

Solitario  
Resources  
Corporation

2007 ANNUAL REPORT



*Exceptional Leverage to  
Exploration Success*

# Letter to Shareholders

CHRISTOPHER E. HERALD | PRESIDENT & CEO

With Solitario's continued success in the execution of its unique business model, we believe a new corporate name is in order to more fully reflect who we are and what we do. With shareholder approval, Solitario will have a new name that symbolizes a new chapter in our corporate evolution:

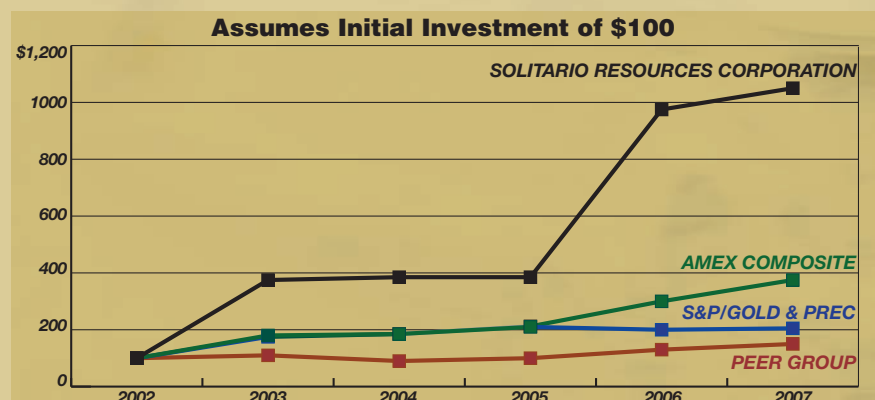
**SOLITARIO EXPLORATION & ROYALTY CORP.**

Our shareholders and the investment community have long recognized Solitario's success in the exploration arena with the premium quality of our asset base. But what is becoming increasingly important is the exceptional structure of our joint-venture arrangements with our senior mining company partners. All our joint ventures are similarly structured to Net Profit Interest Royalties, or NPI Royalties. This has created a unique company that retains significant interests, ranging from 25-35%, in five outstanding exploration/development projects for which we are essentially financed through production to cash flow. We know of no other company with such an array of NPI royalty-structured joint ventures.

Our business model is designed to lower risk and enhance financial returns relative to royalty-only companies or self-financing exploration companies that develop their own projects independently. This strategy has allowed us to: (1) preserve a low number of shares outstanding, (2) assemble a very effective exploration group consisting of 14 full-time geologists working in three countries, and (3) maintain a strong balance sheet with approximately \$30 million in cash and securities, and no debt. Solitario Exploration & Royalty Corp. is committed to the following three guiding principles:

- Remain highly focused on exploration, leaving feasibility, development and mining operations to global mining companies
- Preserve our ability to make market-impacting, 100%-owned blockbuster exploration discoveries for our shareholders
- Minimize financial risk and shareholder dilution through our NPI royalty-structured joint ventures

## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN



## 2007: A YEAR OF ACHIEVEMENT WITH AN EVEN MORE PROMISING FUTURE

During the past several years we continued to enhance the breadth and quality of Solitario's asset base and financial strength. Today we have five financed joint venture arrangements:

- **Bongará** - advanced high-grade zinc project in Peru, Solitario's 30% interest funded through production by Votorantim Metais
- **Pedra Branca** - advanced PGM project in Brazil, Solitario's 35% interest substantially funded through production by Anglo Platinum
- **Pachuca Real** - silver-gold project in Mexico, Solitario's 30% interest funded through production by Newmont Mining
- **Chambara** - regional zinc project in Peru, Solitario's 30% interest funded through production by Votorantim Metais
- **Peru Alliance** - regional gold project in Peru, Solitario's 25% interest funded through production by Newmont Mining

In total, our partners estimate they will spend over \$10 million on these projects in 2008, with at least \$5 million on Bongará alone.

On our 100%-owned projects, we have an aggressive independent exploration program planned for 2008 in all three countries in which we operate: Mexico, Peru and Brazil. Perhaps the most intriguing of these is our new Purica copper-molybdenum project in northern Mexico that is strategically situated between two world-class copper-molybdenum deposits, Cananea and La Rica.

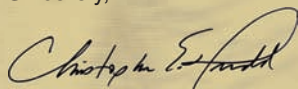
As of March 15, 2008, our Kinross share position was worth approximately \$28 million and we had about \$2 million in cash.

During 2007 and early 2008 we reported:

- Exceptionally good drill hole assay results on our **Bongará** zinc project
- A dramatic 400% expansion in our **Pedra Branca** land holdings to 178,500 hectares
- A good start on our **Pachuca Real** initial drilling program
- An exciting new regional zinc project in northern Peru – **Chambara**
- Three new projects in our Peru Alliance - **Cajatambo, Excelsior** and **Twin Lakes**
- Impressive drill widths of polymetallic mineralization on our **Triunfo** project

As impressive as 2007 was for Solitario, we fully believe that our 2008 results will be even more meaningful – and that's saying something! Before presenting 2007 project results, we will expand more on the royalty aspects of Solitario's joint ventures and how that sets us apart from our peers.

Sincerely,



Christopher E. Herald  
President & Chief Executive Officer



# About Royalties

Traditional mineral royalty companies are built upon **NSR-Royalties (“Net Smelter Return”)**. Solitario is choosing a different path by building **NPI-Royalties (“Net Profit Interest”)** that we believe provide our shareholders with higher financial returns than a traditional NSR-Royalty company and a much lower risk profile than a junior exploration company that independently tries to develop and fund its own exploration projects through to production.

We are able to do this because of our demonstrated success in acquiring new projects with outstanding potential to host major deposits and our ability to create favorable NPI-Royalty structured joint ventures with high-quality major mining companies. This royalty section provides you with some basic information concerning royalties in general, and Solitario’s royalty strategy in particular.

## NSR ROYALTIES:

Generate revenues by being paid a small percentage (typically 1-4%) of the gross value of the products. This is the most common royalty.

### Favorable Attributes

- No capital or operational cost deductions
- No environmental or closure costs
- Limited management time administering asset

### Negative Aspects

- High acquisition costs
- Difficult to acquire earnings impacting royalty
- No influence on production decisions

## NPI ROYALTIES:

Generate revenues by participating in a significant percentage (typically 20-40%) of the net profits.

