

Solitario Resources Corporation

Leveraging Value Through

- Strategic Joint Ventures*
- Aggressive Exploration*
- Diversified Assets*

2006 Annual Report

Summary of Current Projects

Project	Mineral Asset	Joint Venture Partner	Exploration Status Development Stage
Pachuca Real	(Silver/Gold Mexico)	Newmont (max 70%)	Drilling Early-stage exploration (\$2.0mm by March 2008)
Bongará	(Zinc Peru)	Votorantim (max 70%)	Definition drilling Pre-feasibility (\$2.0mm)
Mercurio	(Gold Brazil)	100% Solitario	Definition drilling Exploration
Pedra Branca	(PGM Brazil)	Anglo Platinum (max 65%)	Definition drilling Advanced exploration (\$1.0mm)
Strategic Alliance	(Gold Peru)	Newmont	Property Acquisition Early-stage exploration
Yanacocha Royalty	(Gold Peru)	Royalty 100% Solitario	Drilling Exploration (\$0.5mm)

(\$ amounts presented above are those funded by our partners)



Silver: +46% (\$12.90/oz.)
Pachuca Real, Mexico

Zinc: +127% (\$1.93/lb.)
Lead: +51% (\$0.77/lb.)
Bongará, Peru

Royalties
Yanacocha, Peru

Gold: +24% (\$636/oz.)
Mercurio, Brazil

Platinum: +15% (\$1,117/oz.)
Palladium: +26% (\$324/oz.)
Pedra Branca, Brazil

Strategic Alliance
Newmont Mining

(% increase in commodity prices from 12/31/05 to 12/31/06)

Dear Shareholders,

We firmly believe 2006 was a milestone year in Solitario's 14-year history with the signing of two landmark joint ventures and the receipt of 1.94 million shares of Kinross Gold Corporation in exchange for our 6.1 million shares of Crown Resources Corporation upon the completion of the merger between Crown and Kinross. We now have three significant joint ventures with three major mining companies in six different commodities and in three different countries. This gives Solitario unmatched commodity and country diversification with exceptional low-risk exploration leverage. Very few, if any, mineral exploration companies can report a comparable array of project assets and industry relationships. As proud as we are of these important achievements, we believe the best is yet to come.

In August 2006 we signed a joint venture agreement with Votorantim Metais on our most advanced exploration property, the high-grade Bongará zinc project in northern Peru. The Votorantim Group of Companies is a privately owned Brazilian enterprise with businesses in metals, cement, pulp and paper, chemicals, and orange juice. Votorantim is Latin America's largest primary zinc producer that operates two zinc mines, three zinc smelters, one of which is located in Peru, and owns a 25% interest in Milpo, one of Peru's largest zinc mining companies. We believe these credentials make Votorantim the perfect partner to advance Bongará through feasibility and into production.

In our 2005 Annual Report we reported we had recently acquired the Pachuca Real silver-gold project in central Mexico. We expressed optimism for this project and its potential to host significant silver-gold mineralization, especially in an area adjacent to the historic mining district, which we refer to as the North District. Our enthusiasm was confirmed in September 2006 when we signed a major joint venture agreement with Newmont Mining, the world's second largest gold producer. At Pachuca Real, we control virtually all potential extensions to one of the greatest silver districts in the world. Newmont's financial resources and technical depth make them the right partner to conduct the first ever modern exploration program in the North District.

Anglo Platinum, our other major joint venture partner, continues to fund our Pedra Branca platinum-palladium project in northeastern Brazil. Anglo Platinum is the world's largest platinum producer and has funded exploration on the Pedra Branca project for the past three years. We recently signed a definitive agreement with Anglo Platinum providing for another round of exploration drilling that is expected to begin in the second quarter of 2007.



After a six-year hiatus, drilling resumed on our high-grade Bongará zinc project.

In addition, we have increased our pipeline of new 100%-owned exploration projects in Peru, Mexico and Brazil and believe these projects will provide exciting new developments for the company in 2007. Solitario, together with our partners, is planning the most active drilling campaign in our history. The three joint ventures and our independent exploration projects will result in about \$7.0 million in exploration expenditures on very high profile projects. Current plans call for 20,000 meters of drilling on seven different projects.

Last year we presented a commodity chart showing the price improvement for gold, silver platinum, palladium, zinc, lead and copper from the end of 2004 to the end of 2005. We expressed our view that it was a watershed year for metal commodities. However, price appreciation in 2006 was even more impressive than 2005 as shown in the commodity legends on the globe facing this page. As we believe that commodity pricing strength is a long term phenomenon, Solitario is well positioned to benefit.

Solitario's financial position has never been better. As of March 31, 2007, we have approximately \$2.8 million in cash and \$21.0 million in Kinross Gold Corporation stock. Kinross is the eighth largest gold producer in the world and actively trades on both the Toronto and New York stock exchanges. With a backdrop of higher metal prices and our strong financial condition, we believe 2007 will be a banner year for Solitario with our exciting array of developing properties and aggressive drilling plans. We look forward to sharing with you the results of our various programs during the upcoming year.

Sincerely,

Christopher E. Herald
President & Chief Executive Officer

Peru

Bongará



The Bongará project hosts the high-grade Florida Canyon zinc deposit in northern Peru. We discovered Florida Canyon in 1996 and joint ventured it with Cominco Ltd. in early 1997. Between 1997 and 2000, Cominco drilled 80 core holes partially delineating the carbonate-hosted high-grade Florida Canyon zinc deposit measuring 2.5 kilometers by 1.5 kilometers. As successful as this drilling was, however, low zinc prices (about \$0.45 per pound) resulted in Cominco terminating its option to earn an interest after spending nearly \$16 million on the project. We maintained the core property assets from 2000 to 2006, when we began independently permitting a new drilling program.

While permitting in mid-2006, we signed a significant joint venture Letter Agreement with Votorantim Metais, a large private Brazilian resource company. Votorantim assumed management of project operations and completed a very successful 26-hole drilling program totaling 4,354 meters (see the chart below for drilling highlights). In the first quarter of 2007, we signed a definitive Framework Agreement with Votorantim.

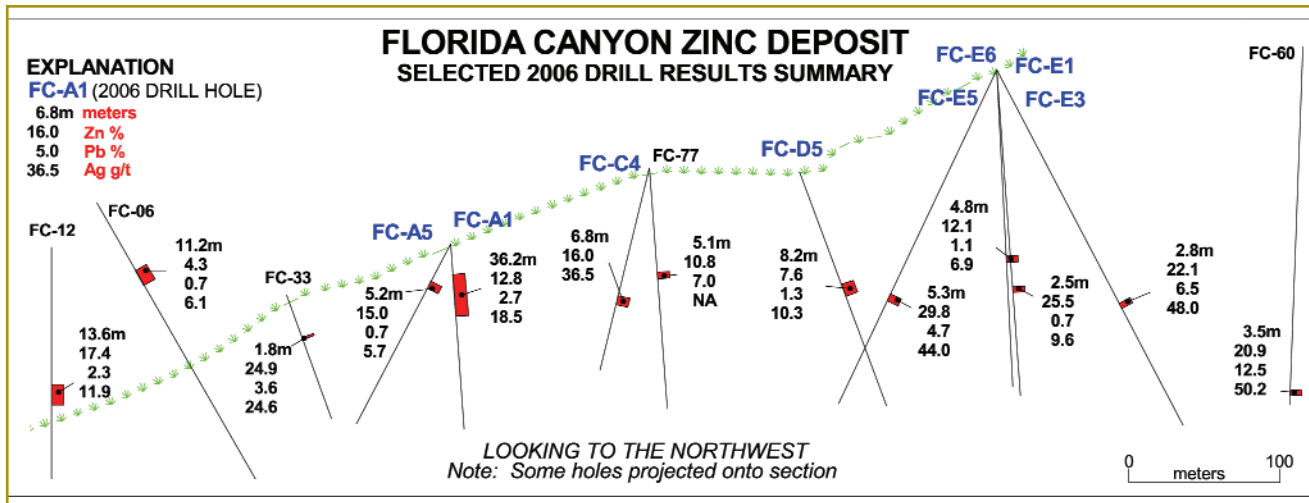
Votorantim can earn up to a 70% interest in the project by funding a \$1.0 million drilling program (completed), completing future annual exploration and development expenditures, and by making annual cash payments beginning in August 2007. The agreement calls for Votorantim to have minimum annual work expenditures of \$1.5 million in each of years two and three, and \$2.5 million in all subsequent years until a minimum of \$18.0 million has been expended by Votorantim. The option to earn the 70% interest can be exercised by Votorantim at any time by committing to place the project into production based upon a feasibility study. Once Votorantim has fully funded its \$18.0 million work commitment, it has further agreed to finance Solitario's 30% participating interest for construction. Solitario will repay the loan facility through 50% of its cash flow distributions. Votorantim can elect to terminate its option to earn an interest at any time.

Votorantim's 26-hole drilling program utilized four drilling platforms that tested a relatively small area (500 meters x 200 meters) of the much larger mineralized system. The specific

Drill Hole	Interval	Thickness Meters	Zinc (%)	Lead (%)	Silver (g/t)
A-1	26.3 - 62.5	36.15	12.84	2.69	18.45
	76.3 - 77.3	1.00	42.60	4.85	46.00
A-2	31.4 - 35.5	4.10	7.95	0.05	1.70
	53.3 - 54.8	1.55	12.53	2.76	15.86
A-3	71.8 - 74.5	2.70	16.81	4.13	27.97
A-5	28.6 - 33.8	5.22	15.04	0.66	5.73
C-3	72.9 - 77.1	4.20	5.02	0.56	4.17
	89.3 - 92.0	2.70	6.04	0.03	1.10
C-4	97.9 - 104.7	6.80	15.98	5.03	36.51
C-5	80.2 - 82.4	2.15	8.74	7.74	37.52
D-4	78.6 - 83.9	5.25	6.37	1.25	6.29
D-5	87.0 - 95.2	8.20	7.57	1.27	10.31
E-1	189.3 - 191.8	2.50	25.48	0.69	9.61
E-2	144.3 - 148.6	2.60	14.82	1.22	9.06
E-3	178.4 - 181.2	2.80	22.05	6.47	47.96
E-4	180.4 - 185.1	4.65	6.01	3.04	21.93
E-5	171.4 - 176.7	5.30	29.77	4.65	43.99
E-6	142.5 - 147.3	4.80	12.07	1.06	6.94

About Votorantim Metais –

Votorantim Metais belongs to the Votorantim Group, a private Brazilian industrial conglomerate that is market leader or has outstanding share in every market segment in which it operates, including cement, pulp and paper, metals, chemicals, and orange juice. In 2005, Votorantim Group's revenues amounted to US\$7.8 billion. The metal business division accounted for 30% of revenues and produces zinc, nickel, steel and aluminum. Votorantim Metais is the world's tenth largest primary zinc producer with three operating zinc smelters and two operating zinc mines. It owns the Cajamarquilla zinc smelter and is the major shareholder of Milpo, both located in Peru.



target of this drill program consisted of two stratiform layers of mineralization, the Milagros and Karen zones. Significant mineralization, greater than 2.0% zinc over two meters (or equivalent) was intersected in 19 out of 26 drill holes. This is an outstanding success ratio of good drill holes to sub-mineralized holes and bodes well for the overall potential of the project.

Drilling resumed at Bongará in 2006 with Votarantim's highly successfully detailed drilling program.



Strategic Alliance With Newmont

In early 2005, Solitario signed a Strategic Alliance Agreement ("Agreement") with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, the world's second largest gold producer. As part of the Agreement, Newmont also provided, through its affiliate company Newmont Mining Corporation of Canada Limited, a Cdn\$4.59 million private placement into Solitario to fund Strategic Alliance exploration. This is proving to be an exciting opportunity for Solitario to expand its grassroots exploration program in South America and to utilize Newmont's extensive South American data base and advanced exploration technology. The Strategic Alliance demonstrates Newmont's confidence in our experienced and successful South American exploration team.

Since signing the Strategic Alliance with Newmont, we have accelerated our grassroots exploration program in Peru. The current Strategic Alliance area consists of 15,000-square kilometers in southern Peru. Newmont has provided valuable technical data, guidance and technology to assist Solitario in its efforts to explore for gold within the Strategic Alliance area.

Under the terms of the Agreement, Solitario owns 100% of any property acquired ("Alliance Property") within the Strategic Alliance area, subject to a maximum sliding scale net smelter return royalty of 2% in favor of Newmont, depending on the processing method. Newmont retains the right to joint venture any Alliance Property after Solitario has expended and completed a minimum drilling program. If Newmont elects to joint venture an Alliance Property, it can earn a 51% interest by spending 200% of the costs Solitario had incurred on the property. Newmont can elect to earn a further 24% interest (to 75%) by taking the Alliance Property through a bankable feasibility study and providing 100% project financing for construction. Solitario would repay its 25% share of project costs after feasibility through production cash

flow. Newmont also has the Right of First Offer to joint venture other Solitario projects in South America.

Yanacocha Royalty

Solitario owns a net smelter return royalty ("NSR-Royalty") on approximately 61,000 hectares (150,000 acres) of mineral rights in northern Peru situated immediately north of Newmont-Buenaventura's Minera Yanacocha gold mine, South America's largest gold mine. The NSR-Royalty is indexed to the gold price and processing method that is utilized to produce gold and various other metals. For heap leach ores, at today's prices (+\$500/oz. gold), the NSR-Royalty for gold is 2.75%. For ores that are milled, in a non-flotation mill at today's gold price, the NSR-royalty for gold would be 2.0%. In 2006, Newmont continued its extensive surface exploration work on the northern part of the property with a commitment to spend an additional \$1.0 million on our royalty property between January 2007 and December 2008.

Newmont will be conducting the first-ever drilling program on the Pachuca Real North District.



Mexico

Pachuca Real

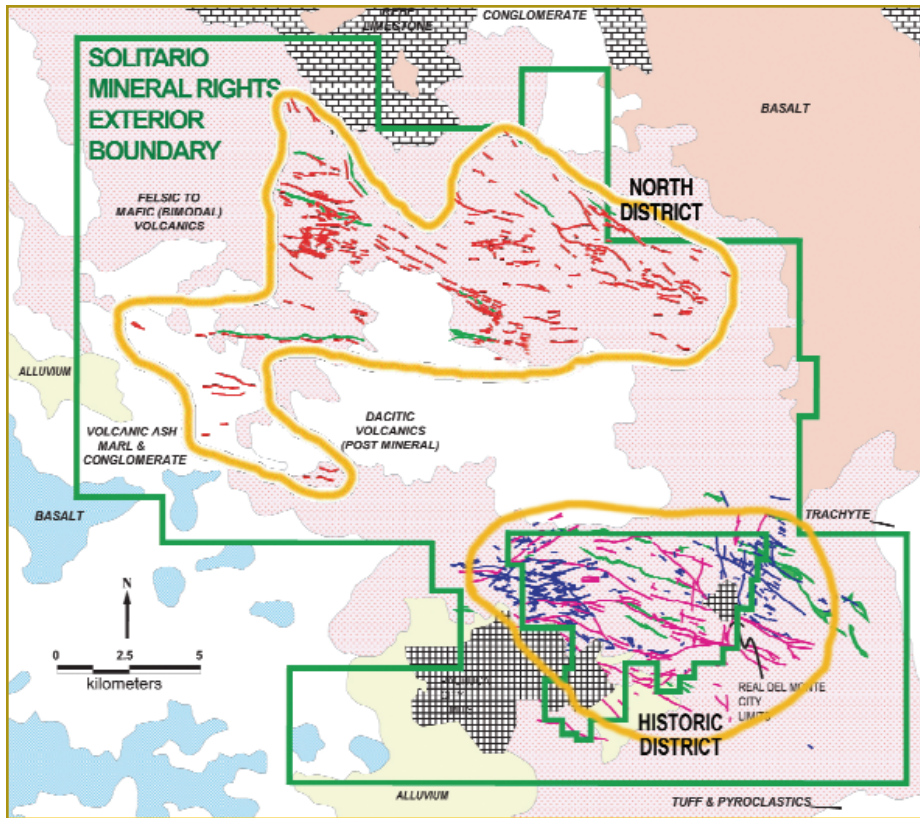
The focus of our 2005 and 2006 Mexican exploration effort was the acquisition and subsequent joint venturing with Newmont Mining of our 47,300-hectare (116,900 acres) Pachuca Real silver-gold project (see map opposite page) in the state of Hidalgo in central Mexico. The historic Pachuca mining district was one of the most prolific silver districts in the world and one of the largest gold producers in Mexico. Past production totals at least 1.4 billion ounces of silver and just over 7.0 million ounces of gold. Solitario's property encompasses about 30 percent of the historic district, but more importantly, covers over 95% of the potential extensions of the district to the north and northwest.

The historical ownership and exploration history of our Pachuca Real property provides important insight to our enthusiasm for this property and its potential. The Mexican government held the concessions from 1947 to the early 1990's with very limited or no exploration during that period. The concessions were subsequently sold to a private Mexican company and held by that same company until 2006, which conducted sporadic surface exploration during their ownership. We acquired title to the main portion of the property on the first day that the land was open to staking.

After conducting an initial reconnaissance exploration program during mid-2006, we signed a definitive venture agreement with Newmont de Mexico, S.A. de C.V. ("Newmont"), a wholly owned subsidiary of Newmont Mining Corporation in September 2006. The venture agreement calls for the following work commitments over the next 4.5 years:

Exploration Expenditures and Due Dates	Amount	Aggregate Amount
First 18 months - firm commitment	\$2,000,000	\$2,000,000
18-30 months – optional commitment	\$2,300,000	\$4,300,000
30-42 months – optional commitment	\$3,500,000	\$7,800,000
42-54 months – optional commitment	\$4,200,000	\$12,000,000

Newmont's firm \$2.0 million work commitment also includes a minimum of 7,500 meters of drilling by March 2008. Should the drilling not be completed within the initial 18-month period, the agreement allows for an additional six-month period to complete



The Pachuca Real North District displays a similar-sized vein system as the historic world-class Pachuca silver-gold district.

the drilling. Upon the completion of \$12.0 million in expenditures, Newmont will have earned a 51% interest in the project. Newmont will have the right to earn an additional 14% (total 65%) by spending at least \$5.0 million annually until such time as a positive feasibility study is completed for the project. Newmont has the right to terminate the agreement at any time following its initial work commitment.

Upon completion of a feasibility study, Solitario will have the option to self-finance its 35% participating interest in the project, or to have Newmont finance its portion of construction costs. Such post-feasibility funding plus interest would be paid from 80% of Solitario's distribution of future earnings or dividends from the venture. If Solitario elects to have Newmont fund all its venture costs after feasibility, then Solitario's participating interest will be immediately reduced to 30% and Newmont's interest will be 70%.

The footprint of mineralization in the historic Pachuca district is approximately 15 kilometers long and 10 kilometers wide. A similar scale of mineralization occurs on Solitario controlled property to the north and northwest of the historic district where Newmont is conducting an intensive surface exploration program consisting

of geologic mapping and geochemical sampling. This work has developed four drilling targets, with most of the property remaining to be mapped and sampled. We are confident that additional work will generate many new drill targets for testing beyond 2007. Drilling on the four developed targets is anticipated to begin sometime in the second quarter of 2007.

