERMINATION OR AMENDMENT. Notwithstanding any other provision of this Plan, the Board may at any time, and from time to time, amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate it entirely, retroactively or otherwise, without stockholder approval. By way of example and without limiting the generality of the foregoing, the Board of Directors reserves the right, without stockholder approval, to (i) make amendments of a clerical nature that clarify language or understanding of the terms of the Plan, (ii) amend the vesting provisions of a Stock Option or the Plan, (iii) amend the provisions with respect to termination or death of a Participant, including but not limited to the length of time to exercise a Stock Option upon termination or death, (iv) add a deferred or restricted share unit or any other provision which results in Participants receiving Common Stock while no cash consideration is received by the Company; (v)



change the method of calculating a minimum exercise price per Common Stock for Stock Options under Section 6.3 of the Plan; and (vi) adjust accordingly the number of Common Stock available under the Plan, the Common Stock subject to any Award and the exercise price of the Common Stock subject to Stock Options as a result of the events described in Section 4.2(b) of the Plan. (c) Without limiting the generality of the foregoing, the Board of Directors reserves the right,

B-16

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without stockholder approval, to (i) make amendments of a clerical nature that clarify language or understanding of the terms of the Plan, (ii) amend the vesting provisions of a Stock Option or the Plan, (iii) amend the provisions with respect to termination or death of a Participant, including but not limited to the length of time to exercise a Stock Option upon termination or death, (iv) add a deferred or restricted share unit or any other provision which results in Participants receiving Common Stock while no cash consideration is received by the Company; (v) change the method of calculating a minimum exercise price per Common Stock for Stock Options under Section 6.3 of the Plan; and (vi) adjust accordingly the number of Common Stock available under the Plan, the Common Stock subject to any Award and the exercise price of the Common Stock subject to Stock Options as a result of the events described in Section 4.2(b) of the Plan. Notwithstanding the foregoing:

(a) unless otherwise required by law or specifically provided herein, the rights of a Participant with respect to Awards granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant; and

(b) stockholder approval shall be required, only if and to the extent required by the rules of a stock exchange on which the Company's Common Stock is listed for trading, the applicable provisions of Rule 16b-3 or, if and to the extent required, under the applicable provisions of Section 162(m) of the Code, or with regard to Incentive Stock Options, Section 422 of the Code, for an amendment which would (i) except as permitted in Section 4.1(a), increase the aggregate number of shares of Common Stock that may be issued under this Plan; (ii) change the classification of employees, Consultants, directors and non-employee directors eligible to receive Awards under this Plan; (iii) decrease the minimum option price of any Stock Option; (iv) extend the maximum option period under Section 6.3; (v) change any rights under the Plan with regard to non-employee directors; or (vi) require stockholder approval in order for the Plan to continue to comply with the applicable provisions, if any, of Rule 16b-3, Section 162(m) of the Code, any applicable state law, or, with regard to Incentive Stock Options, Section 422 of the Code.

The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Article IV above or as otherwise specifically provided herein, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent.

### **ARTICLE XIII**

#### **UNFUNDED PLAN**

This Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

### **ARTICLE XIV**

#### **GENERAL PROVISIONS**

14.1 LEGEND. The Committee may require each person receiving shares pursuant to an Award under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by this Plan, the certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on Transfer. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or any national securities association system upon whose system the Common Stock is then quoted, any applicable federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

14.2 OTHER PLANS. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

14.3 NO RIGHT TO EMPLOYMENT/DIRECTORSHIP. Neither this Plan nor the grant of any Award hereunder shall give any Participant or other employee any right with respect to continuance of employment by the Company or any Affiliate, nor shall there be a limitation in any way on the right of the Company or any Affiliate by

B-17

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which an employee is employed to terminate his employment at any time. Neither this Plan nor the grant of any Award hereunder shall impose any obligations on the Company to retain any Participant as a director nor shall it impose on the part of any Participant any obligation to remain as a director of the Company.

**14.4 WITHHOLDING OF TAXES.** The Company shall have the right to deduct from any payment to be made to a Participant, or to otherwise require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash hereunder, payment by the Participant of, any Federal, state or local taxes required by law to be withheld. Upon the vesting of Restricted Stock, or upon making an election under Code Section 83(b), a Participant shall pay all required withholding to the Company. The Committee may permit any such withholding obligation with regard to any Participant to be satisfied by reducing the number of shares of Common Stock otherwise deliverable or by delivering shares of Common Stock already owned. Any fraction of a share of Common Stock required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

**14.5 LISTING AND OTHER CONDITIONS.**

(a) Intentionally Deleted.

(b) If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Company under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise with respect to shares of Common Stock or Awards, and the right to exercise any Option shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Company.

**14.6 GOVERNING LAW.** This Plan shall be governed and construed in accordance with the laws of the state of incorporation of the Company (regardless of the law that might otherwise govern under applicable principles of conflict of laws).

**14.7 CONSTRUCTION.** Wherever any words are used in this Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. To the extent applicable, the Plan shall be limited, construed and interpreted in a manner so as to comply with the applicable requirements of Rule 16b-3 and Section 162(m) of the Code; however, noncompliance with Rule 16b-3 or Section 162(m) of the Code shall have no impact on the effectiveness of a Stock Option granted under the Plan.

**14.8 OTHER BENEFITS.** No Award payment under this Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or its subsidiaries nor affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

**14.9 COSTS.** The Company shall bear all expenses included in administering this Plan, including expenses of issuing Common Stock pursuant to any Awards hereunder.