### Favorable Attributes

- Insulated from equity dilution for feasibility-construction costs
- Significantly higher revenues and earnings than a NSR-royalty for the same producing asset
- Limited management time administering asset

### Negative Aspects

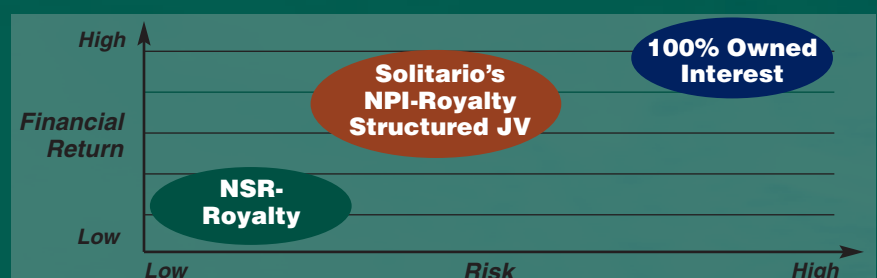
- Exposure to operational costs
- Must repay construction costs from profits
- Exposure to operator capabilities

## COMPARING REVENUE STREAMS

	3.0% NSR	33.3% NPI	100%-Owned Interest
Exploration/Acquisition Costs	\$27	\$3	\$15
Feasibility Costs	0	0	25
Construction Costs	0	0	200
<b>Risk Capital Before Revenue</b>	<b>27</b>	<b>3</b>	<b>240<sup>1</sup></b>
Operating Costs (LOM) <sup>3</sup>	0	283 <sup>2</sup>	780
Finance Costs (LOM-Libor+4%)	8	91	83
<b>Total Costs (LOM)</b>	<b>35</b>	<b>377</b>	<b>1,103</b>
Total Revenues (LOM)	45	500	1,500
Pre-tax Total Profit	9	123	397
Risk	low	low	high
<b>Average Annual Earnings Per Share Over 10 Years</b>	<b>\$0.03</b>	<b>\$0.41</b>	<b>\$132</b>

All numbers are millions of US\$’s except earnings per share. <sup>1</sup> Assumes 100% debt paid back over seven years. <sup>2</sup> Includes sustaining capital, closure costs and 3% management fee. <sup>3</sup> LOM = Life of Mine

## FINANCIAL RETURN VS. RISK



## SOLITARIO'S NPI-ROYALTY STRUCTURED JOINT VENTURES

	Bongará	Pedra Branca	Pachuca Real	Chambara	Peru Alliance
Solitario's Costs	\$ 0.5	\$ 5.0	\$ 0.2	\$ 0.1	\$ 2.2
Partner's Est. Past Costs	20.0	7.0	1.5	6.0	0.0
Partner's Future Costs for Initial Interest	14.0	4.8	10.5	6.3	3.0
Partner's Initial Interest Earned	61%	51%	51%	49%	51%
Partner Feasibility and Construction Financing Required	Yes	Yes *	Yes	Yes	Yes
<b>Future Solitario Cash Contributions to Reach Production</b>					
Solitario's Interest Upon Cash Flow	30%	35%	30%	30%	25%
Solitario's Partners' Global Production Ranking	Votorantim 3rd largest Zn	Anglo Plat. largest PGM	Newmont 2nd largest Au	Votorantim 3rd largest Zn	Newmont 2nd largest Au

All dollar figures are millions of US\$'s.

\* After partner spends \$17 million, we contribute 49% funding for feasibility, but not construction.

With the brief foregoing presentation on mineral royalties, we believe it is easy to see why including Royalty in our corporate name is appropriate. Our joint ventures are all NPI-Royalty structured joint ventures. In many ways, our joint venture structures are better than NPI-Royalties in that we have influence over production decisions as members of a Board of Directors that manages the asset. Another more favorable attribute with all of our joint ventures compared to a pure NPI-Royalty is that we receive a percentage of cash flow from project profits upon the commencement of production. Generally, a NPI-Royalty does not generate any cash flow until all capital is paid back.

In the preceding tables, three lines strike us as exceptionally important in understanding why Solitario Exploration and Royalty Corp. is a breed apart. These are:

- The **Risk Capital Before Revenue** line in the "Comparing Revenue Streams" chart clearly shows that our business model has a significantly lower amount of upfront capital risk than a typical NSR-Royalty acquisition or a full-participation, independently financed project. This results in considerably less upfront risk.
- The second line that is very telling is the **Average Annual Earnings Per Share Over 10 Years** in the "Comparing Revenue Streams" chart. Our business model produces a much more robust financial return on a per share basis than a traditional NSR-Royalty investment. Although our model results in a lower financial return on an absolute basis, compared to a 100%-owned interest, our return on equity would be superior with much less upfront financial risk.
- Perhaps the most remarkable numbers are found within the **Future Solitario Cash Contributions to Reach Production** line in the "Solitario's NPI-Royalty Structured Joint Ventures" chart. The total investment that Solitario has to contribute to achieve cash flow in its five NPI-Royalty structured joint ventures is approximately \$7.5 million. That is truly a low-risk profile.





# Bongará

## ON THE BRINK OF DEVELOPMENT

Drilling on our high-grade Bongará zinc project located in northern Peru continues to intersect outstanding zinc-lead-silver mineralization. Highlights of the 2007 32-hole, 11,443 meter drilling program, include drill hole **V-21** that cut 92.0 meters grading 5.50% zinc and 1.74% lead, the thickest mineralized interval ever intersected on the project, and **V-40** that intersected 6.0 meters grading 23.65% zinc and 5.38% lead, one of the highest grade intercepts over 5-meters in thickness. The program was managed and funded by Solitario's joint venture partner Votorantim Metais ("Votorantim").

Before reviewing last year's outstanding exploration results, it is important to state that we believe 2008 will be a year of transition from exploration to development for the project. Besides Votorantim's aggressive \$5.0 million exploration program, pre-feasibility studies, including resource estimation, metallurgy, access, infrastructure and socio-economic studies, will all be proceeding to an advanced stage. This transition will hopefully lead to a production decision within the next 18 months.