Other Mexican Projects

We are conducting initial surface exploration on two other early stage properties in Mexico. These include the 26,000-hectare Providencia gold project in the northern state of Sonora and the 1,420-hectare Corazon del Oro project in the Concepcion del Oro district in the central state of Zacatecas. Both properties have zones of strong gold mineralization at surface and have never been drill tested. Both Providencia and Corazon del Oro may be drill tested later this year, if surface exploration continues to be favorable.

Many veins have been located and mapped by Newmont in the North District and constitute excellent drill targets.



Brazil

Mercurio Gold Project

We continue to be encouraged with the drilling results from our 100%-owned 8,550-hectare Mercurio gold project situated in the Tapajos region of northern Brazil. It is estimated that the Tapajos gold region, an area about the size of Colorado, has produced 30 to 40 million ounces of gold by local small-scale mining of soils. The Mercurio property, located near the center of the Tapajos region, has relatively easy access by a seasonal unimproved road that services the region.

In 2006 we followed up our 2005 drilling campaign with a second round of drilling by completing 11 additional core holes totaling 1,596 meters. In total, 18 out of 23 widely spaced drill holes have intersected significant gold mineralization in the 2005 and 2006 drilling campaigns. The 2006 Mercurio drilling results are provided in the table below.

Prospect Name	Hole Number	From Meters	To Meters	Interval Meters	Gold Grade g/t
Colonia	SB-13	77.0	105.0	28.0	1.0
	SB-15	111.0	117.0	6.0	1.8
	SB-16	94.0	101.0	7.0	6.8
Patoa	SB-18	7.2	41.2	34.0	2.7
	SB-19	22.1	25.1	3.0	1.1
		39.1	41.5	2.4	1.9
		110.7	112.7	2.0	1.8
	SB-20	62.6	88.1	25.5	1.6
Tucanáre	SB-21	55.8	67.6	11.8	0.6
		74.5	78.1	3.6	1.6
		122.4	131.0	9.4	0.7
	SB-22	39.8	41.9	2.1	1.8
	SB-23	199.3	205.7	6.4	2.1

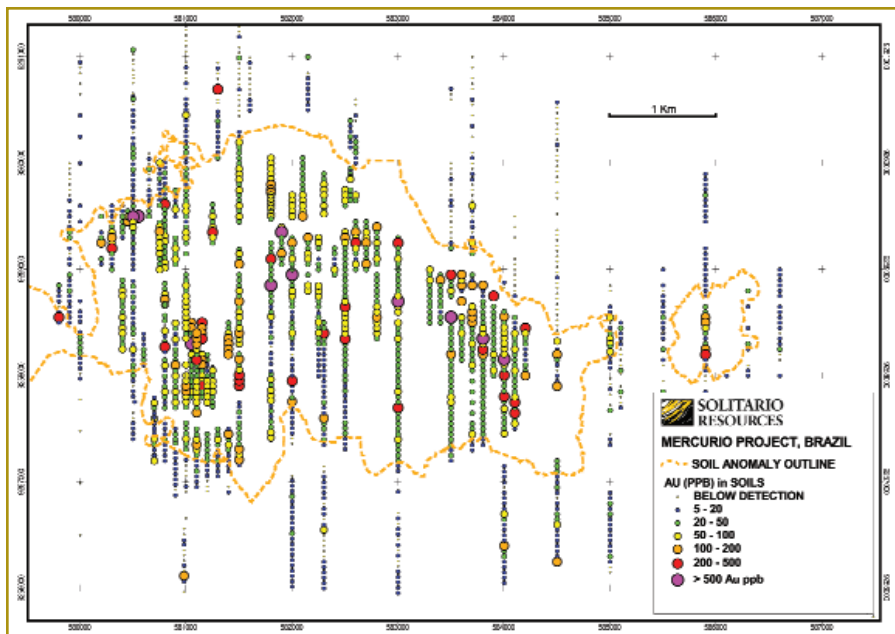


Much of our work in the Tapajos region consists of evaluating prospects where informal gold mining occurred in the past.

Highlights of 2006 drilling include core holes SB-16 that intersected 7.0 meters grading 6.8 grams per tonne ("g/t") gold, SB-18 that intersected 34.0 meters of 2.7 g/t gold and SB-20 that intersected 25.5 meters grading 1.6 g/t gold. At the Colonia prospect in the southern part of the property, a mineralized east-west structural trend has been traced for at least 400 meters. This trend remains open in both directions along horizontal strike and at depth. At the Patoa prospect further north, two holes, SB-04 drilled in 2005, and SB-18, may represent a separate mineralized trend. These holes intersected 12.2 meters grading 12.2 g/t gold and 34 meters of 2.7 g/t gold, respectively. In addition, SB-20, that intersected 25.5 meters of 1.6 g/t gold, was drilled 600 meters west of the main Patoa area and suggests significant new potential for the Patoa zone. Finally, at the Tucanáre prospect, all five drill holes completed have intersected gold mineralization and we are planning additional work to determine the size of this highly prospective zone.

Good old-fashioned rock sampling by hand remains one of our principal evaluation tools.





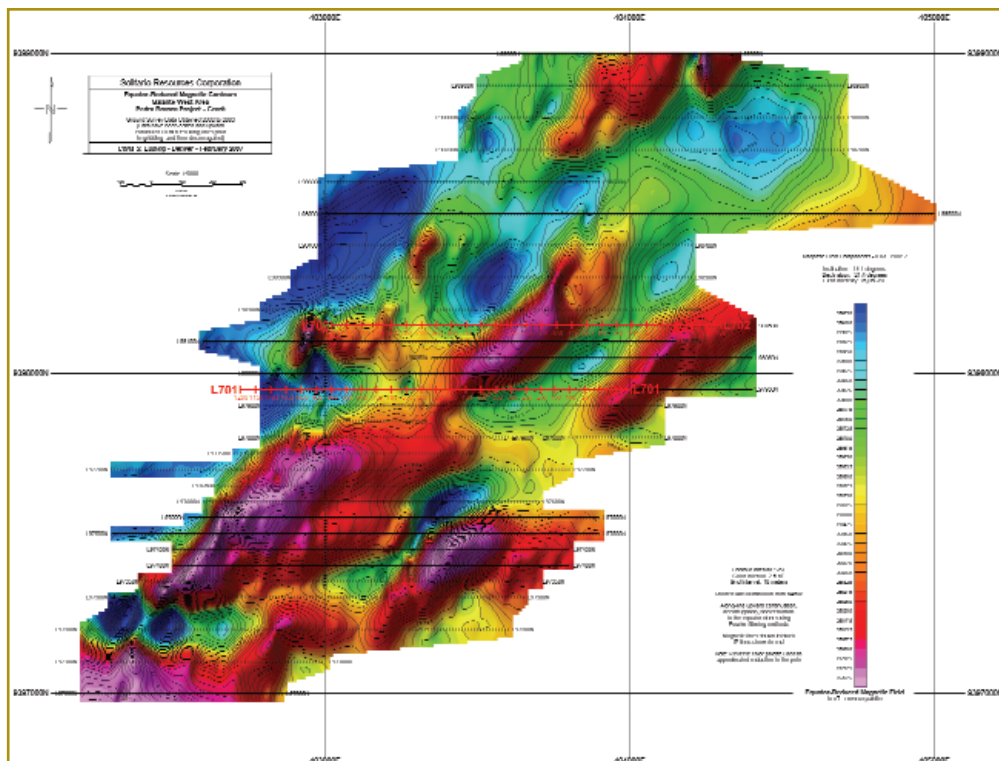
Geochemistry has revealed a large 5x3 km gold anomaly in soils.

Our exceptional success ratio in intersecting mineralization at Mercurio confirms our optimism about the potential of the property. In 2007 we are planning our largest drill program to date on the property with 2,000 meters of core drilling scheduled.

Pedra Branca

In late-2006 and early-2007 we conducted additional geophysical work consisting of induced polarization surveys and rigorous new reprocessing of previously generated ground magnetic data on this 45,365-hectare property located in Ceará State, Brazil. This work has provided enhanced target definition for drilling to extend mineralization at the previously drilled Esbarro, Cedro, Trapia and Santa Amaro prospects, and provided exciting new information for the Galante, Conceição and South Synform prospects that have never been drill tested. Our current plans call for drilling to begin in late-April. The 2007 program will consist of 3,500 meters of core drilling in at least seven different areas. Anglo Platinum will fund this

Detailed ground magnetic surveys delineate large potential ore-bearing drill targets at our Pedra Branca project.



program, as well as other project work, which is estimated to cost approximately \$1.0 million.

During the past three years, Anglo Platinum funded two drilling campaigns and other surface work totaling about \$1.25 million in expenditures. This work, combined with drilling previously conducted by Solitario, has defined near-surface PGM-mineralization in four different deposits: the Esbarro, Curiu, Santa Amaro and Trapia I deposits. Mineralization in all four deposits occurs at shallow depths within chromite-bearing ultramafic rocks, geologically similar to the prolific PGM-producing Bushveld Complex in South Africa.

Solitario and Anglo Platinum signed several definitive agreements in early 2007 to formalize the long-term relationship between the two companies. Anglo Platinum can earn a 51% interest in Pedra Branca by spending an additional US\$6.0 million on exploration and development over the next four years. Anglo Platinum can earn a further 14% interest (to a total 65% interest) by completing a bankable feasibility study or spending an additional \$10 million on the project, whichever comes first, and arranging 100% project financing.

Bolivia

Political Currents in Bolivia

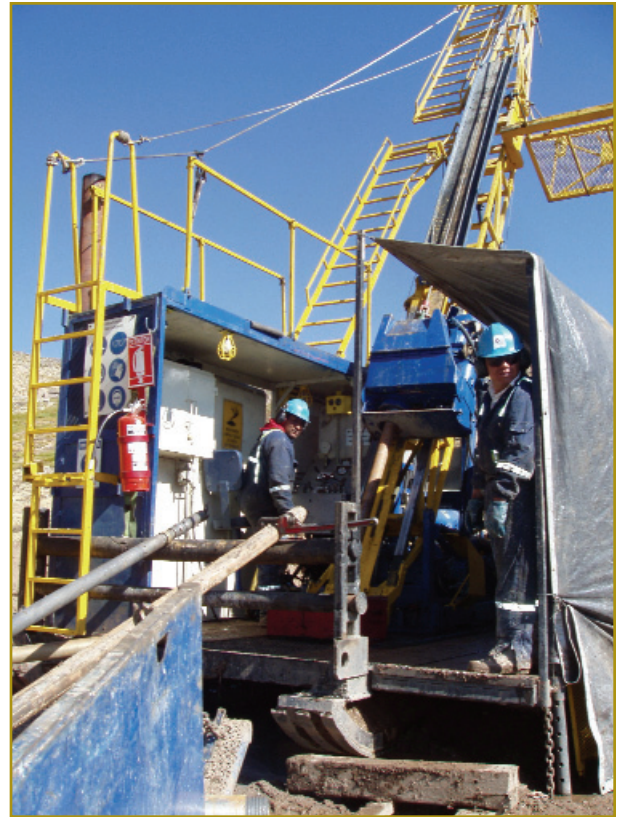
We have buyout options on two early stage exploration projects from private parties in Bolivia. We had planned on drilling both properties in 2006, but the political climate in Bolivia became increasingly uncertain with the national government sending conflicting signals on its position relative to private foreign ownership of natural resource projects. Consequently, we elected to postpone our drilling plans. We continue to monitor the political situation in Bolivia to determine when, and if, we may resume more significant exploration activities.

Titicayu

The Titicayu silver prospect is located 175 kilometers south of La Paz. A mineralized structural zone has been traced on surface for nearly one-kilometer in length and this zone averages 10 to 20 meters in width. The zone is covered by younger unmineralized volcanics on each end and is consequently open to expansion. Our geologists have interpreted the exposed surface mineralization to be "high level," meaning that the best grades could reside at depth. No drilling has ever been conducted on the property.

Triunfo

The Triunfo polymetallic (gold-silver-lead-zinc) project is located about 35 kilometers east of the capital city of La Paz, Bolivia. Exposed mineralization occurs as a structurally controlled zone of veins and veinlets up to 80 meters wide and at least 400 meters long. The eastern and western limits along strike and southern limit of width are covered by shallow talus, and are potentially open to expansion. No drilling has ever been conducted on the property.



In 2007 Solitario expects to complete 20,000 meters of drilling on seven projects throughout Latin America.

In Summary

With over \$20 million in cash and Kinross stock, no debt, three significant joint ventures with three major mining companies and an emerging array of new 100%-owned gold prospects, we are more optimistic than ever concerning the future prospects for Solitario.



Management's Discussion & Analysis of Financial Condition & Results of Operations

The following discussion should be read in conjunction with the information contained in the consolidated financial statements and notes thereto included in Item 8 "Financial Statements and Supplementary Data." Our financial condition and results of operations are not necessarily indicative of what may be expected in future years.

(a) Business Overview and Summary

We are an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential. We acquire and hold a portfolio of exploration properties for future sale or joint venture prior to the establishment of proven and probable reserves. Although our mineral properties may be developed in the future through a joint venture, we have never developed a mineral property and we do not anticipate developing any currently owned mineral properties on our own in the future. We were incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of Crown. We have been actively involved in this business since 1993 and have in the past recorded revenues from joint venture payments and the sale of these properties on an infrequent basis, with the last significant revenues recorded in 2000 upon the sale of our Yanacocha property for \$6,000,000. We expect future revenues from joint venture payments or the sale of properties, if any, would also occur on an infrequent basis. At December 31, 2006 we had nine exploration properties in Peru, Bolivia, Mexico and Brazil. We are conducting exploration activities in all of those countries. On July 26, 2004, Crown completed a spin-off of its holdings of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. Crown was acquired by Kinross upon the completion of the Crown – Kinross merger and Kinross currently owns less than one percent of our outstanding common stock.

Our principal expertise is in identifying mineral properties with promising mineral potential, acquiring these mineral properties and exploring them to enable us to sell or joint venture these properties prior to the establishment of proven and probable reserves. Currently we have no mineral properties in development and we do not anticipate developing any currently owned properties on our own in the future. We currently own nine mineral properties under exploration and we own our Yanacocha royalty interest. Our goal is to discover economic deposits on our mineral properties and advance these deposits, either on our own or through joint ventures, up to the development stage (development activities include, among other things, the completion of a feasibility study, the identification of proven and probable reserves, as well as permitting and preparing a deposit for mining). At that point we would attempt to either sell our mineral properties or pursue their development through a joint venture with a partner that has expertise in mining operations.

In analyzing our activities, the most significant aspect relates to results of our exploration activities and those of our joint venture partners on a property-by-property basis. When our exploration activities, including drilling, sampling and geologic testing, indicate a project may not be economic or contain sufficient geologic or economic potential we may impair or completely write-off the property. Another significant factor in the success or failure of our activities is the price of commodities. For example, when the price of gold is up, the value of gold-bearing mineral properties increases, however, it also becomes more difficult and expensive to locate and acquire new gold-bearing mineral properties with potential to have economic deposits.

The potential sale, joint venture or development through a joint venture of our mineral properties will occur, if at all, on an infrequent basis. Accordingly, while we conduct exploration activities, we need to maintain and replenish our capital resources. We have met our need for capital in the past through (i) sale of properties, which last occurred in 2000 with the sale of our Yanacocha property for \$6,000,000; (ii) joint venture payments, which last occurred during the years from 1996

through 2000; (iii) investment in Kinross (previously Crown); (iv) issuance of common stock, including exercise of options, and through private placements; (v) and more recently as part of a strategic alliance with major mining companies. We have reduced our exposure to the costs of our exploration activities through the use of joint ventures. We anticipate these practices will continue for the foreseeable future although we expect that our primary funds will come from the sale of our investment in Kinross.

(b) Recent Developments

On September 25, 2006 we signed a definitive venture agreement (the "Venture Agreement") with Newmont de Mexico, S.A. de C.V. ("Newmont"), a wholly owned subsidiary of Newmont Mining Corporation, on Solitario's Pachuca Real silver-gold project in central Mexico. The Venture Agreement calls for a firm work commitment by Newmont of \$2.0 million over the next 18 months. Work commitments over the next 4.5 years total \$12.0 million.

Exploration Expenditures and Due Dates	Amount	Aggregate Amount
18 months from signing –	\$2,000,000 ⁽¹⁾	\$ 2,000,000
30 months from signing –	\$2,300,000 ⁽²⁾	\$ 4,300,000
42 months from signing –	\$3,500,000 ⁽²⁾	\$ 7,800,000
54 months from signing –	\$4,200,000 ⁽²⁾	\$ 12,000,000

⁽¹⁾ firm commitment
⁽²⁾ optional commitment

Newmont's initial firm work commitment includes a minimum of 7,500 meters of drilling, however Newmont will have 24 months to complete such drilling and any costs beyond the initial 18 month period to complete that drilling, if necessary, will be in addition to the \$2.0 million work commitment above. Upon the completion of \$12.0 million in expenditures, Newmont will have earned a 51% interest in the project. Newmont will have the right to earn an additional 14% (total 65%) by completing a positive feasibility study for the project. After Newmont has spent \$12.0 million and has elected to complete a feasibility study, Newmont is required to spend a minimum of \$5.0 million annually until such time as the positive feasibility study is completed. Newmont has the right to terminate the agreement at any time following its firm initial work commitment. Upon completion of the feasibility study, we will have the option to self-finance our 35%-participating interest in the project, or to have Newmont fund our portion of construction costs at Libor + 3.5%. Such post-feasibility funding plus interest shall be paid from 80% of our distribution of future earnings or dividends from the venture. If we elect to have Newmont fund all our venture costs after feasibility, then our participating interest will be immediately reduced to 30% and Newmont's interest will be 70%.

On August 15, 2006 we signed a Letter Agreement with Votorantim Metais Cajamarquilla, S.A., a wholly owned subsidiary of Votorantim Metais (collectively, "Votorantim"), on our 100%-owned Bongará zinc project in northern Peru. The Bongará project hosts the Florida Canyon zinc deposit where high-grade zinc mineralization has been encountered in drill holes over an area two by two kilometers in dimension. The Letter Agreement calls for a firm commitment by Votorantim to fund a one-year, \$1.0 million exploration program which began in late October 2006. Votorantim can earn up to a 70% interest in the project by funding the \$1.0 million exploration program, by completing future annual exploration and development expenditures, and by making cash payments of \$100,000 on the first anniversary of signing the Letter Agreement and \$200,000 on all subsequent anniversaries until a production decision is made or the agreement is terminated. The option to earn the 70% interest can be exercised by Votorantim any time after the first year commitment by committing to place the project into production based upon a feasibility study. Additionally, Votorantim, in its sole

discretion, may elect to terminate the option to earn the 70% interest at any time after the first year commitment. The Letter Agreement calls for Votorantim to have minimum annual exploration and development expenditures of \$1.5 million in each of years two and three, and \$2.5 million in all subsequent years until a minimum of \$18.0 million has been expended by Votorantim. Votorantim will act as project operator. Once Votorantim has fully funded its \$18.0 million work commitment, it has further agreed to finance our 30% participating interest through development. We will repay the loan facility through 50% of our cash flow distributions. Both parties are currently working towards signing definitive agreements effectuating the Letter Agreement.