**14.10 NO RIGHT TO SAME BENEFITS.** The provisions of Awards need not be the same with respect to each Participant, and such Awards to individual Participants need not be the same in subsequent years.

**14.11 DEATH/DISABILITY.** The Committee may in its discretion require the transferee of a Participant to supply it with written notice of the Participant's death or Disability and to supply it with a copy of the will (in the case of the Participant's death) or such other evidence as the Committee deems necessary to establish the validity of the transfer of an Award. The Committee may also require the agreement of the transferee to be bound by all of the terms and conditions of the Plan.

14.12 SECTION 16(b) OF THE EXCHANGE ACT. All elections and transactions under the Plan by persons subject to Section 16 of the Exchange Act involving shares of Common Stock are intended to comply with any applicable condition under Rule 16b-3. The Committee may establish and adopt written administrative guidelines, designed to facilitate compliance with Section 16(b) of the Exchange Act, as it may deem necessary or proper for the administration and operation of the Plan and the transaction of business thereunder.

B-18

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14.13 SEVERABILITY OF PROVISIONS. If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

14.14 HEADINGS AND CAPTIONS. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

#### **ARTICLE XV**

##### **TERM OF PLAN**

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the earlier of the date the Plan is adopted or the date of stockholder approval, but Awards granted prior to such tenth anniversary may extend beyond that date.

#### **ARTICLE XVI**

##### **NAME OF PLAN**

This Plan shall be known as the **PARAMOUNT GOLD AND SILVER CORP. 2008/09 STOCK INCENTIVE AND EQUITY COMPENSATION PLAN.**

This Plan was duly approved by the Company's Board of Directors and executed as of October 2, 2008.

By order of the Board of Directors

Christopher Crupi, Chairman

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.****Paramount Gold and Silver Corp.****The Board of Directors recommends a vote FOR****the Nominees listed below and FOR Proposals 2, 3 and 4.**

| <b>1. Vote on Directors</b>  | <b>For All</b>           | <b>Withhold</b>          | <b>For All</b>           | To withhold authority to vote for any individual nominee(s), mark For All Except and write the names(s) of the nominee(s) for whom you withhold your vote on the line below. |
|--|--------------------------|--------------------------|--------------------------|--|
|  | <b>All</b>               | <b>Except</b>            |                          |  |
| Christopher Crupi  | <input type="checkbox"/> | <input type="checkbox"/> |                          |  |
| Charles (Bill) Reed  | <input type="checkbox"/> | <input type="checkbox"/> |                          |  |
| Daniel Hachey  |                          |                          |                          |  |
| John Carden  |                          |                          |                          |  |
| Michel Yvan Stinglhamber   |                          |                          |                          |  |
| Ian Talbot   |                          |                          |                          |  |
| Robert Dinning   |                          |                          |                          |  |
| <hr/>  |                          |                          |                          |  |
| <b>2. Vote on ratification of HLB Cinnamon Jang Willoughby &amp; Company as our independent registered public accountants</b>                      | <b>For</b>               | <b>Against</b>           | <b>Abstain</b>           |  |
|  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |  |
| <b>3. Vote on Amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock to 200,000,000 shares.</b> | <b>For</b>               | <b>Against</b>           | <b>Abstain</b>           |  |
|  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |  |
| <b>4. Vote on ratification of our 2008/09 Stock Incentive and Equity Compensation Plan</b>   | <b>For</b>               | <b>Against</b>           | <b>Abstain</b>           |  |
|  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |  |
| <b>5. Vote on reducing the exercise price of our</b>   | <b>For</b>               | <b>Against</b>           | <b>Abstain</b>           |  |

outstanding common stock              
options.

Please sign exactly as name appears hereon. If shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

For address changes and/or comments, please check this box  
and write them on the back where indicated.

\_\_\_\_\_  
Signature [Please sign within box]

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature (Joint Owners)

\_\_\_\_\_  
Date

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**COMMON STOCK**

**PARAMOUNT GOLD AND SILVER CORP.**

**346 Waverley Street**

**Ottawa, Ontario Canada K2P OW5**

**ANNUAL MEETING OF STOCKHOLDERS: \_\_\_\_\_, 2009**

**This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned, hereby appoints \_\_\_\_\_ and \_\_\_\_\_ or either of them acting separately, as attorneys in fact and proxies with full power of substitution to vote, as designated on the reverse side, all shares of Common Stock of Paramount Gold and Silver Corp. which the undersigned may be entitled to vote at the Annual Meeting of Stockholders to be held at 2600 North Military Trail Suite 270 Boca Raton, Florida 33431 on \_\_\_\_\_, 2009 and at any adjournments thereof, upon all matters which may properly come before said Annual Meeting.

(If no name is identified above, it shall be conclusively presumed that Christopher Crupi and Charles W. Reed, or either of them acting separately has been designated attorney in fact)

**This proxy shall be voted in accordance with the instructions marked on the reverse side hereof. If no choice is marked, the above appointed proxies have discretionary authority with respect to the election of directors, Proposals 2, 3, 4 and 5 and any other matter that may properly come before the Annual Meeting. The above-appointed proxies will exercise any discretionary authority to vote FOR the nominees for election as directors and FOR proposals and 5.**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY.

THIS PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE VOTING THEREOF.

NOTE: THIS PROXY MUST BE SIGNED AND DATED ON THE REVERSE SIDE.

Address Changes/Comments:

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