Since September of 2006, work conducted by Votorantim has demonstrated that high-grade zinc mineralization is widespread as both stratigraphically controlled deposits and also as thicker structurally controlled breakout zones. Mineralization measuring about 1,000 meters by 600 meters in size has now been relatively well defined by Votorantim's drilling, but more widely spaced drill holes surrounding this area of detailed drilling strongly indicate that similar mineralization is present over an area of at least 2.0 kilometers by 2.0 kilometers. These impressive drilling results confirm the excellent size potential of this high-grade zinc deposit, leading us to believe that Florida Canyon represents one of the best undeveloped zinc deposits in the world. Moreover, the deposit is open to expansion in all directions. Highlights of the 2007 drilling program include the following drill hole intercepts:

Drill Hole Number	Intercept (meters)	Zinc %	Lead %	Zinc+Lead %	Silver g/t
V-10	3.4	7.42	0.42	<b>7.82</b>	3.92
V-15	5.0	15.14	4.75	<b>19.89</b>	30.82
V-18	2.9	7.05	1.04	<b>8.09</b>	15.96
<b>V-21</b>	92.0	5.50	1.74	<b>7.24</b>	12.61
<i>including</i>	10.2	12.38	8.90	<b>21.28</b>	51.48
<i>including</i>	11.0	15.38	4.02	<b>19.40</b>	29.45
V-23A	3.0	5.09	0.59	<b>5.68</b>	4.87
<i>and</i>	3.0	9.32	0.03	<b>9.35</b>	17.83
<i>and</i>	12.0	6.72	1.12	<b>7.85</b>	14.35
V-33	12.9	5.44	0.73	<b>6.17</b>	9.71
<i>and</i>	3.0	9.57	0.97	<b>10.54</b>	11.87
V-35A	2.0	18.73	0.15	<b>18.88</b>	3.34
V-36	2.0	15.53	7.58	<b>23.24</b>	99.60
V-39A	3.0	24.63	3.61	<b>28.24</b>	31.13
<b>V-40</b>	6.0	23.65	5.38	<b>29.03</b>	36.75
<i>and</i>	2.0	12.17	0.01	<b>12.18</b>	19.11
V-41	12.8	6.58	0.14	<b>6.72</b>	10.15
V-43	5.3	10.41	0.18	<b>10.59</b>	3.58

Besides the stratigraphic mineralization, three separate "breakout zones" have now been identified in drill holes. These zones display relatively high-grade mineralized bodies extending vertically across thick intervals of stratigraphy where collapse breccias have been replaced by ore minerals. Evidence for these breakout zones is provided by the following drill holes from various locations on the property:

Breakout Zone Name	Drill Hole Number	Intercepts (meters)	Zinc %	Lead %	Zinc+Lead %
Sam	GC-17	58.8	12.0	2.8	<b>14.8</b>
	FC-23	81.5	4.8	0.8	<b>5.6</b>
Karen	A-1	36.2	12.8	2.7	<b>15.5</b>
North Zone	V-21	92.0	5.5	1.7	<b>7.2</b>

### ABOUT VOTORANTIM METAIS

Votorantim Metais belongs to a privately held Brazilian business conglomerate that is a leader in every market segment in which it operates, including cement, pulp and paper, metals, chemicals, orange juice, and finance. In 2006, Votorantim Group's revenues amounted to US\$13.0 billion. The metals business division accounted for 30% of revenues from production of zinc, nickel, steel and aluminum. Votorantim Metais is the world's third largest primary zinc producer with three operating zinc smelters and two operating zinc mines. It owns the Cajamarquilla zinc smelter and is a major shareholder of Milpo, both located in Peru. Votorantim Metais also acquired US Zinc, a zinc recycling company based in the USA with a plant located in China.

### *The Bongará Agreement with Votorantim Metais*

Votorantim Metais has completed approximately US\$4.0 million in exploration expenditures since signing the initial Letter Agreement in August 2006. Solitario is entitled to cash payments of \$200,000 per year until Votorantim makes a production decision. Votorantim has the option to earn up to a 70% interest in the project by committing to place the project into production based upon a feasibility study and spending a minimum of \$18.0 million on exploration and development. Once Votorantim has spent \$18.0 million on exploration and development, and committed to place the project into production, 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.

*The bottom line:  
Solitario is carried to production.*



# Pedra Branca

## WE QUADRUPLED OUR LAND HOLDINGS IN 2007 - ANGLO PLATINUM FUNDS 2008

With encouraging exploration results and a land rush to acquire mineral rights in the region by some of the largest mining companies in the world, Solitario quadrupled its land holdings from 45,365 to 178,514 hectares.

As background, during 2007 we noticed an increase in competitor exploration activity within the region. We stepped up our exploration efforts surrounding our existing claim block to identify new areas with potential to host PGM and nickel mineralization. We were aided by satellite images and also a new Brazilian geochemical report indicating areas of high chrome concentrations in stream sediments (chrome is often associated with PGM mineralization). With this information, and previous information we had gathered during the past eight years, we acquired vast new concession areas in virtually all directions from our original claim block.

When the dust settled on this staking rush, our joint venture controlled substantial new tracts of mineral rights extending over an area 100 kilometers long in a north-south direction and 25 kilometers in an east-west direction. Our new neighbors include Vale (formerly CVRD), Xtrata and Votorantim Metais, all top-tier, global mining companies.

A total of 3,251 meters of core drilling was completed in 35 drill holes at Pedra Branca during 2007. Sixteen different prospect areas were drilled with four returning favorable results. These successful tests were at three Cedro area prospects and an extension of mineralization at Trapia West. All of these successes were in the central core of the project area. Drilling highlights were as follows:

Hole	Area	From/To (meters)	Interval (meters)	Pt g/t	Pd g/t	PGM+Au g/t	Ni %
CD-24	Cedro	1.35 – 26.2	<b>24.85</b>	0.54	1.04	<b>1.64</b>	0.26
		37.5 – 49.0	<b>11.50</b>	0.58	1.57	<b>2.15</b>	0.31
CD-25	Cedro	40.5 – 40.9	<b>0.40</b>	1.36	1.91	<b>3.26</b>	0.17
CD-26	Cedro	19.4 – 21.0	<b>1.60</b>	1.51	1.64	<b>3.16</b>	0.13
CD-30	Cedro	21.9 – 52.6	<b>30.75</b>	0.45	0.65	<b>1.21</b>	0.31
CD-31	Cedro	14.3 – 28.9	<b>14.55</b>	0.43	0.96	<b>1.39</b>	0.24
TW-12	Trapia	11.6 – 30.9	<b>19.31</b>	0.70	0.72	<b>1.47</b>	0.19

With platinum selling for around \$2,000 per ounce and palladium over \$450 per ounce, it is easy to see why we are excited about the near-surface mineralization we have delineated thus far on our Pedra Branca project. Nearly 250 holes have now been completed on the project. We believe discovery of another new PGM-deposit could put us over the top in moving the project from advanced exploration to pre-feasibility. That is another reason why we're so enthusiastic about the vast new mineral rights we acquired in 2007.