We have a significant investment in Kinross Gold Corporation ("Kinross") at December 31, 2006, which consists of 1,742,920 shares of Kinross common stock. We received 1,942,920 shares in exchange for 6,071,626 shares of Crown common stock we owned on the date of the completion of a merger on August 31, 2006 whereby Kinross acquired all of the outstanding shares of Crown common stock for 0.32 shares of Kinross common stock per share of Crown common stock (the "Crown - Kinross merger"). On September 15, 2006, subsequent to the Crown - Kinross merger, we sold 100,000 Kinross common shares for net proceeds of \$1,206,000. We sold an additional 100,000 shares of Kinross common stock for net proceeds of \$1,236,000 on October 24, 2006. Subsequent to December 31, 2006 we sold an additional 100,000 shares for net proceeds of \$1,274,000 and as of February 21, 2007, we own 1,642,920 shares of Kinross common stock which have a value of approximately \$22.2 million based upon the market price of \$13.51 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on our liquidity and capital resources.

On August 2, 2006 we received approval to list our common shares on the American Stock Exchange ("AMEX"). Trading on the AMEX began on Friday, August 11, 2006, under the symbol XPL. Our common stock continues to trade on the Toronto Stock Exchange ("TSX") under the symbol SLR.

As a result of ongoing geologic and exploration activities including drilling, during 2006 we made the decision to drop our interest in three properties: the La Libertad and the Pillune projects in Peru and the Pozos and Zinda projects in Mexico and the Pau d' Arco project in Brazil. We recorded property abandonment and impairment expense of \$35,000 related to the write-off of the capitalized costs on these properties during 2006.

On April 16, 2006, we signed the fourth amendment to the Pedra Branca Letter Agreement with Anglo Platinum, Ltd. ("Anglo"), which extended to July 15, 2006 from May 15, 2006 the date by which Anglo and Solitario would complete a definitive operating agreement for the exploration and development of Solitario's Pedra Branca Project. In addition, Anglo agreed to reimburse us for certain care and maintenance expenses incurred at the Pedra Branca Project during 2005 and 2006 and to pay up to \$5,000 of monthly care and maintenance costs through July 15, 2006. On July 14, 2006, we signed a Framework Agreement that commits Anglo Platinum to fund the next six months of work totaling approximately \$373,000. Solitario's and Anglo Platinum's property interests will be held indirectly through a joint operating company that will hold a 100% interest in the mineral rights and other project assets. The relationship between Solitario and Anglo Platinum will be defined by a definitive Shareholders Agreement. Solitario and Anglo Platinum have completed drafting of a definitive operating agreement and we anticipate signing the definitive agreement before the end of the 2007 first quarter, upon approval of several regulatory filings within Brazil. Current plans call for approximately \$1.0 million in exploration expenditures for the ten month period ending October 31, 2007. Upon the completion of the aforementioned expenditures, Anglo Platinum will have earned a 15% interest in the joint operating company holding Pedra Branca mineral rights, with Solitario retaining an 85% interest.

During 2006, we capitalized \$47,000 related to initial staking and lease costs on five exploration projects. We capitalized \$18,000 for initial staking and concession costs paid to the Brazilian government and initial acquisition costs paid to a private Brazilian individual on its Pau d'Arco

project in Brazil. We capitalized \$10,000 on our Titicayo project in Bolivia, capitalized \$5,000 for initial lease and option payments related to our Pachuca property in Mexico for initial lease payments and capitalized approximately \$14,000 on our Amazonas property in Peru. Solitario subsequently dropped its interest in the Pau d'Arco project in Brazil during the fourth quarter of 2006. Any additional costs incurred for subsequent lease payments or exploration activities will be expensed as incurred.

On May 1, 2006 the government of Bolivia effectively nationalized its oil and gas production, by reducing the share of production a foreign owner of such assets may receive to 18%, and by ordering the Bolivian armed forces to forcibly occupy the country's largest gas fields. Solitario has a small mineral exploration program in Bolivia, covering two properties with total capital costs of approximately \$30,000. The action by the Bolivian government did not include mining assets and does not directly affect our operations or assets. We will continue to monitor the actions of the Bolivian government for any future impact or potential impairment.

(c) Results of Operations

Comparison of the year ended December 31, 2006 to the year ended December 31, 2005

We had a net loss of \$3,183,000 or \$0.11 per basic and diluted share for the year ended December 31, 2006 compared to net loss of \$2,080,000 or \$0.08 per basic and diluted share for the year ended December 31, 2005. As explained in more detail below, the primary reason for the increase in net loss during 2006 compared to the net loss during 2005 was an increase in exploration expense to \$2,942,000 in 2006 from \$2,072,000 in 2005, non-cash charge of \$955,000 for stock-based compensation expense, of which \$951,000 related to stock-based compensation from the grant of options during 2006, plus an increase in other general and administrative costs including increases as a result of the termination of the management services agreement with Crown and the receipt of other income during 2005 in the form of a dividend from Crown of \$1,275,000. These differences in income and expenses were mitigated by gain of \$2,121,000 on the sale of Kinross stock during 2006 and a reduction in the management service agreement fee to \$232,000 in 2006 compared to \$423,000 during 2005.

Our net exploration expense increased to \$2,942,000 during 2006 compared to \$2,072,000 in 2005. During 2006 we further expanded our exploration efforts in Peru, Brazil and Mexico, portions of which led to the addition of certain exploration projects. We increased our surface sampling and evaluation programs during 2006 compared to 2005 including reconnaissance activities related to our Strategic Alliance projects and at our Pachuca property in Mexico prior to signing of our Pachuca-Real agreement with Newmont, discussed above. We also increased our exploration expense at our Pedra Branca property in Brazil. Our gross exploration costs increased to \$3,207,000 in 2006 from \$2,172,000 in 2005. The exploration expenses were offset by joint venture reimbursements by Anglo Platinum on our Pedra Branca project of \$265,000 during 2006 and \$100,000 during 2005. In addition to the increase in surface exploration activities, we increased our direct drilling expenditures to \$590,000 at our Pau d'Arco, Mercurio, Libertad and Pillune projects during 2006 compared to direct drilling exploration expenditures at our Pedra Branca, Mercurio and La Tola projects of \$264,000 during 2005. As a result of our exploration and evaluation activities we decided to drop or reduce our interests in five properties during 2006: Libertad and Pillune in Peru, Pozos and Zinda in Mexico, and Pau d'Arco in Brazil, recording \$35,000 in mineral property write-downs. We acquired three new projects during 2006 and we anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2007 and have budgeted our related net exploration expenditure to be approximately \$1,932,000 for 2007. The primary factors in our decision to decrease exploration expenditures in 2007 relate to more projects being joint-ventured in 2007 and a reduction in drill targets on our existing non-joint venture projects.

Exploration expense (in thousands) by property consisted of the following:

Property Name	2006	2005
Newmont Alliance	\$ 470	\$ 296
Bongará	129	69
Pedra Branca, net	(13)	34
Mercurio	629	559
Pau d'Arco	495	-
Pachuca	189	6
Libertad	144	-
Conception del Oro	30	6
Purisimas	19	-
Pozos	18	21
Zinda	15	8
Titicayo	34	-
Triunfo	15	17
Windy Peak	-	105
Odin	-	131
Reconnaissance	768	820
Total exploration expense	\$ 2,942	\$ 2,072

General and administrative costs were \$2,010,000 during 2006 compared to \$576,000 in 2005. The largest change in general and administrative costs related to a non-cash charge of \$951,000 during 2006 for stock-based compensation expense discussed below. In addition we incurred salary expense of \$248,000 subsequent to August 31, 2006 as a result of the termination of the Crown management services agreement and the addition of our employees who previously were paid by Crown. We also had increases in costs during 2006 compared to 2005 for shareholder relations including corporate and exchange fees of \$103,000, primarily related to \$75,000 for listing fees on the AMEX during 2006. We also incurred increases in legal and accounting costs totaling \$75,000, which primarily related to an SEC review of our financial statements and the application to list on the AMEX. We recorded consulting expense of \$27,000 during 2006 related to an agreement entered into in 2006 with Mark Jones, discussed below under related party transactions. In addition, other general and administrative costs (net) increased approximately \$29,000 in 2006 compared to 2005 primarily related to costs which had previously been allocated between Crown and Solitario. We anticipate an increase in general and administrative costs in the future due to full year costs of salaries, rent and shareholder costs, previously included in the management services contract, which will be offset by reductions in the stock option compensation cost which is forecast to be approximately \$632,000 in 2007.

On January 1, 2006, we adopted SFAS 123R. SFAS 123R requires the expensing of the grant date fair value of options over the term of their vesting. On June 27, 2006 the Board of Directors granted 1,655,000 options under the 2006 Plan. We determined the fair value of \$2,536,000 for the 2006 Plan options granted on June 27, 2006 using a Black-Scholes option pricing model. We immediately recognized \$634,000 of stock-based compensation expense as part of general and administrative expense for the 25% vesting on the date of grant and we have elected cliff-vesting to recognize the fair value of the option grant over the vesting period of three years on a straight line basis. Accordingly, we have recognized an additional \$317,000 during 2006 of option compensation expense for the portion vested of the remaining 75% of the fair value as of the date of the grant, which is being recognized over the three years from the date of grant. There were no similar grants in the prior year, and prior to adopting SFAS 123R, we did not recognize stock-option compensation expense in the statement of operations. See Stock Based Compensation Plans in Note 1 to the condensed consolidated financial statements.

We had \$49,000 of depreciation and amortization expense during 2006 compared to \$29,000 in 2005 primarily as a result of the addition of furniture and fixtures of \$119,000 and \$126,000, respectively, which were added during 2006 and 2005. We amortize these assets over a three year period. We anticipate our 2007 depreciation and amortization costs will be similar to our 2006 amount.

Management fee expense decreased to \$232,000 during 2006 compared to \$423,000 in 2005. Although there were no changes in the management agreement, the decrease in management fees during 2006 was related to the termination of the agreement on August 31, 2006. Under the modified

management agreement Solitario paid Crown for services by payment at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits and expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, we reimbursed Crown for direct out-of-pocket expenses.

On July 28, 2004, we exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The transaction has been accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrants. We exercised our remaining 500,000 TNR warrant on July 24, 2006 by paying \$70,000 in cash and transferred our existing warrant valuation of \$12,000 on the date of exercise to marketable equity securities and as a result recorded no gain or loss on derivative instruments related to our holdings of TNR warrants during the second half of 2006. The TNR shares were classified as marketable equity securities and the TNR warrants were recorded at fair value based on quoted prices and classified as derivative instruments and changes in the fair value of the warrants are included in gain/loss on derivative instruments in the consolidated statement of operations. We recorded a decrease in the value of our TNR warrants through the date of exercise of \$5,000 compared to a decrease in value for the year ended December 31, 2005 of \$20,000 to loss on derivative instruments in the consolidated statement of operations. We do not anticipate recognizing any future gains or losses in our derivative instruments as we no longer own any warrants.

During 2006 we recorded interest income of \$26,000 compared to interest income of \$52,000 during the same period in 2005. The interest income recorded during 2006 and 2005 consisted of payments on cash and cash equivalent deposit accounts. Our average cash balances were larger during 2005 compared to 2006, which led to the decline in interest income.

On September 15, 2006, we sold 100,000 shares of Kinross common stock for net proceeds of \$1,206,000 and recorded a gain of \$1,046,000 on the sale. On October 24, 2006, we sold an additional 100,000 shares of Kinross common stock for net proceeds of \$1,236,000 and recorded a gain of \$1,076,000 on the sale. There were no similar sales of marketable equity securities during 2005. We anticipate we will continue to liquidate our Kinross holdings over the next three years. See liquidity and capital resources below. During 2005 Crown paid a one-time special dividend and we received \$1,275,000 on our holdings of Crown stock, which was recorded as other income. There were no similar items in 2006 and we do not anticipate receiving any dividends on our holdings of marketable equity securities in Kinross or TNR in the foreseeable future.

During 2006, we recorded income tax expense of \$54,000 compared to an income tax expense of \$257,000 during 2005. The decrease in net tax expense is related to the increase in general and administrative expenses during 2006 discussed above, which are included in the United States taxable income which was offset by the gains on sale of Kinross stock during 2006 discussed above. This increase in other income compared to the \$1,275,000 Crown dividend during 2005, described above. We provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico, Bolivia and Brazil. We anticipate we will continue to provide a valuation allowance for these net operating losses until we are in a net tax liability position with regards to those countries where we operate or until it is more likely than not that we will be able to realize those net operating losses in the future.

We regularly perform evaluations of our assets to assess the recoverability of our investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable utilizing guidelines based upon future net cash flows from the asset as well as our estimates of the geologic potential of early stage mineral property and its related value for future sale, joint venture or development by us or others. During 2006 we recorded \$35,000 of property impairments, related to our Libertad and Pillune projects in Peru, our Pozos and Zinda projects in Mexico, and the Pau d'Arco project in Brazil, compared to \$30,000 of property impairments during 2005, related to our La Pampa, Windy Peak and Odin projects.

Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

We had net loss of \$2,080,000 or \$0.08 per basic and diluted share for the year ended December 31, 2005 compared to net loss of \$2,925,000 or \$0.12 per basic and diluted share for the year ended December 31, 2004. As explained in more detail below, the primary reason for the decrease in net loss during 2005 compared to the net loss during 2004 was the receipt of a dividend from Crown during 2005 of \$1,275,000, and the recognition of a \$1,704,000 unrealized loss on derivative instruments primarily related to our holdings of Crown warrants during 2004 while only recording a \$20,000 unrecorded loss on derivative instruments in 2005. However these decreases were partially mitigated by an increase in exploration expense to \$2,072,000 in 2005 from \$1,088,000 in 2004. Finally we recorded deferred tax expense of \$257,000 during 2005, primarily related to the Crown dividend, compared to a deferred tax benefit of \$935,000 during 2004 primarily as a result of our pre-tax loss of \$3,860,000.

During the year ended December 31, 2005 we recorded an unrealized loss on derivative instruments of \$20,000 related to our holdings of TNR warrants compared to an unrealized loss of \$1,704,000 during 2004 primarily related to our Crown warrants. Because we exercised our Crown warrants on July 12, 2004 there were no unrealized gains or losses related to our Crown warrants recorded during 2005. The Crown warrants represented the right to receive 2,057,143 Crown shares, were exercisable into Crown shares at any time prior to October 2006 at exercise prices between \$0.60 and \$0.75 per share and were classified as derivative instruments. Accordingly, any increase or decrease in the market value of our Crown warrants has been included in the consolidated statement of operations as unrealized gain or loss on derivative instruments. The fair value of our Crown warrants decreased to \$3,849,000 at July 12, 2004, compared to \$5,591,000 at December 31, 2003, primarily as a result of the decrease in the value of Crown's common stock, which decreased from \$2.52 per share at December 31, 2003 to \$1.95 per share at July 12, 2004, just prior to exercise. On July 12, 2004, we exercised all of our Crown warrants on a cashless basis and received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants.

During 2005 we recorded interest income of \$52,000 compared to interest income of \$193,000 during the same period in 2004. The interest income recorded during 2005 consisted of payments on cash and cash equivalent deposit accounts. During 2004 we recorded interest of \$192,000 related to our investment in Crown Senior Notes, which were converted in July 2004. Upon conversion of our Crown Senior Notes we received 75,367 shares of Crown common stock for interest, which were paid at the conversion rate of \$0.35 per share when the market price of the shares was \$1.88 per share. As a result we recorded \$117,000 additional interest over the interest income we would have received had the interest been paid in cash upon the conversion of the Senior Notes during the third quarter of 2004.

Our net exploration expense increased to \$2,072,000 during 2005 compared to \$1,088,000 in 2004. During 2005 we focused our exploration efforts on reconnaissance exploration in Peru, Brazil and Mexico, portions of which led to the addition of certain exploration projects, discussed above. Additionally, we increased our exploration activities associated with the Strategic Alliance upon the signing of the Alliance Agreement in January 2005, discussed above under "Recent Developments." Accordingly, our gross exploration costs increased to \$2,172,000 in 2005 from \$1,499,000 in 2004. The exploration expenses were offset by joint venture reimbursements by Anglo Platinum on our Pedra Branca project of \$100,000 during 2005 and \$411,000 during 2004. In addition to our work at Pedra Branca the increase in our gross exploration costs primarily consisted of drilling, sampling and exploration in our Alliance Project Areas as well as increased efforts to add new prospects as well as to evaluate and advance our existing exploration properties and targets. As a result of this exploration and evaluation we decided to drop or reduce our interests in three properties during 2005: La Tola in Peru, Windy Peak in Nevada and Odin in Brazil. We acquired seven projects during 2005 and we anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2006.

We had \$29,000 of depreciation and amortization expense during 2005 compared to \$119,000 in 2004. During 2004, depreciation and amortization expense up to April 2004 included \$117,000 of amortization of mineral interests. Beginning January 1, 2002, we amortized our mineral interests in exploration properties over their expected lives of three to five years. The remaining depreciation and amortization expense related to furniture and fixtures which included depreciation on additions of \$126,000 during 2005 for computers, trucks and other equipment, which replaced much of our previous equipment, most of which had become fully depreciated by the end of 2004.

General and administrative costs were \$576,000 during 2005 compared to \$629,000 in 2004. The largest change in general and administrative costs related to a decrease in legal and accounting costs, which decreased to \$122,000 during 2005 compared to \$303,000 in 2004. The primary reason for the increased cost in 2004 is related to work on completing a Form 10 registration statement with the United States Securities and Exchange Commission (the "SEC") during 2004 as well as costs related to being a U.S. reporting issuer, which occurred when our Form 10 registration statement became effective in February 2004. In addition we recorded currency gains of \$62,000 during 2005 compared to currency gains of \$30,000 primarily related to currency gains on our larger 2005 Canadian cash deposits as well as a result of a general decline in the United States dollar relative to our deposits in Latin America during 2005 compared to 2004. These decreases were offset by increased administrative and staff costs in Latin America to \$123,000 in 2005 compared to \$102,000 in 2004 as well as increased staff and travel costs with the increase in exploration activity during 2005 compared to 2004. We also increased our costs for shareholder relations and printing and distribution of our annual report to \$131,000 in 2005 from \$93,000 in 2004.

Management fee expense increased to \$423,000 during 2005 compared to \$390,000 in 2004. The increase in management fees is related to increased managerial time spent by Crown on our activities during 2005 compared to 2004. Under the modified management agreement Solitario pays Crown for services by payment at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits and expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, we reimburse Crown for direct out-of-pocket expenses.

On July 28, 2004, we exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The transaction has been accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrants. We recorded a loss on sale of marketable equity securities of \$73,000 during the third quarter of 2004. During 2003, we recorded a charge of \$26,000 to earnings related to decline in the value of our TNR shares, which we considered other than temporary. The TNR shares are classified as marketable equity securities and the TNR warrants are recorded at fair value based on quoted prices and classified as derivative instruments and changes in the fair value of the warrants are included in gain/loss on derivative instruments in the consolidated statement of operations. Solitario recorded a decrease in the value of its TNR warrants as of December 31, 2005 of \$20,000 to loss on derivative instruments in the consolidated statement of operations compared to an increase of \$38,000 recorded to gain on derivative instruments in 2004.