Although we have not yet conducted much follow-up surface exploration work on our new concessions, what little work we have done has borne fruit with the discovery of a new chromitite boulder field where our only sample of the boulder field yielded an assay of 8.6 gpt platinum and 6.4 gpt palladium. In addition, we have discovered an area with nickel mineralization where our only sample of subcropping boulders yielded 0.98% Ni. With this excellent start, we are optimistic about the potential of our new land holdings.

Anglo Platinum has once again agreed to fund our exploration program with a \$1.5 million budget. Work will focus on regional reconnaissance exploration over our new property position and about 2,000 meters of core drilling offsetting areas of new mineralization discovered in 2007.



### *The Pedra Branca Agreement with Anglo Platinum*

Anglo Platinum has spent approximately \$2.5 million on exploration since signing the initial Letter Agreement in January 2003 and has earned a 15% interest in the project. Anglo Platinum has the option to incrementally earn up to a 51% interest in the project by spending an additional \$4.5 million (total of \$7.0 million) on exploration at Pedra Branca by June 30, 2010. Anglo Platinum can earn an additional 9% interest (for a total of 60%) by completing either (i) a bankable feasibility study or (ii) spending an additional \$10.0 million on exploration and development, whichever occurs first. Anglo Platinum can also earn an additional 5% interest (for a total of 65%) by arranging for 100% financing to put the project into commercial production.

***The bottom line:  
Solitario is substantially carried to  
production; after Anglo Platinum  
spends \$17 million, Solitario  
would contribute 49% of the  
funding to reach feasibility;  
Anglo Platinum then funds all  
construction costs.***



## Pachuca Real

### 5,000 METERS OF DRILLING PLANNED FOR 2008

Newmont completed nine core holes totaling 3,368 meters on Solitario's Pachuca Real project in central Mexico during 2007. Two of the holes intersected significant silver-gold mineralization, while anomalous mineralization was intersected in the other seven holes. The target at Pachuca Real consists of high-grade silver-gold mineralization in veins. All nine holes were widely spaced on nine separate prospects within a large district. Holes **PAC-08** and **PAC-09** are very encouraging as they showed the best mineralization and are strategically situated in the central part of the large 46,350-hectare Pachuca Real claim block. Both holes targeted hidden veins beneath broad surface areas of high-level clay alteration. Significant results in the last two holes are as follows:

Drill Hole	From/To (m)	Interval (m)	Au (g/t)	Ag (g/t)
<b>PAC-08</b>	176.7 – 177.0	0.3	0.31	89.0
	210.4 – 212.9	2.55	0.17	37.0
	<b>266.4 – 267.3</b>	<b>0.9</b>	<b>2.03</b>	<b>754.0</b>
	275.9 – 276.2	0.3	0.43	79.0
<b>PAC-09</b>	129.3 – 129.9	0.6	0.19	144.0
	<b>245.0 – 245.5</b>	<b>0.5</b>	<b>0.75</b>	<b>468.0</b>
	300.4 – 301.4	1.0	0.09	63.8
	323.3 – 323.8	0.5	0.26	163.0
	380.3 – 380.6	0.3	0.32	109.0

The historic Pachuca mining district was one of the most prolific silver districts in the world with substantial gold production. 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 ("Pachuca Norte"), a large area situated about 10 kilometers north of the historical district. The Pachuca Norte area was essentially dormant for the past 80 years because its previous owners focused on mining the historic district and just held this property

*The historic Pachuca mining district was one of the most prolific silver districts in the world with substantial gold production.*

without conducting any serious exploration. Fortunately, we were able to stake the property the day after the previous owners let the mineral rights lapse. Newmont's drilling program was the first modern day exploration to test the Pachuca Norte district; consequently, Solitario believes these results to be very significant.

Besides Newmont's initial drilling program in 2007, a comprehensive surface exploration program was completed over about 75% of the prospective terrain in the Pachuca Norte area. Thirty-two named prospect areas have thus far been geologically mapped and sampled by Newmont. At least 13 kilometers of strong surface vein trends have been mapped by Newmont in detail. The mineralization defined by Newmont is very similar, if not identical, to that found in the historic district.

A 5,000 meter two-rig core drilling program resumed in early March 2008 and is expected to continue into May 2008. Twelve deep drill holes are currently planned. Newmont is also slated to complete its detailed surface mapping and sampling program by mid-year. We remain very excited about the potential of the Pachuca Real project and believe it could be a market impacting project for our shareholders.

### *The Pachuca Real Agreement with Newmont Mining*

Newmont has spent nearly \$2.0 million on exploration since the venture agreement was signed in September 2006. The Agreement calls for optional annual work commitments totaling \$12.0 million over a 4.5 year period for Newmont to earn a 51% interest in the project. Newmont will then 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. Solitario has the right to require Newmont to fund its share of construction costs; if we exercise this right, Solitario will retain a 30% interest in the property.

*The bottom line:  
Solitario is carried to production.*



## Peru Alliance

### THREE NEW PROJECTS PROVIDE PLENTY OF EXPLORATION UPSIDE

During 2007 and early 2008, work on our Peru Alliance area (Alliance Partner - Newmont Mining) resulted in the acquisition of three new projects: Cajatambo, Excelsior and Twin Lakes. All three properties are 100% owned and are situated within the central Peru mineral belt that is proximal to the giant Cerro de Pasco silver-base metal district. During the first half of 2008 we plan additional surface work to potentially define drill targets on all three properties.

The Cajatambo property consists of nine concessions totaling 9,000 hectares. The geology of the property is dominated by of Tertiary volcanics that have been significantly altered by silicification, quartz-alunite and argillic alteration. The alteration system can be traced over an area eight kilometers long by two kilometers wide. It is considered to be a high-sulfidation epithermal gold system that is geologically similar in character to many of the large gold deposits situated throughout the Andean Mountains of Peru. Our work to date consists mainly of stream sediment sampling, rock chip channel sampling and reconnaissance geologic mapping. The best channel sample is 51 meters of 0.93 grams per tonne gold.

The Excelsior property consists of two concessions totaling 2,000 hectares. The geology of the property is comprised of a sequence of metamorphosed Ordovician sedimentary formations. Mineralization consists of gold-bearing massive and stock-work quartz-iron replacements associated with an intrusive dike in phyllites. The quartz replacements can be traced intermittently over a length of eight kilometers and a width of up to one kilometer. Mineralization is also associated with regional faulting along the hinge of an anticline. Although gold concentrations are not exceptionally high at surface, the remarkable size and consistency of anomalous gold is what makes this prospect intriguing.

*During 2007 and early 2008, work in our Peru Alliance area resulted in the acquisition of three new projects: Cajatambo, Excelsior and Twin Lakes.*



The Twin Lakes property consists of one concession totaling 1,000 hectares. The geology of the property is composed of Tertiary volcanics cut by a system of parallel quartz veins. Veins are up to two meters wide and can be traced along strike up to 1.2 kilometers. The veins are polymetallic in character, within a low-sulfidation environment. Assay results are moderately high at surface and we believe the potential for a system of high-grade veins exists at depth.

We are particularly encouraged with the exploration results that we continue to generate in central Peru and anticipate additional acquisitions in 2008.

### *The Peru Alliance Agreement with Newmont Mining*

In January 2005, we signed a Strategic Alliance Agreement (the "Peru Alliance") and a Stock Purchase Agreement with various subsidiaries of Newmont Mining ("Newmont") to explore for gold in South America. Newmont purchased 2.7 million shares of Solitario (at the time, a 9.9% equity interest) for approximately \$3.8 million. As part of the agreement, Solitario is committed to spend \$3.8 million over the four-year period on gold exploration in regions ("Alliance Projects Areas") that are mutually agreed upon by Newmont Exploration and Solitario. If Solitario acquires properties within Alliance Projects Areas and meets 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 and Solitario would own a 100% interest in the property.

*The bottom line:  
Solitario is carried to production  
if a major discovery is made.*





## Chambara Zinc Project

### A LARGE-SCALE REGIONAL PROGRAM

With the outstanding success Solitario and Votorantim Metais (“Votorantim”) have enjoyed at Bongará, it made sense to team up again to make new zinc discoveries in what we consider to be one of the best under-explored zinc terrains in the world. In March of 2008, we signed an exciting new joint venture arrangement with Votorantim on our regional Chambara zinc project. As with all our other agreements with major mining company partners, this agreement is a NPI-Royalty structured joint venture.

Under this innovative arrangement, Solitario contributed 9,300 hectares of mineral rights that included four prospects with significant high-grade zinc mineralization at surface and a vast regional geologic and geochemical data base covering much of the Area of Interest (“AOI”) measuring 200 kilometers in a north-south direction and 85 kilometers in an east-west direction. Votorantim contributed 51,000 hectares of mineral rights within the AOI to the Chambara project. All assets of this newly formed venture are held by a new private Peruvian company, Minera Chambara, that is 85%-owned by Solitario and 15%-owned by Votorantim.

Votorantim will be the operator of all exploration and development within the AOI. Any new properties acquired by Votorantim during its exploration program will become an asset of Minera Chambara.

### *The Chambara Agreement with Votorantim Metais*

Votorantim has the option to earn a 49% interest in Minera Chambara by spending a total of \$6.25 million on exploration over the next seven years.

Votorantim will then have the right to earn an additional 21% (total 70%) by funding a feasibility study and arranging construction financing for Solitario's 30%-interest at LIBOR+3.5%. Solitario will repay the loan facility through 80% of its cash flow distributions.

*The bottom line:  
Solitario is carried to production.*

# 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. 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. We recorded revenues from joint venture payments of \$100,000 related to our Bongará Project in July 2007. Previously, our last significant revenues were recorded in 2000 upon the sale of our Yanacocha property for \$6,000,000. We expect that future revenues from joint venture payments or the sale of properties, if any, would also occur on an infrequent basis. At December 31, 2007 we had eight exploration properties in Peru, Bolivia, Mexico and Brazil, and two royalty properties in Peru. During January 2008, we acquired two additional properties in Peru as part of our Strategic Alliance with Newmont and as of March 6, 2008 we have 10 exploration properties. 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 eight mineral properties under exploration and we own our Yanacocha and La Tola royalty interests. 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, or sometime prior to 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) the sale of properties, which last occurred in 2000 with the sale of our Yanacocha property for \$6,000,000; (ii) joint venture payments, including a payment of \$100,000 received in July 2007 on our Bongará property and previous payments which occurred during the years from 1996 through 2000; (iii) sale of our investment in Kinross (previously Crown); and (iv) issuance of common stock, including exercise of options, and through private placements, most recently as part of a strategic alliance with a major mining company. 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 October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement between Solitario and UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS") whereby Solitario pledged 900,000 shares of Kinross Gold Corporation ("Kinross") common shares to be sold (or delivered back to Solitario with any differences settled in cash) in the amounts of (i) 400,000 shares on April 14, 2009 for a lower threshold price of no less than \$13.81 per share (the "Floor Price") and an upper threshold price of no more than \$21.77 per share (Cap Price One); (ii) 400,000 shares on April 13, 2010 for a lower threshold of the Floor Price and an upper threshold price of no more than \$24.46 per share ("Cap Price Two"); and (iii) 100,000 shares on April 12, 2011 for no less than the Floor Price and an upper threshold price of no more than \$27.62 per share ("Cap Price Three"). Kinross' quoted closing price was \$16.37 per share on October 12, 2007, the date of the initiation of the Kinross Collar.