During 2005, we recorded income tax expense of \$257,000 compared to an income tax benefit of \$935,000 during 2004. The increase in net tax expense is related to the expected United States taxable income, including the \$1,275,000 Crown dividend during 2005, described above, as well as a reduction in the non-deductible gain on derivative instruments from \$1,704,000 in 2004 compared to \$20,000 in 2005. In addition we provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico, Bolivia and Brazil. We anticipate we will continue to provide a valuation allowance

for these net operating losses until we are in a net tax liability position with regards to those countries where we operate or until it is more likely than not that we will be able to realize those net operating losses in the future.

During 2004, we sold an investment in marketable equity securities for \$16,000, and recorded a gain on such sale of \$14,000. We also exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that could not be publicly traded in Canada until November 28, 2004 and a warrant to purchase 500,000 shares of TNR and recorded a loss of \$73,000 on the exchange. There were no similar items during 2005.

Included in asset write-downs during 2005 were \$30,000 of property write-downs related to our La Pampa, Windy Peak and Odin projects, compared to \$64,000 of mineral property impairments during 2004, related to our San Pablo, Legacy Ridge, La Pampa, and Sapolache projects.

(d) Liquidity and Capital Resources

Due to the nature of the mining business, the acquisition, and exploration of mineral properties requires significant expenditures prior to the commencement of development and production. In the past, we have financed our activities through the sale of our properties, joint venture arrangements, the sale of our securities and most recently from the sale of our marketable equity security investment in Kinross. The receipts from joint venture payments last occurred during the years from 1996 through 2000 and the sale of properties last occurred in 2000 upon the sale of our Yanacocha property for \$6,000,000. We expect future revenues from joint venture payments and from the sale of properties, if any, would also occur on an infrequent basis. To the extent necessary, we expect to continue to use similar financing techniques; however, there is no assurance that such financing will be available to us on acceptable terms, if at all.

Investment in Marketable Equity Securities

Our marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon market quotes of the underlying securities. At December 31, 2006 and 2005, we owned 1,742,920 shares of Kinross common stock and 6,071,626 shares of Crown common stock, respectively. The Kinross and Crown shares are recorded at their fair market value of \$20,706,000 and \$13,965,000 at December 31, 2006 and December 31, 2005, respectively. In addition we own other marketable equity securities with a fair value of \$198,000 and \$94,000 as of December 31, 2006 and December 31, 2005, respectively. At December 31, 2006, we have classified \$15,728,000 of our marketable equity securities as a long-term asset. Changes in the fair value of marketable equity securities are recorded as gains and losses in other comprehensive income in stockholders' equity. During the year ended December 31, 2006, we recorded a gain in other comprehensive income on marketable equity securities of \$9,205,000, less related deferred tax expense of \$3,590,000. In addition during the year ended December 31, 2006, we sold 200,000 shares of Kinross stock for proceeds of \$2,442,000 resulting in a gain of \$2,121,000 which was transferred, less related deferred tax expense of \$827,000, from previously unrealized gain on marketable equity securities in other comprehensive income. See marketable equity securities in Note 1 to the consolidated financial statements. Any change in the market value

of the shares of Kinross common stock could have a material impact on our liquidity and capital resources. The price of shares of Kinross common stock has varied from a high of \$15.01 per share to a low of \$8.92 per share during the year ended December 31, 2006.

Working Capital

We had working capital of \$4,555,000 at December 31, 2006 compared to working capital of \$4,189,000 as of December 31, 2005. Our working capital at December 31, 2006 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 1,742,920 shares of Kinross common stock of \$5,176,000, less related current deferred taxes of \$1,652,000. Although no specific plans have been formulated by our Board, we intend to liquidate a portion of our Kinross shares over the next one to three years to reduce our exposure to a single asset, taking into consideration our cash and liquidity requirements, tax implications, the market price of gold and the market price of Kinross stock. Although our Kinross shares have been issued pursuant to an effective registration statement under the U.S. Securities Act of 1933 (the "Securities Act"), due to our status as a Crown affiliate, sales of our Kinross shares must be made in accordance with the requirements of Rule 145(d) under the Securities Act, which could limit or restrict sales of our Kinross shares during the next one to two years. Any funds received from the sale of Crown or Kinross shares would be used primarily to fund exploration on our existing properties, for the acquisition and exploration of new properties and general working capital.

On January 18, 2005, pursuant to a Stock Purchase Agreement, we agreed to sell to Newmont Canada 2,700,000 newly issued shares of our Common Stock for Cdn\$1.70 per share or Cdn\$4,590,000 in the aggregate or approximately \$3,773,000. We sold the Common Stock in a private offering in reliance on an exemption from registration pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. Newmont Canada received restricted stock in the offering. We have used a portion of the proceeds of this offering to perform exploration as contemplated under an Alliance Agreement with Newmont Exploration and will continue to do so during 2007.

Stock-Based Compensation Plans

During 2006, holders exercised options from the 1994 Plan for 1,213,000 shares for proceeds of \$952,000 and exercised options for 17,500 shares from the 2006 plan for proceeds of \$42,000. The exercise price of options for 980,000 of the shares from the 1994 Plan was Cdn\$0.94 per share, the exercise price of options for 158,000 of the shares from the 1994 Plan was Cdn\$0.73 per share, the exercise price for 25,000 of the shares from the 1994 Plan was Cdn\$0.81 per share and the exercise price of 50,000 of shares from the 1994 Plan was Cdn\$0.65 per share. The exercise price for the 17,500 shares from the 2006 Plan was Cdn\$2.77 per share. During 2005 holders exercised options for 30,500 shares for proceeds of \$22,000.

The following table summarizes the activity for stock options outstanding under the 1994 Plan and the 2006 Plan as of December 31, 2006, with exercise prices equal to the fair market value, as defined, on the date of grant and no restrictions on exercisability after vesting:

	Shares issuable on outstanding Options	Weighted average exercise Price (Cdn\$)	Weighted average remaining contractual term	Aggregate intrinsic value ⁽¹⁾
1994 Plan:				
Outstanding, beginning of year	2,240,000	\$ 0.82		
Exercised	(1,213,000)	\$ 0.91		
Outstanding at December 31, 2006	<u>1,027,000</u>	\$ 0.74	<u>0.3</u>	\$ 3,559,000
Exercisable at December 31, 2006	<u>1,027,000</u>	\$ 0.74	<u>0.3</u>	<u>\$ 3,559,000</u>
2006 Plan				
Outstanding, beginning of year	—	n/a		
Granted	1,655,000	\$ 2.77		
Exercised	(17,500)	\$ 2.77		
Outstanding at December 31, 2006	<u>1,637,500</u>	\$ 2.77	<u>4.6</u>	\$ 2,808,000
Exercisable at December 31, 2006	<u>396,250</u>	\$ 2.77	<u>4.6</u>	<u>\$ 679,000</u>

⁽¹⁾ The intrinsic value at December 31, 2006 based upon the quoted market price of Cdn\$4.76 per share for our common stock on the Toronto Stock Exchange and an exchange ratio of 0.86169 Canadian dollars per United States dollar.

As a result of the options from the 1994 Plan being significantly "in the money" as of December 31, 2006, we anticipate that 917,000 unexercised options currently outstanding from our 1994 Plan will be exercised prior to their expiration date of March 2, 2007 for estimated proceeds of approximately \$576,000, based upon the above exchange ratio, assuming there is no significant decline in the quoted market price for a share of our common stock on the Toronto Stock Exchange. We would not expect that a significant number of our other remaining vested options, from either the 1994 Plan or the 2006 Plan will be exercised in the next year.

(e) Cash Flows

Net cash used in operations during the year ended December 31, 2006 increased to \$4,483,000 compared to \$1,572,000 for 2005 primarily as a result of (i) increased exploration expenses of \$2,942,000 in 2006 compared to \$2,072,000 in 2005, (ii) increased general and administrative costs of \$2,010,000 in 2006 compared to \$576,000 in 2005, (iii) the Crown dividend of \$1,275,000 received in 2005 and no similar item in 2006, and (iv) a use of cash for prepaid expenses and other current assets of \$164,000 in 2006 compared to a source of cash of \$279,000 in 2005. These increases in cash uses were mitigated by the reduction in the management services agreement to \$232,000 in 2006 from \$423,000 in 2005 and the inclusion of non-cash option compensation expense of \$955,000 in 2006 general and administrative costs. The remaining uses of cash for operations were comparable in 2006 and 2005.

Net cash provided from investing activities increased to \$2,273,000 during 2006 compared to \$178,000 cash used in investing activities during the year ended December 31, 2005 primarily related to the \$2,442,000 proceeds from the sale of Kinross stock during 2006, with no similar item in 2005. The remaining uses of cash from investing activities were comparable in 2006 and 2005.

Net cash provided from financing activities was \$994,000 during the year ended December 31, 2006 compared to \$3,794,000 during 2005. The cash provided from financing activities in 2005 was primarily due to the issuance of 2,700,000 shares of our common stock to Newmont Canada for net proceeds of \$3,773,000 pursuant to a private placement to Newmont Canada. The remaining cash provided in 2005 and all of the cash provided in 2006 related to cash payments of \$21,000 from the exercise of options for 32,500 shares of our common stock in 2005 and cash payments of \$994,000 from the exercise options for 1,230,500 shares of our common stock in 2006.

(f) Exploration activities and contractual obligations

A significant part of our business involves the review of potential property acquisitions and continuing review and analysis of properties in which we have an interest, to determine the exploration and development potential of the properties. In analyzing expected levels of expenditures for work commitments and property payments, our obligations to make such payments fluctuate greatly depending on whether, among other things, we make a decision to sell a property interest, convey a property interest to a joint venture, or allow our interest in a property to lapse by not making the work commitment or payment required. In acquiring our interests in mining claims and leases, we have entered into agreements, which generally may be canceled at our option. We are required to make minimum rental and option payments in order to maintain our interest in certain claims and leases. Our net 2006 mineral property rental and option payments were approximately \$284,000. In 2007 we estimate mineral property rental and option payments to be approximately \$350,000. Approximately \$102,000 of these annual payments are reimbursable to us by our joint venture partners.

We may be required to make further payments in the future if we elect to exercise our options under those agreements. As part of the Alliance Agreement we are committed to spend \$3,773,000 over the four years from the date of the Alliance Agreement on gold exploration in regions ("Alliance Projects Areas") that are mutually agreed upon by Newmont Exploration and us. As of December 31, 2006, we have spent approximately \$807,000 of this commitment.

As of December 31, 2006, we have no outstanding long-term debt, capital or operating leases or other purchase obligations. We estimate our facility lease costs will be approximately \$32,000 per year, related to the Wheat Ridge, Colorado office.

We currently have deferred tax liabilities recorded in the amount of \$5,783,000. These deferred tax liabilities primarily relate to our unrealized holding gains on our Kinross shares. We expect that a portion of these deferred tax liabilities may become currently payable as we sell the Kinross shares.

(g) Joint Ventures, royalty and the Strategic Alliance properties

Bongará— On August 15, 2006 we signed a Letter Agreement with Votorantim on our 100%-owned Bongará zinc project in northern Peru. We anticipate signing a definitive agreement, "Framework Agreement for the Exploration and Potential Development of Mining Properties," with Votorantim during the first quarter of 2007. The Bongará project hosts the Florida Canyon zinc deposit where high-grade zinc mineralization has been encountered in drill holes over an area two by two kilometers in dimension. The Letter Agreement calls for a firm commitment by Votorantim to fund a one-year, \$1.0 million exploration program which began in late October 2006. Votorantim can earn up to a 70% interest in the project by funding the \$1.0 million exploration program, by completing future annual exploration and development expenditures, and by making cash payments of \$100,000 on the first anniversary of signing the Letter Agreement and \$200,000 on all subsequent anniversaries until a production decision is made or the agreement is terminated. The option to earn the 70% interest can be exercised by Votorantim any time after the first year commitment by committing to place the project into production based upon a feasibility study. Additionally, Votorantim, in its sole discretion, may elect to terminate the option to earn the 70% interest at any time after the first year commitment. The agreement calls for Votorantim to have minimum annual exploration and development expenditures of \$1.5 million in each of years two and three, and \$2.5 million in all subsequent years until a minimum of \$18.0 million has been expended by Votorantim. Votorantim will act as project operator. Once Votorantim has fully funded its \$18.0 million work commitment, it has further agreed to finance our 30% participating interest through production. Solitario will repay the loan facility through 50% of its cash flow distributions.

Pachuca— On September 25, 2006 we signed a definitive venture agreement (the "Venture Agreement") with Newmont de Mexico, S.A. de C.V. ("Newmont"), a wholly owned subsidiary of Newmont Mining Corporation, on our Pachuca Real silver-gold project in central Mexico. The Venture Agreement calls for a firm work commitment by Newmont of \$2.0 million over the next 18 months. Work commitments over the next 4.5 years total \$12.0 million.

Exploration Expenditures and Due Dates	Amount	Aggregate Amount
18 months from signing –	\$ 2,000,000 ⁽¹⁾	\$ 2,000,000
30 months from signing –	\$ 2,300,000 ⁽²⁾	\$ 4,300,000
42 months from signing –	\$ 3,500,000 ⁽²⁾	\$ 7,800,000
54 months from signing –	\$ 4,200,000 ⁽²⁾	\$ 12,000,000
	⁽¹⁾ firm commitment	
	⁽²⁾ optional commitment	

Newmont's initial firm work commitment includes a minimum of 7,500 meters of drilling, however Newmont will have 24 months to complete such drilling and any costs beyond the initial 18 month period to complete that drilling, if necessary, will be in addition to the \$2.0 million work commitment above. Upon the completion of \$12.0 million in expenditures, Newmont will have earned a 51% interest in the project. Newmont will have the right to earn an additional 14% (total 65%) by completing a positive feasibility study for the project. After Newmont has spent \$12.0 million and has elected to complete a feasibility study (the "Feasibility Stage"), Newmont is required to spend a minimum of

\$5.0 million annually until such time as the positive feasibility study is completed. Newmont is also obligated to make payments on our behalf to keep the property in good standing. Newmont has the right to terminate the agreement at anytime following its firm initial work commitment. Upon completion of the feasibility study, we will have the option to self-finance our 35%-participating interest in the project, or to have Newmont fund our portion of construction costs at Libor + 3.5%. Such post-feasibility funding plus interest shall be paid from 80% of our distribution of future earnings or dividends from the venture. If we elect to have Newmont fund all our venture costs, including our portion of construction costs, then our participating interest will be 30% and Newmont's interest will be 70%.

The 47,300 hectare Pachuca Real silver-gold property in central Mexico was acquired by staking in late 2005 and early 2006. Part of the property, the 13,600 hectare El Cura claim, is held under an option agreement with a private Mexican party. The option agreement provides for payments of \$500,000 over four years. Payments totaling \$12,000 are due to the underlying owner in 2007. Claims fees to be paid to the government of Mexico totaling \$42,000 are due in 2007. As discussed above, all 2006 and 2007 payments to maintain the Pachuca-Real property are the responsibility of Newmont.

Pedra Branca— On January 28, 2003, we entered into an agreement with Anglo Platinum whereby Anglo Platinum may earn a 51% interest in the Pedra Branca Project by spending \$7 million on exploration at Pedra Branca over a four-year period. Anglo Platinum agreed to a minimum expenditure of \$500,000 during the first six months of the agreement. Anglo Platinum can earn an additional 9% interest in Pedra Branca (for a total of 60%) by completing a bankable feasibility study, or spending an additional \$10 million on exploration and development, whichever comes first. Anglo Platinum can also earn an additional 5% interest in Pedra Branca (for a total of 65%) by arranging for financing, including our 35% participating interest, to put the project into commercial production. The Letter Agreement was amended four times between July 2004 and April 2006, generally to extend various work commitment deadlines mandated in the Letter Agreement. On July 14, 2006, we signed the Pedra Branca Framework Agreement with Anglo Platinum that specified actions we and Anglo Platinum would take to establish and govern Pedra Branca Do Mineraco S.A., the corporate entity that would hold 100% title to all the assets of the Pedra Branca project, and the mechanics for Anglo Platinum's continued funding of Pedra Branca exploration. We and Anglo Platinum will own shares in Pedra Branca Do Mineraco S.A., in proportion to our respective participating interests as specified in the Framework Agreement. Anglo Platinum has funded approximately \$1.24 million in exploration and property maintenance costs since signing the Letter Agreement. Solitario and Anglo Platinum have completed drafting of a definitive operating agreement and we anticipate signing the definitive agreement before the end of the 2007 first quarter, upon approval of several regulatory filings within Brazil. Current plans call for approximately \$1.0 million in exploration expenditures for the ten month period ending October 31, 2007. Upon the completion of the aforementioned expenditures, Anglo Platinum will have earned a 15% interest in the joint operating company holding Pedra Branca mineral rights, with Solitario retaining an 85% interest. We have recorded a receivable of \$88,000 at December 31, 2006 from Anglo for these reimbursements on costs incurred through December 31, 2006. Should this agreement fail to be signed or if Anglo Platinum declines to continue for some other reason, we will retain 100% of the Pedra Branca Project.

Strategic Alliance— On January 18, 2005, we signed a Strategic Alliance Agreement with Newmont Overseas Exploration Limited ("Newmont Exploration"), to explore for gold in South America. Prior to the definitive agreement, we had signed a Letter of Intent on November 17, 2004, with Newmont Exploration. Concurrent with the signing of the Alliance Agreement, Newmont Mining Corporation of Canada ("Newmont Canada") purchased 2.7 million shares of Solitario (approximately 9.9% equity interest) for Cdn\$4,590,000. As part of the Alliance Agreement we are committed to spend \$3,773,000 over the four years from the date of the Alliance Agreement on gold exploration in regions ("Alliance Projects Areas") that are mutually agreed upon by Newmont Exploration and us. As of December 31, 2006, we have spent approximately \$807,000 of this

commitment. If we acquire properties within Alliance Project Areas and meet certain minimum exploration expenditures, Newmont Exploration will have the right to joint venture acquired properties and earn up to a 75% interest by taking the project through feasibility and financing Solitario's retained 25% interest into production. Newmont Exploration may elect to earn a lesser interest or no interest at all, in which case it would retain a 2% net smelter return royalty. Newmont Exploration also has a right of first offer on any non-alliance Solitario property, acquired after the signing of the Alliance Agreement, that we may elect to sell an interest in, or joint venture with a third party.

As part of the Strategic Alliance we staked the 1,400 hectare Libertad property in August of 2005 within the Alliance Project Area. Surface work has been completed including geologic mapping and sampling and a geophysical program was completed during the third quarter of 2006. We completed a five-hole drilling program in the third quarter of 2006. Although anomalous gold was intersected the grade was not high enough to warrant continued exploration expenditures on the property and we terminated our interest in La Libertad during the third quarter of 2006, recorded a \$4,000 mineral property abandonment charge and have no further work or expenditure commitment at La Libertad as of December 31, 2006.

Yanacocha Royalty Property— Concurrent with the signing of the Strategic Alliance Letter of Intent, was the signing of a second Letter of Intent by us and Newmont Peru, Ltd. ("Newmont Peru"), to amend our net smelter return ("NSR") royalty on a 61,000-hectare property located immediately north of the Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America. In addition to amending the NSR royalty schedule, the Letter Agreement committed Newmont Peru to a long-term US\$4.0 million work commitment on our royalty property and provides us access to Newmont Peru's future exploration results on an annual basis. Both the Strategic Alliance and Yanacocha royalty amendment and work commitment Letter Agreements were subsequently replaced by definitive agreements with the same terms.