On April 24, 2007, Solitario signed the definitive agreement, the Shareholders Agreement relating to the Pedra Branca Project in Brazil, (the "Shareholders Agreement") pursuant to the previously signed Pedra Branca Letter Agreement with Anglo Platinum, Ltd., ("Anglo Platinum") for the exploration and development of Solitario's Pedra Branca Project. Solitario's and Anglo Platinum's property interests are held through the ownership of shares in a joint operating company Pedra Branca do Brazil Mineração, S.A., ("PBM") that holds a 100% interest in the mineral rights and other project assets. As part of the agreement, Anglo Platinum earned a 15% interest in PBM as of September 30, 2007, as a result of spending a total of \$2.25 million on exploration at Pedra Branca. Anglo Platinum is not required to make any future funding of exploration expenditures. However, future cash contributions by Anglo Platinum will be recorded as additions to minority interest and a decrease in additional paid-in-capital. Additionally, Anglo Platinum may earn a 51% interest in PBM by spending a total of \$7 million on exploration (\$4.75 million in addition to the \$2.25 million spent as of September 30, 2007) at Pedra Branca by February 28, 2010. Anglo Platinum can earn an additional 9% interest in PBM (for a total of 60%) by completing either (i) a bankable feasibility study or (ii) spending an additional \$10.0 million on exploration or development. Anglo Platinum can also earn an additional 5% interest in PBM (for a total of 65%) by arranging for 100% financing to put the project into commercial production. As of December 31, 2007 Solitario retains an 85% interest in PBM. Since earning its 15% interest in PBM, Anglo has made capital contributions of \$90,000 to fund ongoing exploration, recorded as an increase in paid-in-capital. Solitario has recorded a minority interest in PBM of \$388,000, equal to Anglo Platinum's 15% interest in the book value of PBM during the year ended

December 31, 2007. Solitario recorded a credit of \$17,000 for Anglo Platinum's 15% interest in the loss of PBM since September 30, 2007 in the statement of operations.

On March 24, 2007, Solitario signed a definitive agreement, the Framework Agreement for the Exploration and Potential Development of Mining Properties, (the "Framework Agreement") pursuant to the previously signed Bongará Letter Agreement with Votorantim Metais ("Votorantim") on Solitario's Bongará zinc project in Peru. Solitario's and Votorantim's property interests will be held through the ownership of shares in a joint operating company that will hold a 100% interest in the mineral rights and other project assets. Votorantim can earn up to a 70% interest in the joint operating company by funding an initial \$1.0 million exploration program, which they have completed as of December 31, 2007, by completing future annual exploration and development expenditures, and by making cash payments of \$100,000 on August 15, 2007. This cash payment was made during the third quarter of 2007 and has been recorded as joint venture property payment revenue. Per the Framework Agreement a payment of \$200,000 will be due on all subsequent annual anniversaries of that date until a production decision is made or the Framework 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. The Framework 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, and committed to place the project into production based upon a feasibility study, it has further agreed to finance Solitario's 30% participating interest through production. Solitario will repay the loan facility through 50% of its joint operating cash flow distributions. During the year ended December 31, 2007 Solitario recorded \$100,000 as joint venture property payment revenue in the statement of operations related to the payment received from Votorantim on the Bongará project.

Solitario made the decision to drop its interest in the La Purisima and the Corazon (Concepcion del Oro) projects in Mexico, and the Titicayo project in Bolivia, as a result of ongoing geologic and exploration activities including drilling, during the year ended December 31, 2007. Solitario recorded property abandonment and impairment expense of \$10,000 during the year ended December 31, 2007 related to the write-off of the capitalized costs on the Corazon and La Purisima properties and recorded property abandonment and impairment expense of \$10,000 for the Titicayo property during the year ended December 31, 2007.

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, now covering only one property with total capital costs of approximately \$20,000. In 2007, the government effectively increased corporate taxes on mining companies from 25% to 37.5% of profits. More recently, the government has proposed sweeping changes in the mining law concerning the amount private companies may own of mining rights, and the potential for the Bolivian government to effectively become a carried 50% partner in mining operations. If enacted, these new laws would have an adverse effect upon our projects in Bolivia. Solitario 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, 2007 to the year ended December 31, 2006**

We had a net loss of \$3,911,000 or \$0.13 per basic and diluted share for the year ended December 31, 2007 compared to net loss of \$3,183,000 or \$0.11 per basic and diluted share for the year

ended December 31, 2006. As explained in more detail below, the primary reason for the increase in net loss during 2007 compared to the net loss during 2006 was an increase in exploration expense to \$3,112,000 in 2007 from \$2,942,000 in 2006, a non-cash charge of \$1,702,000 in loss on derivative instrument during 2007 related to the Kinross Collar entered into in October 2007, plus an increase in other general and administrative costs to \$2,966,000 in 2007 compared to \$2,010,000 during 2006, which included a non-cash charge of \$1,018,000 for stock-based compensation expense during 2007 compared to \$955,000 in 2006. We recorded an increase in income tax expense to \$303,000 during 2007 compared to \$54,000 in 2006, primarily related to the gain on sale of Kinross stock. These differences in income and expenses were mitigated by an increase in the gain on sale of marketable equity securities \$4,085,000 during 2007 compared to a gain of \$2,121,000 during 2006 on the sale of Kinross stock during 2006 and the elimination of the management services agreement in August of 2006.

Our net exploration expense increased to \$3,112,000 during 2007 compared to \$2,942,000 in 2006. During 2007 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 2007 compared to 2006 including reconnaissance activities related to our Strategic Alliance projects and fully staffing our Mexico exploration program, including establishing a field office in Hermosillo, Mexico. We also increased our exploration expense at our Pedra Branca property in Brazil. Our gross exploration costs on all projects increased to \$4,154,000 in 2007 from \$3,207,000 in 2006. The exploration expenses were offset by joint venture reimbursements by Anglo Platinum on our Pedra Branca project of \$1,042,000 during 2007 and \$265,000 during 2006. In addition to the increase in surface exploration activities, we increased our direct drilling expenditures to \$771,000 at our Mercurio, Triunfo and Titicayo projects during 2007 compared to direct drilling exploration expenditures at our Mercurio and Pau d'Arco projects of \$590,000 during 2006. As a result of our exploration and evaluation activities we decided to drop or reduce our interests in three properties during 2007; Corazon, La Purisima and Titicayo, resulting in \$20,000 in mineral property write-downs. We acquired three new projects during 2007 and we anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2008. Our 2008 net exploration expenditure budget is approximately \$4,327,000. The primary factors in our decision to increase exploration expenditures in 2008 relate to more exploration on reconnaissance projects and an increase in drill targets on our existing non-joint venture projects.

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

Property Name	2007	2006
Newmont Alliance	\$ 647	\$ 470
Bongará	22	129
Pedra Branca, net	26	(13)
Mercurio	667	629
Pau d'Arco	19	495
Pachuca	13	189
Concepcion del Oro	21	30
Purisima	2	19
Pozos	1	18
Zinda	6	15
Titicayo	257	34
Triunfo	197	15
Chambara	8	-
Santiago	51	-
Libertad	-	144
Reconnaissance	1,175	768
Total exploration expense	\$ 3,112	\$ 2,942

We recorded a credit (reduction of expense) of \$17,000 during 2007, for Anglo Platinum's 15% interest in the losses at our 85% owned PBM subsidiary. Anglo Platinum earned its 15% interest pursuant to the Shareholders Agreement between Solitario and Anglo Platinum as of September 30, 2007 as discussed above.



The \$17,000 represents Anglo Platinum's share of PBM losses since September 30, 2007, the date Anglo Platinum earned its 15% interest. There were no similar items in 2006.

General and administrative costs were \$2,966,000 during 2007 compared to \$2,010,000 in 2006. The largest change in general and administrative costs related to a full year of costs, previously paid by Crown as part of the management services agreement being paid during 2007 compared to four months during 2006 as well as related to an increase in the non-cash charge of \$1,018,000 during 2007 compared to \$955,000 during 2006 for stock-based compensation expense discussed below. We incurred salary and benefits expense of \$966,000 during 2007 compared to \$367,000 subsequent to August 31, 2006 as a result of the termination of the Crown management services agreement and the addition of our employees who previous to August 31, 2006 were paid by Crown. We recorded consulting expense of \$110,000 during 2007 compared to \$27,000 during 2006, of which \$30,000 related to an executive recruiting fee during 2007 and \$80,000 and \$27,000, during 2007 and 2006, respectively, related to an agreement entered into in 2006 with Mark Jones, discussed below under related party transactions. In addition, other general and administrative costs including rent, travel, insurance and gain and loss on currencies, increased to \$426,000 during 2007 compared to \$239,000 in 2006 primarily related to costs which had previously been allocated between Crown and Solitario. These increases in general and administrative costs were partially mitigated by decreases in shareholder relations costs, including corporate and exchange fees to \$220,000 in 2007 compared to \$239,000 in 2006, the decrease was primarily related to the one-time payment during 2006 of \$75,000 for listing fees on the AMEX. In addition our legal and accounting costs decreased during 2007 to \$226,000 compared to \$239,000 primarily related to the completion of an SEC review of our financial statements and the application to list on the AMEX during 2006, which did not occur during 2007. We anticipate general and administrative costs will increase slightly in the future as a result of planned increased exploration activities as well as expected increases in costs to operate in Peru, Brazil and Mexico and we have forecast 2008 general and administrative costs to be approximately \$3,000,000.

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 September 7, 2007, the Board of Directors granted options for 502,000 shares with a fair value of \$976,000, on June 14, 2007 the Board of Directors granted 100,000 shares with a fair value of \$223,000, on February 8, 2007 the Board of Directors granted 10,000 options with a fair value of \$17,000 and on June 27, 2006 the Board of Directors granted 1,655,000 options with a fair value of \$2,536,000 under the 2006 Plan. We estimated the fair values of the options granted using a Black-Scholes option pricing model. During the year ended December 31, 2007, we recognized \$1,018,000 of stock-based compensation expense as part of general and administrative expense for the vesting of the options pursuant to the 2006 Plan compared to \$955,000 recognized during the year ended December, 2006, which included \$1,000 of stock option compensation expense related to options previously granted pursuant to the 1994 Plan which had not vested as of January 1, 2006. See Employee stock compensation plans in Note 1 to the consolidated financial statements.

We had \$85,000 of depreciation and amortization expense during 2007 compared to \$49,000 in 2006 primarily as a result of the addition of furniture and fixtures of \$176,000 and \$119,000, respectively, which were added during 2007 and 2006. We amortize these assets over a three year period. We anticipate our 2008 depreciation and amortization costs will be similar to our 2007 amount.

We had no management fee expense during 2007 compared to \$232,000 in 2006. The decrease in management fees during 2007 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, prior to the expiration of the management agreement, we reimbursed Crown for direct out-of-pocket expenses.

During 2007, we recorded interest income of \$76,000 compared to interest income of \$26,000 during the same period in 2006. The interest income recorded during 2007 and 2006 consisted of payments on cash and cash equivalent deposit accounts. Our average cash balances were larger during 2007 compared to 2006, which led to the increase in interest income.

During 2007, we recorded income tax expense of \$303,000 compared to an income tax expense of \$54,000 during 2006. The increase in net tax expense is related to gain on sale of marketable equity securities of \$4,085,000 during 2007 from the sale of 400,000 shares of Kinross stock compared to a gain of \$2,121,000 from the sale of 200,000 shares of Kinross stock during 2006. These gains were offset by the increase in general and administrative expenses during 2007 compared to 2006 discussed above, which are included in the United States taxable income. 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 the year ended December 31, 2007, in computing its estimated deferred tax expense and related liability, Solitario reduced its estimated tax rate by 1.7%, to account for the estimated deductibility of state taxes against United States federal taxes. This change in estimate had the effect of reducing Solitario's deferred tax rate to 37.3% from the previous estimated rate of 39%.

We regularly perform evaluations of our mineral property 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 2007, we recorded \$20,000 of property impairments, related to our Corazon, La Purisima and Titicayo projects in Mexico and Bolivia, compared to \$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 during 2006.

#### ***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.

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

Property Name	2007	2006
Newmont Alliance	\$ 470	\$ 296
Bongará	129	69
Pedra Branca, net	(13)	34
Mercurio	629	559
Pau d'Arco	495	-
Pachuca	189	6
Libertad	144	-
Concepcion del Oro	30	6
Purisima	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 \$955,000 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 increased 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.

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 Employee 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.

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 warrants 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 TNR derivative instruments as we no longer own any TNR 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. 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.