(h) Wholly-owned exploration properties

Amazonas— In September of 2006, we acquired 5,200 hectares of 100%-owned mineral rights through concessions for our Amazonas property. We capitalized \$13,000 in lease acquisition costs related to these concessions. The Amazonas project consists of four widely spaced areas where previous sampling has identified high-grade zinc mineralization at surface similar to that found at Florida Canyon (see Item 2. Properties: Bongará Zinc Property, Peru). We may seek a joint venture partner for the property during 2007.

Mercurio— In September 2005, we completed an option agreement for the purchase of 100% of the mineral rights over the 8,550-hectare Mercurio property in the state of Para, Brazil. An initial payment of 20,000 Brazilian Reals (approximately \$7,000) was paid on signing of the agreement and the next payment of 36,000 Reals (approximately \$12,000) was made in 2005 on signing of a definitive agreement upon conversion of the existing washing claims to exploration claims. Further payments are required upon the conversion of garimpeiro licenses to exploration claims which occurred in the third quarter of 2006. During 2007 payments will total approximately \$42,000. To purchase the property, an escalating scale of payments totaling 780,000 Reals (approximately \$350,000) are required over a sixty month period. A net smelter return of 1.5% is retained by the owner. This NSR can be extinguished with a payment of 2,300,000 Reals (approximately \$1,070,000). All payments are indexed to inflation as of the signing of the agreement. The owner of the mineral rights also owns the surface rights, the use of which is included in the exploration of the property. On completion of all payments we will receive title to 1,500 hectares of surface rights. We may terminate the agreement at any time at our sole discretion. We completed a second phase of extensive soil sampling and auger testing of soils over selected portions of the property during the first half of 2006 and core drilling of eleven holes totaling 1,596 meters completed during the third quarter for which assay results have been received and are under review. During 2005 we completed 1,466 meters of core drilling.

Titicayo— On March 31, 2006, we signed a lease agreement with a private Bolivian company to lease certain concessions covering approximately 1,300 hectares, which comprise the Titicayo project in Bolivia. We capitalized our initial payment under the lease of \$10,000. The lease calls for additional lease payments of \$10,000 eight months from the date of the lease, \$55,000 during the second year of the lease, \$75,000 during the third year of the lease, \$100,000 during the fourth year of the lease, \$150,000 during the fifth year of the lease and \$600,000 during the sixth year of the lease after which we will own a 99% participating interest in the concessions. An amendment to the Titicayo Agreement was signed in November of 2006 that delayed the first additional lease payment until June 2007 with a corresponding adjustment to the rest of the payment schedule. A one time payment of \$10,000 was made to the claim holders in consideration for this amended schedule. We have conducted a limited amount of surface exploration work to define drilling targets. We are currently planning a three-hole drilling program later in 2007.

Triunfo— The 256-hectare Triunfo poly-metallic exploration property in Bolivia was acquired in 2003. Lease obligations were renegotiated in 2006 providing for a payment of \$12,000, which was paid in July of 2006, \$35,000 in 2007 and \$45,000 in 2008 in order to keep the agreement in good standing. An option to purchase the property for \$1,000,000 must be exercised by September 2009. A geophysical survey has been completed on the property and drilling is under consideration for later in 2007.

Concepcion del Oro and Purisimas— In September 2005, we signed an agreement with a private Mexican mineral concession holder allowing us to enter into lease options on four separate properties located throughout central Mexico. The Concepcion del Oro gold property is located near the city of Mazapil in the state of Zacatecas and consists of 35 concessions totaling approximately 1,420 hectares. The Hedionda gold property is located near the city of Allende in the state of Guanajuato and consists of six concessions totaling 620 hectares. The Las Tortugas gold property is located near the city of Chiquilistlan in the state of Jalisco and consists of four concessions totaling 400 hectares. The Las Purisimas gold property is located near the city of Tepic in the state of Navarrit and consists of six concessions totaling 600 hectares. The agreement called for us to make an initial payment of \$15,000 on signing and provided that we would conduct surface exploration on the four properties over a six-month period. We elected to sign definitive option agreements on the Concepcion del Oro, and Purisimas properties. The Concepcion del Oro and Purisimas properties required payments of \$10,000 each in 2006 and in 2007 we are required to pay \$25,000 for the Concepcion del Oro property and \$35,000 for the Purisimas property to maintain the option agreements in good standing. Additionally the properties require claim payments to the government of \$1,600 and \$400 respectively in 2007. As of December 31, 2006, work is ongoing on the properties to determine if drilling is warranted. Solitario did not exercise its option to option the Hedionda and Las Tortugas properties and has no further payment or work obligations for these two properties.

Pau d'Arco— During 2006, we acquired priority to mineral rights covering 2,400 hectares from the Brazilian government at our Pau d' Arco project in Brazil. As a result of this acquisition we capitalized \$18,000 of costs incurred and initial payments made pursuant to an agreement with three private Brazilian individuals to gain access to the Pau d' Arco project. These agreements called for access payments of approximately \$23,000 for 2006 and payments totaling approximately \$1,380,000 over four years. We may also buy out a 1% net smelter return retained by the owners for approximately \$2,600,000. We conducted surface exploration work during the third quarter of 2006 and drilled and completed six core holes totaling 1,111 meters. Although low-grade gold was intersected in three holes, the drilling results were not sufficiently encouraging to continue exploration on the property. Consequently, we will not make 2007 claim fee payments to the government and will terminate our agreements with the private Brazilian parties. We have recorded an impairment of \$18,000 for property abandonment.

Zinda— In August 2005, we received title to the Zinda concession near the city of Morelia in the state of Michoacan. We paid \$5,000 in concession fees (plus tax) to the Mexican government for the 10,000-hectare

concession. After a limited reconnaissance surface sampling program conducted in 2005 and 2006, we decided not to renew our concessions with the Mexican government. We have recorded an impairment of \$5,000 for property abandonment, and at December 31, 2006, have no further payment or work obligations.

Pozos— In September 2005, we signed an agreement with a private Mexican mineral concession holder to option a 100% interest in the Pozos gold property near the city of San Luis de la Paz in the state of Guanajuato, Mexico. The property consists of two concessions totaling 918 hectares. The option agreement required an initial payment of \$10,000 plus the 15% IVA (value added tax) on signing and future escalating payments totaling \$1,500,000 over a four-year period. In the third quarter of 2006, we terminated our option to earn an interest in the property, recorded a property abandonment charge of \$4,000, and at December 31, 2006, have no further payment or work obligations.

(i) Critical Accounting Estimates

Mineral Properties, net

We classify our interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to EITF 04-2. Prior to adoption of EITF 04-2 in April 2004, we classified our interests in mineral properties as intangible assets, Mineral Interests, net. Our mineral properties represent mineral use rights for parcels of land we do not own. All of our mineral properties relate to exploration stage properties and the value of these assets is primarily driven by the nature and amount of economic minerals believed to be contained, or potentially contained, in such properties. Prior to the adoption of EITF 04-2, we amortized the excess cost of our mineral interests over their estimated residual value over the lesser of (i) the term of any mineral interest option or lease or (ii) the estimated life of the mineral interest, which was our estimated exploration cycle. We amortized our mineral interests over a three-to-eight year period based upon facts and circumstances for each mineral interest on a property-by-property basis. We no longer amortize our mineral properties pursuant to the adoption of EITF 04-2.

Impairment

We regularly perform evaluations of our investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change, such as negative drilling results or termination of a joint venture, which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon discounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization as a result of our analysis of exploration activities including surveys, sampling and drilling. We recorded a \$35,000 and \$30,000 write-down of our mineral properties during the years ended December 31, 2006 and 2005, respectively. We may record future impairment if certain events occur, including loss of a venture partner, reduced commodity prices or unfavorable geologic results from sampling assaying surveying or drilling, among others.

Marketable equity securities

Our investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within stockholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. At December 31, 2006 and December 31, 2005, we have recorded unrealized holding gains of \$17,004,000 and \$9,922,000, respectively, net of deferred taxes of \$6,553,000 and \$3,792,000, respectively, related to our marketable equity securities.

Stock-based compensation

We compute the fair value of each option on the date of grant based upon the Black-Scholes option pricing model. This model requires the input of subjective assumptions, including the expected term based upon

historical data of past exercises of option awards and expected stock-price volatility based upon the historical quoted market prices of Solitario common stock as well as an estimate of forfeitures. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded and pro-forma stock-based compensation expense could have been materially different from that reported. We determined the fair value of the 2006 Plan options on June 27, 2006, the date of grant, of \$2,536,000 using a Black-Scholes option pricing model, for a weighted average fair value of \$1.53 per share. In determining the fair value, Solitario has assumed a four-year effective life based upon expected volatility and past historical exercise patterns, an expected volatility of 76% that mirrors the historical volatility based upon daily quoted stock prices from the Toronto Stock Exchange over the prior four years, a risk-free interest rate of 5.2%, an exchange rate on the date of grant of 0.89193 Canadian dollars to each United States dollar, and an intrinsic value of Cdn\$0.08 per share on the date of grant as discussed above. Solitario has elected cliff-vesting to recognize the fair value of the option grant over the vesting period, with 25% recognized immediately, and the remaining 75% over three years on a straight line basis, recognizing as stock option compensation expense an amount at least equal to the percentage of options vested at that date. Solitario has assumed a zero forfeiture rate and a zero dividend rate, based upon historical experience. Accordingly, as of December 31, 2006, Solitario has recognized \$951,000 of option compensation expense, net of deferred taxes of \$371,000, for the vesting of the fair value as of the date of the grant over the life of the option grant, as discussed above under results of operations, which has been included in general and administrative expense for the year ended December 31, 2006. In January 2007, an employee resigned and forfeited unexercised an option for 52,500 shares. The remaining unrecognized stock option compensation expense of approximately \$50,000 from these forfeited options will not be recognized over the remaining vesting period of the options. Solitario will recognize the balance of the remaining \$1,535,000 unrecognized stock options compensation expense over the remaining vesting period, or approximately \$154,000 per quarter.

Derivative instruments

In July 2006 we exercised our only remaining TNR warrant as discussed above in recent developments. Our TNR warrants were recorded at fair market value based upon quoted prices and classified as derivative instruments. We recognized any increase or decrease in the fair value of these warrants as a gain or loss on derivative instruments in the consolidated statement of operations. We recorded a decrease in the fair value of our TNR warrants of \$5,000 and \$20,000 for the year ended December 31, 2006 and December 31, 2005, respectively. We exercised our 500,000 share TNR warrant on July 27, 2006 by paying the exercise price of \$70,000 to TNR, and have no remaining derivative instruments as of December 31, 2006.

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. Currently we believe our deferred tax assets, exclusive of our Yanacocha royalty asset, are recoverable. Recovery of these assets is dependent upon our expected gains on the Kinross securities we own. If these values are not realized, we may record additional valuation allowances in the future.

(j) Related Party Transactions

Crown provided management and technical services to Solitario under a management and technical services agreement originally signed in April 1994 and modified in April 1999, December 2000 and July 2002. The agreement was terminated on August 31, 2006 upon the completion of the Crown – Kinross merger. Under the modified agreement we were

billed by Crown for services at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits, expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, we reimbursed Crown for direct out-of-pocket expenses. These allocations were based upon the estimated time and expenses spent by Crown management and employees on both Crown activities and Solitario activities. Our management believed these allocations were reasonable and the allocations were periodically reviewed by our management and approved by independent Board members of both Crown and Solitario. Management service fees were billed monthly, due on receipt and are generally paid within thirty days. Management service fees incurred by Solitario were \$232,000, \$423,000 and \$390,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

On September 1, 2006, we entered into a consulting agreement with Mark E. Jones, III, a director and vice-chairman of our Board of Directors. The consulting agreement has a two-year term. Under the agreement, Mr. Jones will advise the Company on matters of strategic direction, planning, and identification of corporate opportunities, when and as requested by Solitario. In consideration for the services to be performed, Mr. Jones has been paid a one time lump sum payment of \$160,000, plus he is entitled to receive pre-approved, documented expenses incurred in performance of the consulting services. We have charged \$27,000 for consulting expense, related to the agreement, included in general and administrative expense for the year ended December 31, 2006.

On July 24, 2006, we exercised a warrant to purchase 500,000 shares of TNR Gold Corp. ("TNR") common stock by paying \$70,000. We recorded the cash paid and the fair value of the warrant on the date of exercise of \$12,000 as marketable equity securities. We received this warrant in July 2004 when we exchanged 500,000 shares of TNR Gold Corp. ("TNR") common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The 2004 transaction was accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrants. The TNR shares are classified as marketable equity securities held for sale. As of December 31, 2006, we do not own warrants for the purchase of TNR shares. Previous to their exercise, the TNR warrants were recorded at fair market value based upon quoted prices and classified as derivative instruments. We recorded a loss on derivative instruments of \$5,000, \$20,000 and \$38,000 for the decrease in the value of its warrants during the years ended December 31, 2006, 2005 and 2004, respectively. Christopher E. Herald, our CEO, is a member of the Board of Directors of TNR.

On July 26, 2004, Crown completed a spin-off of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of our shares for the benefit of Crown's warrant holders who would receive those shares when the warrant holders exercise their warrants. Subsequent to the spin-off, through August 31, 2006 when the Crown – Kinross merger was completed, Crown distributed 995,229 of these retained shares upon exercise of its warrants and at December 31, 2006 the remaining 3,077 shares of our stock became the property of Kinross which is not a related party to Solitario. As part of the spin-off we received 1,317,142 shares of our own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

We entered into a Voting Agreement dated as of April 15, 2002 among Zoloto Investors, LP ("Zoloto") and Crown. Zoloto and Solitario were both shareholders of Crown (the "Signing Shareholders"). Pursuant to the Voting Agreement, Zoloto and Solitario agreed that each would vote its owned shares during the term of the Voting Agreement for the election of three designees of Zoloto and one designee of ours (the "Designee Directors") to the Board of Directors of Crown. The Signing Shareholders agreed that any shares received by either Signing Shareholder would be subject to the Voting Agreement during its term and any successor, assignee or transferee of shares from either Signing

Shareholder would be subject to the terms of the Voting Agreement during its term. The Voting Agreement terminated on June 25, 2006.

Prior to the completion of the Crown – Kinross merger, we entered into a stockholder and voting agreement with Kinross, along with several Crown directors, Crown executive officers and entities affiliated with these directors and officers (collectively the “Signatories”), pursuant to which the Signatories voted all of the shares of Crown common stock owned by them in favor of the approval of the Crown – Kinross merger. On August 31, 2006, the shareholders of Crown approved the Crown – Kinross merger and all of Crown’s common shares were converted to Kinross shares and the stockholder and voting agreement terminated.

Christopher E. Herald, and Mark E. Jones, III were directors of both Crown and Solitario until August 31, 2006 when they resigned as directors of Crown upon the completion of the Crown – Kinross merger. Stephen Webster and Brian Labadie were directors of both Crown and Solitario from June 27, 2006 to August 31, 2006, when they resigned as directors of Crown upon the completion of the Crown – Kinross merger. Christopher E. Herald, James R. Maronick and Walter H. Hunt were officers of both Crown and Solitario until August 31, 2006 when they resigned as officers of Crown upon the completion of the Crown – Kinross merger.

(k) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 157 “Fair Value Measurements” (“SFAS No. 157”). SFAS 157 clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the most advantageous market for the asset or liability. SFAS 157 clarifies that the transaction to sell an asset or transfer a liability is a hypothetical transaction at a measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. SFAS 157 states that fair value is a market-based measurement, not an entity specific measurement and that market assumptions should be based upon independent observations of the reporting entity over a reporting entity’s observations about market participant assumptions. SFAS 157 states that market participant assumptions should include risk, restrictions on asset sales, non-performance risk, but that quoted market prices for financial instruments should not be adjusted for the size of a position relative to trading volume (block discounts). SFAS 157 expands disclosures about, among other things, the use of fair value to measure assets and liabilities in interim and annual periods, including the use of unobservable inputs, and the effect of fair value on earnings and changes in net assets. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We have not yet determined what effect if any, the adoption of SFAS No. 157 will have on our financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” (“FIN 48”) an interpretation of FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the entities recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. We adopted FIN 48 on January 1, 2007 and have not yet determined what effect its adoption will have on our financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140” (“SFAS No. 155”). SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No.

D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS No. 155 will become effective for the first fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend on the nature and extent of any new derivative instruments entered into after the effective date. We adopted SFAS No. 155 on January 1, 2007 and have not yet determined what effect its adoption will have on our financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Bulletin No. 108 (“SAB 108”). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 are effective for our December 31, 2006 year end. The adoption of SAB 108 had no impact on our financial position, results of operation or cash flows.

(l) Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Securities Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report (the “Evaluation Date”), we carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in alerting them in a timely manner to material information relating to the Company and its subsidiaries that is required to be included in the reports that we file or submit under the Securities Exchange Act of 1934.

Internal control over financial reporting

Internal control over financial reporting is defined as a process designed by, or under the supervision of our chief executive officer and our chief financial officer, and effected by our board of directors, through our audit committee, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These include procedures that (i) pertain to maintenance of records in reasonable detail to accurately reflect transactions and disposition of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We have performed a limited review of our system of internal controls over financial reporting and noted certain deficiencies in these controls. These deficiencies include (i) lack of segregation of duties, (ii) limited capability to interpret and apply United States generally accepted accounting principles, (iii) lack of adequate documentation of our system of internal controls, (iv) lack of formal accounting policies and procedures and related documentation, (v) deficiencies in our information technology systems and (vi) lack of experience in the review of our formal budgeting process, which has been operational for less than one year.

Steps taken to address noted deficiencies and inherent limitations

We have taken steps to address the above identified deficiencies, including (i) hiring of an outside accounting firm, other than our independent public accounting firm, to assist with preparation of our quarterly and annual reports, (ii) instituting a plan to update our accounting policies and procedures and budgeting processes, (iii) ongoing training and education regarding United States generally accepted accounting principles and Securities and Exchange Commission reporting and disclosure requirements and (iv) an ongoing process to upgrade our existing information technology systems.

Management believes that due to our nature and size, with only four total United States employees, it may not be economically feasible to completely eliminate and or mitigate all noted deficiencies in internal control over financial reporting. Management believes to do so would require the addition of several high-level accounting and financial reporting staff or the engagement of additional outside accounting and legal firms as well as the potential addition of several administrative positions that we believe may not make economic sense for our shareholders. The existence of these deficiencies potentially subjects our Company to additional risk that there may be material misstatements in the future as a result of the misapplication of United States generally accepted accounting principles or the improper recording of our accounts from the lack of segregation of duties.

Integrity of the financial information

Our officers assure themselves of the integrity of financial information by applying existing control procedures. For example, our CFO reconciles general ledger balances to subsidiary ledgers or supporting schedules for all significant accounts and also performs various analytical procedures on financial information. Officers also hold informal meetings to review and approve all financial information.

In addition, our senior management consists of Mr. Herald, our CEO, Mr. Maronick, our CFO and Mr. Hunt, our Vice President of Operations and our entire company has only four United States employees. With such a small and (operationally) efficient staff, we are in constant contact on a daily basis and are intimately familiar with the contents of our financial information and the related disclosures. Our senior management essentially creates our financial information as opposed to having financial information "provided" to them as may be the case with larger organizations. Furthermore, our total number of transactions, for example checks drawn on our bank accounts and recorded journal entries to our accounting records, rarely exceed 150 per month. We believe this gives us a natural advantage over large organizations, but has its limitations, as discussed above, for example with regard to internally available depth of knowledge in complex accounting and reporting and the application of all United States generally accepted accounting principles. Mr. Maronick has and will continue to regularly attend ongoing professional training in these areas to stay up to date. We intend to continue to utilize the outside accounting firm, discussed above, (not our independent registered public accounting firm) to assist in preparation of our financial statements and disclosures. We believe these steps also provide management with additional assurance regarding the integrity of our financial information.

Our audit committee also reviews the financial information including discussions with the outside accounting firm and our independent registered public accounting firm. Management regularly discusses our financial statements and the annual and quarterly filings on Form 10-K and Form 10-Q with our outside accounting firm and members of the audit committee to satisfy management regarding the integrity of the financial information included in public filings with the Securities and Exchange Commission.

Accordingly, the combination of all of the above factors along with our existing disclosure controls and procedures and our systems of internal control, including the implementation of the steps we have taken to mitigate the above noted deficiencies, allow management to assure themselves of the integrity of our financial information.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Solitario Resources Corporation Wheat Ridge, Colorado

We have audited the consolidated balance sheets of Solitario Resources Corporation (a Colorado corporation) as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material mis-statement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Solitario Resources Corporation as of December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for the each of the three years in the period ending December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.



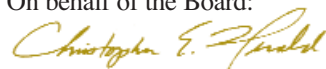
Ehrhardt Keefe Steiner & Hottman P.C.
February 23, 2007
Denver, Colorado

Consolidated Balance Sheets

(in thousands except share and per share amounts)

	December 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 904	\$ 2,120
Joint venture receivable	88	–
Investments in marketable equity securities, at fair value	5,176	3,491
Investment in derivative instruments, at fair value	–	18
Prepaid expenses and other	219	36
Total current assets	6,387	5,665
Mineral properties, net	2,687	2,675
Investments in marketable equity securities, at fair value	15,728	10,568
Other assets	236	129
Total assets	\$ 25,038	\$ 19,037
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 163	\$ 69
Due to Crown Resources Corporation	–	45
Deferred income taxes	1,652	1,362
Other	17	–
Total current liabilities	1,832	1,476
Deferred income taxes	4,131	2,220
Other	31	–
Commitments and contingencies (Notes 2 and 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2006 and 2005)	–	–
Common stock, \$0.01 par value, authorized, 50,000,000 shares (28,689,992 and 27,459,492 shares issued and outstanding at December 31, 2006 and 2005, respectively)	287	275
Additional paid-in capital	28,462	25,909
Accumulated deficit	(20,156)	(16,973)
Accumulated other comprehensive income	10,451	6,130
Total stockholders' equity	19,044	15,341
Total liabilities and stockholders' equity	\$ 25,038	\$ 19,037

On behalf of the Board:



Christopher E. Herald
Director



John Hainey
Director

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

(in thousands except per share amounts)

	For the year ended December 31,		
	2006	2005	2004
Costs, expenses and other:			
Exploration expense, net	\$ 2,942	\$ 2,072	\$ 1,088
Depreciation and amortization	49	29	119
General and administrative	2,010	576	629
Management fees to Crown	232	423	390
Unrealized loss on derivative instruments	5	20	1,704
Asset write-downs	35	30	64
Loss on sale of assets	3	–	59
Interest and other, net	(26)	(52)	(193)
Total costs expenses and other	5,250	3,098	3,860
Other income - gain on sale of marketable equity securities	2,121	–	–
Other income - Crown dividend payment	–	(1,275)	–
Loss before income taxes	(3,129)	(1,823)	(3,860)
Income tax (expense) benefit	(54)	(257)	935
Net loss	\$ (3,183)	\$ (2,080)	\$ (2,925)
Basic and diluted loss per common share	\$ (0.11)	\$ (0.08)	\$ (0.12)
Basic and diluted weighted average shares outstanding	28,422	27,311	25,190

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2006, 2005 and 2004
(in thousands, except Share amounts)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	
			Capital		Comprehensive	
					Income	
Balance at 12/31/2003	24,923,134	249	22,498	(11,968)	1,155	11,934
Shares issued:						
Option exercise	1,121,000	11	974	–	–	985
Deferred taxes on option exercises			188			188
Cancellation of shares	(1,317,142)	(13)	(1,528)	–	–	(1,541)
Comprehensive income:						
Net loss	–	–	–	(2,925)	–	(2,925)
Net unrealized gain on marketable equity securities (net of tax of \$2,481)	–	–	–	–	3,875	3,875
Comprehensive income	–	–	–	–	–	950
Balance at 12/31/2004	24,726,992	247	22,132	(14,893)	5,030	12,516
Shares issued:						
Cash	2,700,000	27	3,746	–	–	3,773
Option exercise	32,500	1	20	–	–	21
Deferred taxes on option exercises			11			11
Comprehensive loss:						
Net loss	–	–	–	(2,080)	–	(2,080)
Net unrealized gain on marketable equity securities (net of tax of \$704)	–	–	–	–	1,100	1,100
Comprehensive loss	–	–	–	–	–	(980)
Balance at 12/31/2005	27,459,492	275	25,909	(16,973)	6,130	15,341
Shares issued:						
Option exercise	1,230,500	12	982	–	–	994
Deferred taxes on option exercises			616			616
Stock option expense from vesting			955			955
Comprehensive income:						
Net loss	–	–	–	(3,183)	–	(3,183)
Net unrealized gain on marketable equity securities (net of tax of \$2,763)	–	–	–	–	4,321	4,321
Comprehensive income	–	–	–	–	–	1,138
Balance at 12/31/2006	28,689,992	\$ 287	\$ 28,462	\$ (20,156)	\$ 10,451	\$ 19,044

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in thousands)

For the year ended December 31,
2006 2005 2004

(in thousands)	2006	2005	2004
Operating activities:			
Net loss	\$ (3,183)	\$ (2,080)	\$ (2,925)
Adjustments:			
Unrealized loss on derivative instruments	5	20	1,704
Depreciation and amortization	49	29	119
Asset write-downs	35	30	64
Employee stock option expense from vesting	955	—	—
Deferred income taxes	54	257	(935)
(Gain) loss on asset and equity security sales	(2,118)	—	59
Interest income received in stock	—	—	(142)
Interest income from amortization of note discount	—	—	(12)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(164)	279	(284)
Accounts payable and other current liabilities	(71)	(73)	89
Due to Crown Resources Corporation	(45)	(34)	54
Net cash used in operating activities	(4,483)	(1,572)	(2,209)
Investing activities:			
Additions to mineral interests and other	(50)	(52)	(76)
Other assets	(119)	(126)	(25)
Proceeds from sale of marketable equity securities	2,442	—	16
Collection on note receivable	—	—	112
Net cash (used in) provided by investing activities	2,273	(178)	27
Financing activities:			
Issuance of common stock	994	3,794	985
Net cash provided by financing activities	994	3,794	985
Net increase (decrease) in cash and cash equivalents	(1,216)	2,044	(1,197)
Cash and cash equivalents, beginning of year	2,120	76	1,273
Cash and cash equivalents, end of year	\$ 904	\$ 2,120	\$ 76
Supplemental disclosure of cash flow information:			
Deferred taxes on stock option exercises charged to additional paid-in capital	\$ 616	\$ 11	\$ 188
Treasury stock received in spin-off from Crown Resources Corporation as treasury stock	—	—	\$ 1,541
Cancellation of treasury stock	—	—	\$ (1,541)
Non-cash proceeds on the sale of marketable equity Securities	—	—	\$ 57

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

1. Business and Summary of Significant Accounting Policies:

Business and company formation

Solitario is an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential. Solitario acquires and holds a portfolio of exploration properties for future sale or joint venture prior to the establishment of proven and probable reserves. Although its mineral properties may be developed in the future through a joint venture, Solitario has never developed a mineral property and Solitario does not anticipate developing any currently owned mineral properties on its own in the future. Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of Crown Resources Corporation ("Crown"). Solitario has been actively involved in this business since 1993 and has in the past recorded revenues from joint venture payments and the sale of its properties on an infrequent basis, with the last significant revenues recorded in 2000 upon the sale of its Yanacocha property for \$6,000,000. Future revenues from joint venture payments or the sale of properties, if any, would also occur on an infrequent basis. At December 31, 2006 Solitario had nine exploration properties in Peru, Bolivia, Mexico and Brazil. Solitario is conducting exploration activities in all of those countries. On July 26, 2004, Crown completed a spin-off of its holdings of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. Solitario previously owned 6,071,626 shares of Crown common stock and as part of the spin-off Solitario received 1,317,142 shares of its own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock. Crown was acquired by Kinross Gold Corporation of Toronto, Canada ("Kinross") on August 31, 2006 upon the completion of a merger on August 31, 2006 whereby Kinross acquired all of the outstanding shares of Crown common stock for 0.32 shares of Kinross common stock for each share of Crown common stock (the "Crown - Kinross merger"). Kinross currently owns less than one percent of Solitario outstanding common stock.

Solitario has a significant investment in Kinross Gold Corporation ("Kinross") at December 31, 2006, which consists of 1,742,920 shares of Kinross common stock. Solitario received 1,942,920 shares in exchange for 6,071,626 shares of Crown common stock it owned on the date of the completion of the Crown - Kinross merger. On September 15, 2006, subsequent to the Crown - Kinross merger, Solitario sold 100,000 Kinross common shares for net proceeds of \$1,206,000. Solitario sold an additional 100,000 shares of Kinross common stock for net proceeds of \$1,236,000 on October 24, 2006. Subsequent to December 31, 2006, Solitario sold an additional 100,000 of Kinross common shares, for net proceeds of \$1,274,000 and as of February 21, 2007, Solitario owns 1,642,920 shares of Kinross common stock, which have a value of approximately \$22.2 million based upon the market price of \$13.51 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources.

Financial reporting

The consolidated financial statements include the accounts of Solitario and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and are expressed in US dollars.

In performing its activities, Solitario has incurred certain costs for mineral properties. The recovery of these costs is ultimately dependent upon the sale of mineral property interests or the development of economically

recoverable ore reserves, the ability of Solitario to obtain the necessary permits and financing to successfully place the properties into production, and upon future profitable operations, none of which is assured.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the more significant estimates included in the preparation of Solitario's financial statements pertain to the recoverability of mineral properties and their future exploration potential, the ability of Solitario to realize its deferred tax assets and the fair value of Solitario's investment in Kinross (previously Crown) shares included in marketable equity securities.

Cash equivalents

Cash equivalents include investments in highly-liquid money-market securities with original maturities of three months or less when purchased.

Mineral properties

On January 1, 2002, Solitario adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," which, among other things, required the reclassification of Solitario's mineral properties as mineral interests (intangible assets) and the amortization of those assets over their expected useful lives. The excess of the cost of each of its interests in mineral properties over the estimated residual value was amortized from January 1, 2002 through April 1, 2004 over the lesser of (i) the term or the length of any mineral interest option or lease, or (ii) the estimated life of the mineral interest, which approximates Solitario's estimated exploration cycle. Solitario amortized its mineral interests over a three-to-eight year period based upon facts and circumstances for each mineral interest on a property-by-property basis including Solitario's current intentions for the property and Solitario's history with similar properties. On April 30, 2004 the Financial Accounting Standards Board amended SFAS No. 141 and SFAS No. 142 to provide that certain mineral use rights, conveyed by leases and concessions, are tangible assets and that mineral use rights should be accounted for based on their substance. Solitario adopted the amendment on April 1, 2004 and ceased amortizing exploration stage mineral property interests prior to the commencement of production. Solitario recorded \$117,000 of amortization of its mineral property interests for the year ended December 31, 2004.

Solitario expenses all exploration costs incurred on its mineral properties, other than acquisition costs, prior to the establishment of proven and probable reserves. Solitario regularly performs evaluations of its investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon discounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization. During the years ended December 31, 2006, 2005 and 2004, Solitario recorded impairments of \$35,000, \$30,000 and \$64,000 of its mineral properties, respectively.

Solitario's net capitalized mineral properties of \$2,687,000, \$2,675,000 and \$2,653,000 at December 31, 2006, 2005 and 2004, respectively, related to gross land, leasehold and acquisition costs of \$3,710,000 \$3,698,000 and

\$3,676,000 at December 31, 2006, 2005 and 2004, respectively, less accumulated amortization of \$1,023,000 at December 31, 2006, 2005 and 2004. Solitario has not identified any proven and probable reserves related to its mineral properties. The recoverability of these costs is dependent on, among other things, the potential to sell, joint venture or develop through a joint venture its interests in the properties. These activities are ultimately dependent on successful identification of proven and probable reserves.

Derivative instruments

As of December 31, 2005, Solitario owned warrants for the purchase of 500,000 shares of TNR Gold Corp. ("TNR"), which it received during 2004. The TNR warrants are recorded at fair market value based upon quoted prices and discounts and classified as derivative instruments. On July 27, 2006, Solitario exercised its TNR warrant by paying \$70,000 in cash and transferred its existing warrant valuation of \$12,000 on the date of exercise to marketable equity securities and Solitario has no derivative instruments as of December 31, 2006. Solitario recorded a decrease in the value of its TNR warrants of \$5,000 and \$20,000, respectively, for the years ended December 31, 2006 and 2005 and recorded an increase of \$38,000 for the year ended December 31, 2004. In July 2004, Solitario exercised all of its Crown warrants and at December 31, 2004 Solitario did not own any Crown warrants. Solitario recognized a decrease in the fair value of its Crown warrants of \$1,742,000 for the year ended December 31, 2004.

Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within stockholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. Solitario had marketable equity securities with fair values of \$20,904,000 and \$14,059,000, respectively, and cost of \$3,900,000 and \$4,137,000, respectively, at December 31, 2006 and 2005. Solitario has accumulated other comprehensive income for unrealized holding gains of \$17,005,000 and \$9,922,000, respectively, net of deferred taxes of \$6,554,000 and \$3,792,000, respectively, at December 31, 2006 and 2005 related to our marketable equity securities. Solitario sold 200,000 shares of its Kinross common stock during 2006 for gross proceeds of \$2,442,000.

The following table represents changes in marketable equity securities (000's).

	2006	2005	2004
Gross cash proceeds	\$ 2,442	\$ -	\$ 16
Gross non-cash proceeds	-	-	57
Cost	321	-	132
Gross gain on sale included in earnings during the period	2,121	-	14
Gross loss on sale included in earnings during the period	-	-	(73)
Unrealized holding gain arising during the period included in other comprehensive income, net of tax of \$3,590, \$704 and \$2,496	5,615	1,100	3,864
Reclassification adjustment for net losses (gains) included in earnings during the period, net of tax of \$827, \$0 and \$15	(1,294)	-	39

Foreign exchange

The United States dollar is the functional currency for all of Solitario's foreign subsidiaries. Although Solitario's exploration activities have been conducted primarily in Brazil, Bolivia, Peru and Mexico, a significant

portion of the payments under the land, leasehold, and exploration agreements of Solitario are denominated in United States dollars. Solitario expects that a significant portion of its required and discretionary expenditures in the foreseeable future will also be denominated in United States dollars. Foreign currency gains and losses are included in the results of operations in the period in which they occur.

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Earnings per share

The calculation of basic and diluted loss per share is based on the weighted average number of common shares outstanding during the years ended December 31, 2006, 2005 and 2004. Potentially dilutive shares related to outstanding common stock options of 2,664,500, 2,240,000, and 2,273,000 for the years ended December 31, 2006, 2005 and 2004, respectively, were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

Employee stock compensation plans

On January 1, 2006 Solitario adopted the revised Statement of Financial Accounting Standard No. 123, "Share Based Payments" ("SFAS No. 123R"). SFAS No. 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based upon the grant-date fair value of the award and requires that the cost be recognized over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The grant-date fair value of employee share options and similar instruments will be measured using option-pricing models adjusted for any unique characteristics of those instruments. Solitario computes the fair value of each option on the date of grant based upon the Black-Scholes option pricing model. This model requires the input of subjective assumptions, including the expected term based upon historical data of past exercises of option awards and expected stock-price volatility based upon the historical quoted market prices of Solitario common stock as well as an estimate of forfeitures. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded and pro-forma stock-based compensation expense could have been materially different from that reported.

a) The 2006 Stock Option Incentive Plan

On June 27, 2006 Solitario's shareholders approved the 2006 Stock Option Incentive Plan (the "2006 Plan"). Under the terms of the 2006 Plan, the Board of Directors may grant up to 2,800,000 options to Directors, officers and employees with exercise prices equal to the market price of Solitario's common stock. However, under the terms of the 2006 Plan, the total number of outstanding options from all plans may not exceed 2,800,000. Under the 2006 Plan, the market price is defined as the volume weighted average trading price of such shares traded on The Toronto Stock Exchange for the five trading days immediately preceding the date on which the option is granted by the Board.

On June 27, 2006 the Board of Directors granted 1,655,000 options under the 2006 Plan at an exercise price of Cdn\$2.77 per share, in accordance with the terms of the 2006 Plan. The quoted closing price of Solitario's common shares on June 27, 2006, the date of the grant was Cdn\$2.85. The options have a five-year contractual life and vest 25% on the date of

the grant and 25% on each anniversary date for the next three years, and become fully vested on June 27, 2009. All of the options granted on June 27, 2006 have the same terms. As of December 31, 2006, options for 17,500 shares had been exercised, options for 1,637,500 shares were outstanding and 396,250 shares were vested and available for exercise.

Solitario determined the fair value of the 2006 Plan options on June 27, 2006, the date of grant, was \$2,536,000 using a Black-Scholes option pricing model, for a weighted average fair value of \$1.53 per share. In determining the fair value, Solitario has assumed a four-year effective life based upon expected volatility and past historical exercise patterns, an expected volatility of 76% that mirrors the historical volatility based upon daily quoted stock prices from the Toronto Stock Exchange over the prior four years, a risk-free interest rate of 5.2%, an exchange rate on the date of grant of 0.89193 Canadian dollars to each United States dollar, and an intrinsic value of Cdn\$0.08 per share on the date of grant as discussed above. Solitario has elected cliff-vesting to recognize the fair value of the option grant over the vesting period, with 25% recognized immediately, and the remaining 75% over three years on a straight line basis, recognizing as stock option compensation expense an amount at least equal to the percentage of options vested at that date. Solitario has assumed a zero forfeiture rate and a zero dividend rate, based upon historical experience. Accordingly, Solitario has recognized \$951,000 option compensation expense, net of deferred taxes of \$371,000 for the year ended December 31, 2006. This option compensation expense is included in general and administrative expense and Solitario has not capitalized any compensation expense related to its options under the 2006 Plan. The unrecognized compensation related to non-vested options of \$1,585,000 as of December 31, 2006 will be recognized over the next three years, or approximately \$159,000 per quarter. Options for 17,500 shares from the 2006 Plan were exercised during 2006 for proceeds of \$42,000. The intrinsic value of the shares exercised during 2006 on the date of exercise of options from the 2006 Plan was \$30,000.

b) The 1994 Stock Option Plan

Solitario adopted SFAS No. 123R using the modified prospective transition method for the Solitario Resources Corporation Stock Incentive Plan (the "1994 Plan"). Under this method, compensation cost recognized during the year ended December 31, 2006 includes cost for option grants prior to, but not yet vested as of January 1, 2006, based upon the grant-date fair value, estimated in accordance with the original provisions of SFAS No. 123. Solitario has recorded a charge of \$4,000 as compensation expense, which is included in general and administrative expense for the year ended December 31, 2006, for options granted pursuant to the 1994 Plan prior to, but not yet vested as of January 1, 2006. Options for 20,625 shares from the 1994 Plan vested during the year ended December 31, 2006 and Solitario recognizes the grant date fair value on a straight-line

basis over the vesting period. The results from prior periods have not been restated and accordingly, there was no stock option related compensation expense recorded during the year ended December 31, 2005.

As of December 31, 2006, Solitario has vested and outstanding options for 1,027,000 shares of its common stock under the 1994 Plan. Under the 1994 Plan, these options were granted at option prices equal to the fair market value of the underlying common stock as quoted on the Toronto Stock Exchange on the date of grant. The 1994 Plan expired in 2004 and no additional shares may be granted pursuant to the 1994 Plan.

As of December 31, 2006 Solitario had 917,000 options exercisable at Cdn\$ 0.73 per share that expire March 2, 2007 and 110,000 exercisable at Cdn\$0.81 per share that expire August 14, 2008. Options from the 1994 Plan for 1,213,000 shares were exercised during the year ended December 31, 2006 for proceeds of \$952,000. The intrinsic value of the shares issued during 2006 on the date of exercise of options from the 2004 Plan was \$1,549,000. Options from the 1994 Plan for 32,500 shares were exercised during the year ended December 31, 2005 for proceeds of \$21,000. The intrinsic value of the shares issued during 2005 on the date of exercise of options from the 2004 Plan was \$8,000. Options from the 1994 Plan for 1,121,000 shares were exercised during the year ended December 31, 2004 for proceeds of \$985,000. The intrinsic value of the shares issued during 2004 on the date of exercise of options from the 2004 Plan was \$477,000. As of December 31, 2006, Solitario has no remaining unrecognized compensation expense, related to unvested stock options granted pursuant to the 1994 Plan.

Prior to the adoption of SFAS No. 123R, Solitario accounted for certain awards under the 1994 Plan in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." The following table illustrates the effect on net income and earnings per share if Solitario had applied the fair value recognition provisions of SFAS No. 123R to options granted under the 1994 Plan for the years ended December 31, 2005 and 2004:

(in thousands, except per share amounts)	2005	2004
Net loss as reported	\$(2,080)	\$(2,925)
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(8)	(24)
Pro forma net income (loss)	\$(2,088)	\$(2,949)
Basic and diluted net loss per share		
As reported	\$ (0.08)	\$ (0.12)
Pro forma	\$ (0.08)	\$ (0.12)

c) Summary of stock-based compensation plans

The following table summarizes the activity for stock options outstanding under the 1994 Plan and the 2006 Plan as of December 31, 2006, with exercise prices equal to the fair market value, as defined, on the date of grant and no restrictions on exercisability after vesting:

	Shares issuable on outstanding Options	Weighted average exercise Price (Cdn\$)	Weighted average remaining contractual term	Aggregate intrinsic value ⁽¹⁾
1994 Plan:				
Outstanding, beginning of year	2,240,000	\$0.82		
Exercised	<u>(1,213,000)</u>	\$0.91		
Outstanding at December 31, 2006	1,027,000	\$0.74	0.3	\$3,559,000
Exercisable at December 31, 2006	<u>1,027,000</u>	\$0.74	<u>0.3</u>	<u>\$3,559,000</u>
2006 Plan				
Outstanding, beginning of year	-	n/a		
Granted	1,655,000	\$2.77		
Exercised	<u>(17,500)</u>	\$2.77		
Outstanding at December 31, 2006	1,637,500	\$2.77	4.6	\$2,808,000
Exercisable at December 31, 2006	<u>396,250</u>	\$2.77	<u>4.6</u>	<u>\$ 679,000</u>

⁽¹⁾ The intrinsic value at December 31, 2006 based upon the quoted market price of Cdn\$4.76 per share for our common stock on the Toronto Stock Exchange and an exchange ratio of 0.86169 Canadian dollars per United States dollar.

Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2006, all of Solitario's operations are located in Peru, Bolivia, Brazil and Mexico as further described in Note 2 to these consolidated financial statements.

Included in the consolidated balance sheet at December 31, 2006 and 2005 are total assets of \$2,854,000 and \$2,944,000, respectively, related to Solitario's foreign operations, located in Bolivia, Brazil, Peru and Mexico. Included in mineral properties, net in the consolidated balance sheet at December 31, 2006 and 2005 are net capitalized costs related to the Pedra Branca Property, located in Brazil, of \$2,607,000. We are not aware of any foreign exchange restrictions on Solitario's subsidiaries located in foreign countries.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS 157 clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the most advantageous market for the asset or liability. SFAS 157 clarifies that the transaction to sell an asset or transfer a liability is a hypothetical transaction at a measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. SFAS 157 states that fair value is a market-based measurement, not an entity specific measurement and that market assumptions should be based upon independent observations of the reporting entity over a reporting entity's observations about market participant assumptions. SFAS 157 states that market participant assumptions should include risk, restrictions on asset sales, non-performance risk, but that quoted market prices for financial instruments should not be adjusted for the size of a position relative to trading volume (block discounts). SFAS 157 expands disclosures about, among other things, the use of fair value to measure assets and liabilities in interim and annual periods, including the use of unobservable inputs, and the effect of fair value on earnings and changes in net assets. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Solitario has not yet determined what effect if any, the adoption of SFAS No. 157 will have its financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the entities recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. Solitario adopted FIN 48 on January 1, 2007 and has not yet determined what effect if any, the adoption of SFAS No. 155 will have its financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155"). SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 will become effective for the first fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend on the nature and extent of any new derivative instruments

entered into after the effective date. Solitario adopted SFAS No. 155 on January 1, 2007 and has not yet determined what effect if any, the adoption of SFAS No. 155 will have its financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Bulletin No. 108 (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 are effective for Solitario for its December 31, 2006 year end. The adoption of SAB 108 had no impact on Solitario's financial position, results of operation or cash flows.

2. Mineral Properties:

Solitario's mineral properties consist of use rights related to exploration stage properties, and the value of such assets is primarily driven by the nature and amount of economic mineral ore believed to be contained, or potentially contained, in such properties. The amounts capitalized as mineral properties include concession and lease or option acquisition costs. Capitalized costs related to a mineral property represent its fair value at the time it was acquired, either as an individual asset purchase or as a part of a business combination. Solitario has no production (operating) or development stage mineral properties nor any interests in properties that contain proven or probable reserves. Solitario's exploration stage mineral properties represent interests in properties that Solitario believes have exploration potential that is not associated with any other production or development stage property. Solitario's mineral use rights generally are enforceable regardless of whether proven and probable reserves have been established.

The following represents Solitario's investment in mineral properties:

(in thousands)	December 31,	
	2006	2005
Mineral interests	\$3,710	\$3,698
Accumulated amortization	(1,023)	(1,023)
Net mineral interests	\$2,687	\$2,675

As discussed in Note 1, the amortization of mineral interests commenced January 1, 2002, upon the adoption of SFAS No. 142 and we no longer amortize our mineral properties as of April 1, 2004, in accordance with EITF 04-2. Amortization expense related to mineral interests in 2004 was \$117,000. We recorded a reduction of accumulated amortization of \$25,000 during 2004 in connection with property impairments.

Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 15,000 hectares in Peru. These applications are subject to normal administrative approvals and the mineral interests are subject to an annual rental of \$3.00 per hectare (approximately 2.477 acres per hectare) in June of each year, with 2,200 hectares subject to an additional \$6.00 per hectare surcharge as the concessions are more than 10 years old.

Bongará— Solitario acquired the initial Bongará exploration concessions in 1993. The current holdings consist of a 100% interest concessions covering approximately 6,000 hectares in northern Peru (the "Bongará project").

On August 15, 2006 Solitario signed a Letter Agreement with Votorantim Metais Cajamarquilla, S.A., a wholly owned subsidiary of Votorantim Metais (both companies referred to as "Votorantim"), on Solitario's Bongará Project. Solitario anticipates on signing a definitive agreement, "Framework Agreement for the Exploration and Potential Development of Mining Properties," with Votorantim during the first quarter of 2007.

The Bongará project hosts the Florida Canyon zinc deposit where high-grade zinc mineralization has been encountered in drill holes over an area two by two kilometers in dimension. The Letter Agreement calls for a firm commitment by Votorantim to fund a one-year, \$1.0 million exploration program which began in late October 2006. Votorantim can earn up to a 70% interest in the project by funding the \$1.0 million exploration program, by completing future annual exploration and development expenditures, and by making cash payments of \$100,000 on the first anniversary of signing the Letter Agreement and \$200,000 on all subsequent anniversaries until a production decision is made or the agreement is terminated. The option to earn the 70% interest can be exercised by Votorantim any time after the first year commitment by committing to place the project into production based upon a feasibility study. Additionally, Votorantim, in its sole discretion, may elect to terminate the option to earn the 70% interest at any time after the first year commitment. The agreement calls for Votorantim to have minimum annual exploration and development expenditures of \$1.5 million in each of years two and three, and \$2.5 million in all subsequent years until a minimum of \$18.0 million has been expended by Votorantim. Votorantim will act as project operator. Once Votorantim has fully funded its \$18.0 million work commitment, it has further agreed to finance Solitario's 30% participating interest through development. Solitario will repay the loan facility through 50% of Solitario's cash flow distributions.

Yanacocha— On April 26, 2000, Solitario completed a transaction with an affiliate of Newmont Mining Corporation ("Newmont Peru") and sold its interest in its Yanacocha project for \$6 million and a sliding scale net smelter return royalty ("NSR") that varies with the price of gold. The NSR royalty applies to any commercial production on exploration concessions covering approximately 60,000 hectares. In January 2005, Solitario and Newmont Peru amended the NSR royalty schedule so that the royalty rate was not only based on the price of gold, but also considered the method of gold and copper extraction and the national Peruvian NSR royalty rate schedule that was enacted in 2004. Newmont Peru, through its subsidiaries and affiliates, also agreed to a \$4.0 million work commitment on Solitario's royalty property over the next eight years.

Newmont Strategic Alliance— On January 18, 2005, Solitario signed a Strategic Alliance Agreement with Newmont Overseas Exploration Limited ("Newmont Exploration"), a subsidiary of Newmont Mining Corporation, to explore for gold in South America. Concurrent with the signing of the Alliance Agreement, Newmont Mining Corporation of Canada, Limited ("Newmont Canada") purchased 2.7 million shares of Solitario common stock (or approximately 9.9% of Solitario's issued and outstanding shares) for Cdn\$4,590,000 or \$3,773,000. Solitario has committed to spend \$3.78 million over the next four years on gold exploration in regions ("Alliance Project Areas") that are mutually agreed upon by Newmont Exploration and Solitario. The first two Alliance Project Areas are located in southern Peru and total approximately 10,000 square kilometers in size. If Solitario acquires properties within Alliance Project Areas and meet certain minimum exploration expenditures, Newmont Exploration will have the right to joint venture acquired properties and earn up to a 75% interest by taking the project through feasibility and financing Solitario's retained 25% interest into production. Newmont Exploration may elect to earn a lesser interest or no interest at all, in which case it would retain a 2% net smelter return royalty. Newmont Exploration also has a right of first offer on any non-alliance Solitario property, acquired after the signing of the Alliance Agreement, that Solitario may elect to sell an interest in, or joint venture with a third party. As of December 31, 2006, we have expended \$807,000 of the total commitment of \$3,773,000.

In September of 2006, Solitario acquired 5,200 hectares of 100%-owned mineral rights through concessions for our Amazonas property. Solitario capitalized \$13,000 in lease acquisition costs related to these

concessions. The Amazonas project consists of four widely spaced areas where previous sampling has identified high-grade zinc mineralization at surface similar to that found at Florida Canyon (see Item 2. Properties: Bongará Zinc Property, Peru). Solitario may seek a joint venture partner for the property during 2007.

The Libertad and Pillune gold properties were acquired within the Alliance Project Area during 2005. Both properties were located in the Arequipa Department of southern Peru and comprised of a total of 2,600 hectares. Solitario performed surface exploration work on both properties, including drilling of the Libertad project during 2006. In October 2006, Solitario decided to drop these claims and recorded \$18,000 for property abandonment, and at December 31, 2006, have no further payment or work obligations.

Brazil

Pedra Branca— In October 2000, Solitario recorded \$3,627,000 in mineral interest additions for the Pedra Branca project in connection with the acquisition of Altoro Gold Corp. ("Altoro"). Solitario holds a 100% interest in 47 concessions totaling approximately 45,000 hectares in its Pedra Branca platinum-palladium (PGM) Project located in Ceará State, Brazil. Solitario acquired Pedra Branca as part of its acquisition of Altoro. Eldorado Gold Corporation holds a 2% net smelter return royalty on 10,000 hectares of Solitario's property position.

On January 28, 2003, Solitario entered into an agreement with Anglo Platinum whereby Anglo Platinum may earn a 51% interest in the Pedra Branca Project, by spending \$7 million on exploration at Pedra Branca over a four-year period. Anglo Platinum can earn an additional 9% interest in Pedra Branca (for a total of 60%) by completing a bankable feasibility study or spending an additional \$10 million on exploration and development, whichever occurs first. Anglo Platinum can also earn an additional 5% interest in Pedra Branca (for a total of 65%) by arranging for financing, including our 35% participating interest, to put the project into commercial production. Anglo Platinum completed its initial six-month \$500,000 exploration expenditure in July 2003. The Letter Agreement was amended four times between July 2004 and April 2006, generally to extend various work commitment deadlines mandated in the Letter Agreement. On July 14, 2006, we signed the Pedra Branca Framework Agreement with Anglo Platinum that specified actions we and Anglo Platinum would take to establish and govern Pedra Branca Do Mineraç_ão S.A., the corporate entity that would hold 100% title to all the assets of the Pedra Branca project, and the mechanics for Anglo Platinum's continued funding of Pedra Branca exploration. We and Anglo Platinum will own shares in Pedra Branca Do Mineraç_ão S.A., in proportion to our respective participating interests as specified in the Letter Agreement. Anglo Platinum has funded approximately \$1.24 million in exploration and property maintenance costs since signing the Letter Agreement. We have recorded a receivable of \$88,000 at December 31, 2006 from Anglo for reimbursements on costs incurred through December 31, 2006, but not yet paid by Anglo Platinum. Solitario and Anglo Platinum have completed drafting of a definitive operating agreement (or Shareholders Agreement) and we anticipate signing the definitive agreement before the end of the 2007 first quarter, upon approval of several regulatory filings within Brazil. Should this agreement fail to be signed or if Anglo Platinum declines to continue for some other reason, Solitario will retain 100% of the Pedra Branca Project. Current plans call for Anglo Platinum to fund approximately \$1.0 million in exploration expenditures for the ten-month period ending October 31, 2007. Upon the completion of the aforementioned expenditures, Anglo Platinum will have earned a 15% interest in the joint operating company holding Pedra Branca mineral rights, with Solitario retaining an 85% interest.

Other Brazil projects

Mercurio— In September 2005, Solitario completed an option agreement for the purchase of 100% of the mineral rights over the

8,550-hectare Mercurio property in the state of Para, Brazil. An initial payment of approximately \$7,000 was paid on signing of the agreement and the next payment of approximately \$12,000 was made in 2005 on signing of a definitive agreement upon conversion of the existing washing claims to exploration claims. Further payments are required upon the conversion of garimpeiro licenses to exploration claims which occurred in the third quarter of 2006. During 2007 payments will total approximately \$41,900. To purchase the property, an escalating scale of payments totaling approximately \$350,000 is required over a sixty month period. A net smelter return of 1.5% is retained by the owner. This NSR can be extinguished with a payment of approximately \$1,070,000. All payments are indexed to inflation as of the signing of the agreement. The owner of the mineral rights also owns the surface rights, the use of which is included in the exploration of the property. On completion of all payments Solitario will receive title to 1,500 hectares of surface rights. Solitario may terminate the agreement at any time at its sole discretion. Solitario completed a second phase of extensive soil sampling and auger testing of soils over selected portions of the property during the first half of 2006 and core drilling of eleven holes totaling 1,596 meters completed during the third quarter. During 2005 Solitario completed 1,466 meters of core drilling. Solitario is currently planning a 2007 drilling program.

Pau d' Arco— During 2006, we acquired priority to mineral rights covering 2,400 hectares from the Brazilian government at our Pau d' Arco project in Brazil. As a result of this acquisition we capitalized \$18,000 of costs incurred and initial payments made pursuant to an agreement with three private Brazilian individuals to gain access to the Pau d' Arco project. These agreements called for access payments of approximately \$23,000 for 2006 and payments totaling approximately \$1,380,000 over four years. We may also buy out a 1% net smelter return retained by the owners for approximately \$2,600,000. We conducted surface exploration work during the third quarter of 2006 and drilled and completed six core holes totaling 1,111 meters. Although low-grade gold was intersected in three holes, the drilling results were not sufficiently encouraging to continue exploration on the property. Consequently, we will not make 2007 claim fee payments to the government and will terminate our agreements the private Brazilian parties. We have recorded an impairment of \$18,000 for property abandonment.

Bolivia

Triunfo— In August 2003, Solitario signed an Option Agreement to acquire a 100% interest in the 256-hectare Triunfo gold-silver-lead-zinc property in west-central Bolivia. The agreement was amended in March 2004. Terms of the Option Agreement call for escalating payments totaling \$170,000 over a four-year period to the underlying owners. The first, second and third payments to the owners of \$10,000, \$12,500 and \$12,500, respectively, have been made. A 100% interest in the property can be acquired at any time within a five-year time frame for a one-time payment of \$1.0 million. Solitario has completed the first year \$100,000 work commitment as part of its five-year \$2.3 million work commitment. A geophysical survey has been completed on the property and we are currently evaluating whether drilling is warranted for later in 2007.

Titicayo— On March 31, 2006, we signed a lease agreement with a private Bolivian company to lease certain concession covering approximately 1,300 hectares, which comprise the Titicayo project in Bolivia. We capitalized our initial payment under the lease of \$10,000. The lease calls for additional lease payments of \$10,000 eight months from the date of the lease, \$55,000 during the second year of the lease, \$75,000 during the third year of the lease, \$100,000 during the fourth year of the lease, \$150,000 during the

fifth year of the lease and \$600,000 during the sixth year of the lease after which we will own a 99% participating interest in the concessions. An amendment to the Titicayo Agreement was signed in November of 2006 that delayed the first additional lease payment until June 2007 with a corresponding adjustment to the rest of the payment schedule. A one time payment of \$10,000 was made to the claim holders in consideration for this amended schedule. We have conducted a limited amount of surface exploration work to assess if drilling is warranted. We are currently planning a three-hole drilling program later in 2007.

Mexico

In September 2005, Solitario signed an agreement with a private Mexican mineral concession holder allowing Solitario to enter into lease options on four separate properties located throughout central Mexico. The Concepcion del Oro gold property is located near the city of Mazapil in the state of Zacatecas and consists of 35 concessions totaling approximately 1,420 hectares. The Hedionda gold property is located near the city of Allende in the state of Guanajuato and consists of six concessions totaling 620 hectares. The Las Tortugas gold property is located near the city of Chiquilistlan in the state of Jalisco and consists of four concessions totaling 400 hectares. The Las Purisimas gold property is located near the city of Tepic in the state of Navarrit and consists of six concessions totaling 600 hectares. The agreement called for Solitario to make an initial payment of \$15,000 on signing and provided for Solitario to conduct surface exploration on the four properties over a six-month period. Solitario has elected to sign definitive option agreements on the Concepcion del Oro, and Purisimas properties. The Concepcion del Oro and Purisimas properties required payments of \$10,000 each in 2006 and in 2007 we are required to pay \$25,000 for the Concepcion del Oro property and \$35,000 for the Purisimas property to maintain the option agreements in good standing. Additionally the properties require claim payments to the government of \$1,600 and \$400 respectively in 2007. As of December 31, 2006, work is ongoing on the properties to determine if drilling is warranted. Solitario did not exercise its option to option the Hedionda and Las Tortugas properties and at December 31, 2006, have no further payment or work obligations for these two properties.

In August 2005, Solitario received title to the Zinda concession near the city of Morelia in the state of Michoacan, Mexico. Solitario paid \$5,000 in concession fees (plus tax) to the Mexican government for the 10,000-hectare concession. As a result of exploration activities during 2006, Solitario decided to abandon its interests in the Zinda concession and recorded a mineral property write-down of \$5,000. No further work is planned at the Zinda property.

In September 2005, Solitario signed an agreement with a private Mexican mineral concession holder to option a 100% interest in the 918 hectare Pozos gold property near the city of San Luis de la Paz in the state of Guanajuato, Mexico. Solitario decided to abandon its interest in the Pozos gold property in the fourth quarter of 2006 and recorded a \$4,000 mineral property write-down. No further work is planned at the Pozos gold property.

Exploration expense

The following items comprised exploration expense:

(in thousands)	2006	2005	2004
Geologic, drilling and assay	\$1,370	\$ 923	\$ 770
Field expenses	995	727	479
Administrative	842	522	250
Joint venture reimbursement	(265)	(100)	(411)
Total exploration expense	\$2,942	\$2,072	\$1,088

3. Related party transactions:

Crown provided management and technical services to Solitario under a management and technical services agreement originally signed in April 1994 and modified in April 1999, December 2000 and July 2002. The agreement was terminated on August 31, 2006 upon the completion of the Crown – Kinross merger. Under the modified agreement Solitario was billed by Crown for services at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits, expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, Solitario reimbursed Crown for direct out-of-pocket expenses. These allocations were based upon the estimated time and expenses spent by Crown management and employees on both Crown activities and Solitario activities. Management of Solitario believed these allocations were reasonable and the allocations were periodically reviewed by Solitario management and approved by independent Board members of both Crown and Solitario. Management service fees were billed monthly, due on receipt and are generally paid within thirty days. Management service fees incurred by Solitario were \$232,000, \$423,000 and \$390,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

On September 1, 2006, Solitario entered into a consulting agreement with Mark E. Jones, III, a director and vice-chairman of the Board of Directors of the Solitario. The consulting agreement has a two-year term. Under the agreement, Mr. Jones will advise the Company on matters of strategic direction, planning, and identification of corporate opportunities, when and as requested by the Solitario. In consideration for the services to be performed, Mr. Jones was paid a one time lump sum payment of \$160,000, upon signing the agreement, plus he is entitled to receive pre-approved, documented expenses incurred in performance of the consulting services. Solitario has charged \$27,000 for consulting expense, related to the agreement, included in general and administrative expense for the year ended December 31, 2006.

On July 24, 2006, Solitario exercised a warrant to purchase 500,000 shares of TNR Gold Corp. ("TNR") common stock by paying \$70,000. Solitario recorded the cash paid and the fair value of the warrant on the date of exercise of \$12,000 as marketable equity securities held for sale. Solitario received this warrant in July 2004 when Solitario exchanged 500,000 shares of TNR Gold Corp ("TNR") common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The 2004 transaction was accounted for as a sale of Solitario's previously owned TNR shares and an acquisition of the new TNR shares and warrants. As of December 31, 2006, Solitario does not own warrants for the purchase of TNR shares. Previous to their exercise, the TNR warrants were recorded at fair market value based upon quoted prices and classified as derivative instruments. Solitario recorded a loss on derivative instruments of \$5,000, \$20,000 and \$38,000 for the decrease in the value of its warrants during the years ended December 31, 2006, 2005 and 2004, respectively. Christopher E. Herald, Solitario's CEO, is a member of the Board of Directors of TNR.

On July 26, 2004, Crown completed a spin-off of Solitario shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of Solitario common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of Solitario shares for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Subsequent to the spin-off, through August 31, 2006 when the Crown – Kinross merger was completed, Crown distributed 995,229 of these retained shares upon

exercise of its warrants and at December 31, 2006 the remaining 3,077 shares of Solitario stock became the property of Kinross which is not a related party to Solitario. As part of the spin-off Solitario received 1,317,142 shares of its own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

Solitario entered into a Voting Agreement dated as of April 15, 2002 among Zoloto Investors, LP ("Zoloto") and Crown. Zoloto and Solitario were both shareholders of Crown (the "Signing Shareholders"). Pursuant to the Voting Agreement, Zoloto and Solitario agreed that each would vote its owned shares during the term of the Voting Agreement for the election of three designees of Zoloto and one designee of Solitario (the "Designee Directors") to the Board of Directors of Crown. The Signing Shareholders agreed that any shares received by either Signing Shareholder would be subject to the Voting Agreement during its term and any successor, assignee or transferee of shares from either Signing Shareholder would be subject to the terms of the Voting Agreement during its term. The Voting Agreement terminated on June 25, 2006.

Prior to the completion of the Crown – Kinross merger, Solitario entered into a stockholder and voting agreement with Kinross, along with several Crown directors, Crown executive officers and entities affiliated with these directors and officers (collectively the "Signatories"), pursuant to which the Signatories voted all of the shares of Crown common stock owned by them in favor of the approval of the Crown – Kinross merger. On August 31, 2006, the shareholders of Crown approved the Crown – Kinross merger and all of Crown's common shares were converted to Kinross shares and the stockholder and voting agreement terminated.

Christopher E. Herald, and Mark E. Jones, III were directors of both Crown and Solitario until August 31, 2006 when they resigned as directors of Crown upon the completion of the Crown – Kinross merger. Stephen Webster and Brian Labadie were directors of both Crown and Solitario from June 27, 2006 to August 31, 2006, when they resigned as directors of Crown upon the completion of the Crown – Kinross merger. Christopher E. Herald, James R. Maronick and Walter H. Hunt were officers of both Crown and Solitario until August 31, 2006 when they resigned as officers of Crown upon the completion of the Crown – Kinross merger.

4. Income Taxes:

Solitario's income tax expense (benefit) consists of the following as allocated between foreign and United States components:

(in thousands)	2006	2005	2004
Deferred:			
United States	\$ (492)	\$ 31	\$ (645)
Foreign	-	-	(51)
Operating loss and credit carryovers:			
United States	546	226	(290)
Foreign	-	-	51
Income tax expense (benefit)	<u>\$ 54</u>	<u>\$ 257</u>	<u>\$ (935)</u>

Consolidated income (loss) before income taxes includes losses from foreign operations of \$3,286,000, \$2,476,000, and \$1,457,000 in 2006, 2005 and 2004, respectively. During 2006, 2005 and 2004, Solitario recognized income tax deductions of \$1,579,000, \$28,000 and \$483,000, respectively, from the exercise of nonqualified stock options. Stockholders' equity has been credited in the amount of \$616,000, \$11,000 and \$188,000, respectively, for the income tax benefit of these deductions during 2006, 2005 and 2004.

During 2006, 2005 and 2004, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of \$9,205,000, \$1,804,000 and \$6,356,000, respectively. Other comprehensive income has been charged \$3,590,000, \$704,000 and \$2,481,000, respectively, for the income tax expense associated with these gains. During 2006, Solitario transferred unrealized gain of \$2,121,000 from other comprehensive income upon the sale of 200,000 shares of Kinross common stock, less income tax of \$827,000 associated with these unrealized gains.

The net deferred tax assets/liabilities in the December 31, 2006 and 2005 consolidated balance sheets include the following components:

<u>(in thousands)</u>	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Net operating loss (NOL) carryovers	\$ 6,543	\$ 5,516
Stock option compensation expense	373	-
Royalty	1,560	1,560
Other	50	55
Valuation allowance	<u>(5,320)</u>	<u>(4,363)</u>
Total deferred tax assets	<u>3,206</u>	<u>2,768</u>
Deferred tax liabilities:		
Unrealized gain on derivative securities	1,467	1,599
Exploration costs	870	870
Unrealized gains on marketable equity securities	6,632	3,869
Other	<u>20</u>	<u>12</u>
Total deferred tax liabilities	<u>8,989</u>	<u>6,350</u>
Net deferred tax liabilities	<u>\$ 5,783</u>	<u>\$ 3,582</u>

At December 31, 2006 and 2005, Solitario has classified \$1,652,000 and \$1,362,000, respectively, of its deferred tax liability as current, related to the current portion of its investment in Kinross common stock.

A reconciliation of expected federal income taxes on income (loss) from operations at statutory rates, with the expense (benefit) for income taxes is as follows:

<u>(in thousands)</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expected income tax expense (benefit)	\$(1,064)	\$ (620)	\$ (1,310)
Non-deductible foreign expenses	142	202	72
Foreign tax rate differences	38	25	7
State income tax	23	33	(122)
Change in valuation allowance	957	609	422
Other	<u>(6)</u>	<u>8</u>	<u>(4)</u>
Income tax expense (benefit)	<u>\$ 54</u>	<u>\$ 257</u>	<u>\$ (935)</u>

During 2006, 2005 and 2004, the valuation allowance was increased by \$957,000, \$609,000 and 422,000, respectively primarily as a result of increases in net operating loss carryforwards, for which it was more likely than not that the deferred tax benefit would not be realized.

At December 31, 2006, Solitario has unused US Net Operating Loss ("NOL") carryovers of \$4,904,000 which begin to expire commencing in 2010. Solitario also has foreign NOL carryovers at December 31, 2006 of \$13,800,000 that begin to expire four years after the first year in which taxable income arises. In connection with the Bankruptcy of Crown and Solitario's acquisition of Altoro Gold Corp., Solitario had a greater than 50% change in ownership as defined in Section 382 of the Internal Revenue Code. Pursuant to Section 382, the amount of future taxable income available to be offset by Solitario's carryovers is limited to approximately \$614,000 per year.

5. Fair Value of Financial Instruments:

For certain of Solitario's financial instruments, including cash and cash equivalents, the carrying amounts approximate fair value due to their short maturities. Solitario's marketable equity securities are carried at their estimated fair value based on quoted market prices.

The fair value of the Kinross and Crown shares was \$20,706,000 and \$13,965,000 at December 31, 2006 and 2005, respectively. The fair value of the TNR shares was \$198,000 and \$94,000 at December 31, 2006 and 2005, respectively.

The fair value of the TNR warrants was \$18,000 at December 31, 2005. Solitario recognizes any increase or decrease in the fair value of the warrants as a gain or loss on derivative instruments in the consolidated statement of operations. Solitario exercised its only outstanding TNR warrant during 2006 and has no remaining TNR warrants as of December 31, 2006.

6. Commitments and Contingencies

In acquiring its interests in mineral claims and leases, Solitario has entered into lease agreements, which may be canceled at its option without penalty. Solitario is required to make minimum rental and option payments in order to maintain its interests in certain claims and leases. See Note 2. Solitario estimates its 2007 mineral property rental and option payments to be approximately \$350,000. If Solitario's current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2007, Solitario would be reimbursed for approximately \$102,000 of those costs.

Solitario has committed to spend \$3,773,000 over the next two years on gold exploration in regions that are mutually agreed upon by Newmont Exploration and Solitario. As of December 31, 2006, we have expended \$807,000 of the total commitment of \$3,773,000.

Solitario has entered into certain month-to-month office leases for its field offices in Peru and Brazil. The total rent expense for these offices during 2006, 2005 and 2004 was approximately \$28,000, \$36,000 and \$29,000, respectively. In addition, Solitario leases office space under a non-cancelable operating lease for the Wheat Ridge, Colorado office which provides for minimum annual rent payments of \$32,000 in 2007.

7. Stock Option Plans:

The activity in the Plan for the three years ended December 31, 2006 is as follows:

	2006		2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)
2004 Plan						
Outstanding, beginning of year	2,240,000	Cdn \$0.82	2,272,500	0.82	3,488,500	0.95
Granted	-	-	-	-	-	-
Exercised	(1,213,000)	Cdn \$0.90	(32,500)	0.75	(1,121,000)	1.17
Expired	-	-	-	-	(95,000)	1.25
Outstanding, end of year	<u>1,027,000</u>	Cdn \$0.74	<u>2,240,000</u>	0.82	<u>2,272,500</u>	0.82
Exercisable, end of year	<u>1,027,000</u>	Cdn \$0.74	<u>2,219,375</u>	0.83	<u>2,073,750</u>	0.83
2006 Plan						
Outstanding, beginning of year	-	-	-	-	-	-
Granted	1,655,000	\$2.77	-	-	-	-
Exercised	(17,500)	\$2.77	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding, end of year	<u>1,637,500</u>	\$2.77	-	-	-	-
Exercisable, end of year	<u>396,250</u>	\$2.77	-	-	-	-

The following table summarizes Solitario's stock options as of December 31, 2006:

	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
2004 Plan						
Cdn\$0.81	110,000	1.6	Cdn \$0.81	110,000	Cdn\$0.81	
Cdn\$0.94	<u>917,000</u>	0.2	Cdn \$0.94	<u>917,000</u>	Cdn\$0.94	
Total	<u>1,027,000</u>			<u>1,027,000</u>		
2006 Plan						
\$2.77	<u>1,637,500</u>	4.5	\$2.77	<u>396,250</u>	\$2.77	

8. Stockholders' Equity:

Because Solitario owned 6,071,626 shares of Crown, as part of the spin-off Solitario received 1,317,142 shares of its own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock. These shares of Solitario common stock were recorded as treasury stock at \$1,541,000, the fair value of the shares on July 26, 2004, the date of the spin-off by reducing the basis in Solitario's holdings of Crown common stock. Upon retiring these shares Solitario reduced common stock by \$13,000 and reduced additional paid in capital by \$1,528,000.

During 2006 options for 1,230,500 shares of Solitario common stock were exercised for proceeds of \$994,000, during 2005 options for 32,500 shares of Solitario common stock were exercised for proceeds of \$21,000 and during 2004 options for 1,121,000 shares of Solitario common stock were exercised for proceeds of \$985,000.

9. Selected Quarterly Financial Data (Unaudited):

(in thousands)	2006			
	March 31,	June 30,	Sept. 30, ⁽¹⁾	Dec. 31, ⁽¹⁾⁽²⁾
Net loss	\$ (621)	\$ (1,225)	\$ (550)	\$ (787)
Loss per share:				
Basic and diluted	\$ (0.02)	\$ (0.04)	\$ (0.02)	\$ (0.03)
Weighted shares outstanding:				
Basic and diluted	27,976	28,512	28,557	28,626

(in thousands)	2005			
	March 31,	June 30,	Sept. 30, ⁽³⁾	Dec. 31,
Net income (loss)	\$ (413)	\$ (711)	\$ 38	\$ (994)
Earnings (loss) per share:				
Basic	\$ (0.02)	\$ (0.03)	\$ 0.00	\$ (0.04)
Diluted	\$ (0.02)	\$ (0.03)	\$ 0.00	\$ (0.04)
Weighted shares outstanding:				
Basic	26,887	27,429	27,433	27,456
Diluted	26,887	27,429	28,611	27,456

⁽¹⁾ Solitario sold a total of 200,000 shares of Kinross common stock, 100,000 shares in the third quarter for proceeds of \$1,206,000 and a net gain of \$1,046,000 and 100,000 shares in the fourth quarter for proceeds of \$1,236,000 and a net gain of \$1,076,000.

⁽²⁾ General and administrative costs increased during the fourth quarter as a result of the termination of the Crown management agreement and Solitario assuming all costs which were previously shared with Crown.

⁽³⁾ Solitario reported net income during the third quarter of 2005 primarily related to the Crown dividend payment of \$1,275,000 received on July 26, 2005.

Corporate Information

Corporate Offices

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Ernhardt Keefe Steiner and Hottman, PC
Denver, Colorado

Transfer Agent

Computershare Investor Services
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Toronto, Ontario M5J2Y1 Canada
800-564-6253

Investor Relations

Questions and requests for information should be directed to
Debbie W. Mino, Director-Investor Relations at 800-229-6827,
or via email at dwmino@solitarioresources.com

Notice of Annual Meeting

The Annual Meeting of Shareholders will be at 10 a.m. MDT on
Tuesday, June 14, 2007 at the Company's corporate offices.

Stock Exchange Listings

AMEX: XPL | TSX: SLR

The Company's common stock has been listed and traded in
Canada on The Toronto Stock Exchange since July 19, 1994
under the symbol SLR and on the American Stock Exchange in
the U.S. since August 11, 2006 under the symbol XPL.

This publication includes certain "Forward-Looking Statements" within the meaning of section 21E of the United States Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential mineralization and reserves, exploration results and future plans and objectives of Solitario, are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Development of Solitario's properties are subject to the success of exploration, completion and implementation of an economically viable mining plan, obtaining the necessary permits and approvals from various regulatory authorities, compliance with operating parameters established by such authorities and political risks such as higher tax and royalty rates, foreign ownership controls and our ability to finance in countries that may become politically unstable. Important factors that could cause actual results to differ materially from Solitario's expectations are disclosed under the heading "Risk Factors" and elsewhere in Solitario's documents filed from time to time with Canadian Securities Commissions, the United States Securities and Exchange Commission and other regulatory authorities. This publication also contains information about adjacent properties on which we have no right to explore or mine. We advise U.S. investors that the SEC's mining guidelines strictly prohibit information of this type in documents filed with the SEC. U.S. investors are cautioned that mineral deposits on adjacent properties are not indicative of mineral deposits on our properties.

Officers & Directors

Christopher E. Herald

President, CEO & Director

Steven A. Webster

Chairman of the Board

James R. Maronick

Chief Financial Officer

John Hainey

Director

Walter H. Hunt

President – SA Operations

Leonard Harris

Director

Mark E. Jones, III

Vice Chairman of the Board

Brian Labadie

Director



On August 11, 2006, Solitario Resources recorded another milestone in our corporate history as we began trading on the American Stock Exchange. Our first trade was for 5,100 shares at \$2.67. Standing in the front row from left to right: Debbie Mino (Director-IR); Jim Maronick (CFO); Marion Herald; Neal Wolkoff (Chairman & CEO of the AMEX); Paula Mann (Manager-Administration) Chris Herald (President and CEO)



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