#### **(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. We received \$100,000 in receipts from joint venture payments during 2007 related to our Bongará project, discussed above. Receipts from joint venture payments previously 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. Our current agreement with Votorantim on our Bongará project calls for annual payments of \$200,000 until Votorantim makes a decision to place the project in production or decides to drop the project. However, other than the potential Votorantim payment, we expect future revenues from joint venture payments and from the sale of properties, if any, would occur on an infrequent basis. To the extent necessary, we expect to continue to use similar financing techniques to those discussed above; 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, 2007 and 2006, we owned 1,342,920 and 1,742,920 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value of \$24,710,000 and \$20,706,000 at December 31, 2007 and December 31, 2006, respectively. In addition we own other marketable equity securities with a fair value of \$316,000 and \$198,000 as of December 31, 2007 and December 31, 2006, respectively. At December 31, 2007, we have classified \$19,506,000 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, 2007, we recorded a gain in other comprehensive income on marketable equity securities of \$9,669,000, less related deferred tax expense of \$3,317,000. In addition during the year ended December 31, 2007, we sold 400,000 shares of Kinross stock for proceeds of \$5,548,000 resulting in a gain of \$4,085,000 which was transferred, less related deferred tax expense of \$1,524,000, 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 \$20.84 per share to a low of \$10.84 per share during the year ended December 31, 2007.

#### **Kinross Collar**

On October 12, 2007 we entered into the Kinross Collar pursuant to a Master Agreement for Equity Collars and a Pledge and

Security Agreement between us and UBS whereby we pledged 900,000 shares of Kinross Gold Corporation ("Kinross") common shares to be sold (or delivered back to us with any differences settled in cash) in the amounts of (i) 400,000 shares on April 14, 2009 for a lower threshold price of no less than \$13.81 per share (the "Floor Price") and an upper threshold price of no more than \$21.77 per share (Cap Price One); (ii) 400,000 shares on April 13, 2010 for a lower threshold of the Floor Price and an upper threshold price of no more than \$24.46 per share ("Cap Price Two"); and (iii) 100,000 shares on April 12, 2011 for no less than the Floor Price and an upper threshold price of no more than \$27.62 per share ("Cap Price Three"). Kinross' quoted closing price was \$16.37 per share on October 12, 2007, the date of the initiation of the Kinross Collar.

The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on approximately 900,000 shares of the 1,242,920 shares we currently own, in the event Kinross stock were to drop significantly from the price on the date we entered the Kinross Collar. In consideration for obtaining this price protection, we have given up the upside appreciation above the Cap Prices discussed above during the term of the respective tranches. Our risk management policy related to the Kinross Collar is to reduce the potential price risk on assets which represent a significant proportion of total assets, where economically feasible. Our Board considered several alternatives prior to entering the Kinross Collar to meet this risk management policy. These alternatives included the use of listed options, use of covered calls and an outright sale of the investment. However we determined that we had a long-term need for price protection to reduce the potential of paying significant taxes on a near term sale of the entire investment in Kinross shares based upon both (i) the projected future needs for the use of funds from any sales of the investment in Kinross shares and (ii) the potential generation of future United States net operating losses which could be used to offset any taxable gains on future sale of the investment in Kinross shares.

The Kinross Collar is structured as a European-style synthetic hedge, which allows for the close of the position of each tranche (the "Termination") of the Kinross Collar only on the specific dates for each tranche, 18, 30 and 42 months from the date of entering into the Kinross Collar. UBS will keep any ordinary cash dividends declared by Kinross on any of the shares subject to the Kinross Collar during the term of the Kinross Collar. Solitario has the option to satisfy its obligations under the Kinross Collar upon Termination of each tranche in either cash or Kinross shares. The settlement price on the Termination date of each tranche will be the volume weighted-average price of Kinross shares on such date (the "Reference Price").

If the Kinross Collar is to be settled in cash on the relevant Termination date, the cash settlement amount will be determined in the following manner: (a) if, on the Termination date, the Reference Price is less than the Floor Price, UBS will pay to us a cash settlement amount equal to the product of (x) the number of underlying shares multiplied by (y) the excess of the Floor Price over the Reference Price, and (b) if, on the Termination date, the Reference Price is greater than the relevant Cap Price, we will pay to UBS a cash settlement amount equal to the product of (x) the number of underlying shares multiplied by (y) the excess of the Reference Price over the relevant Cap Price. If the Reference Price is neither greater than the Cap Price nor less than the Floor Price, the cash settlement amount shall be zero.

If the Kinross Collar is to be settled in Kinross shares on the relevant Termination date, the settlement will be structured as follows: (a) if, on the Termination date, the Reference Price is greater than the relevant Cap Price, (i) UBS will pay to us a dollar amount equal to the product of (x) the number of underlying shares and (y) the relevant Cap Price and (ii) we will deliver to UBS the underlying shares, and (b) if, on the Termination date, the Reference Price is less than the Floor Price, (i) we will deliver to UBS the underlying shares and (ii) UBS will pay to us a dollar amount equal to the product of (x) the number of underlying shares and (y) the Floor Price.

Pursuant to the Master Agreement for Equity Collars, appropriate adjustments may be made if during the life of the collar if any event shall occur that has a dilutive or concentrative effect on the value of the underlying Kinross shares such as an extraordinary dividend, recapitalization, merger, consolidation or similar reorganization.

We have not designated the Kinross Collar as a hedging instrument (as described in Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities") and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. We recorded a loss on derivative instrument and related liability of \$1,702,000 for the change in the fair market value of the Kinross Collar from its inception to December 31, 2007. As of March 6, 2008, we are restricted from selling the 900,000 shares under the Kinross Collar prior to the Termination dates discussed above.

#### Working Capital

We had working capital of \$6,245,000 at December 31, 2007 compared to working capital of \$4,555,000 as of December 31, 2006. Our working capital at December 31, 2007 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 1,342,920 shares of Kinross common stock of \$5,520,000, less related current deferred taxes of \$1,515,000. We intend to liquidate a portion of our Kinross shares over the next three years, subject to

the Kinross Collar discussed above, 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 and have forecasted the sale of 300,000 shares of Kinross during 2008 for expected proceeds of \$6,230,000. In January of 2008, we sold 100,000 of those shares for net proceeds of \$2,229,000. Any funds received from the sale of 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.

#### Stock-Based Compensation Plans

On June 27, 2006 our shareholders approved the 2006 Stock Option Incentive Plan (the "2006 plan"). On March 4, 1994 our Board of Directors adopted the 1994 Stock Option Plan (the "1994 Plan"). During 2007, holders exercised options from the 1994 Plan for 917,000 shares at an exercise price of Cdn\$0.73 per share for proceeds of \$572,000 and exercised options from the 2006 Plan for 12,500 shares at an exercise price of Cdn\$2.77 for proceeds of \$35,000. During 2006 holders exercised options for 1,230,500 shares for proceeds of \$994,000.

The following table summarizes the activity for stock options outstanding under the 1994 Plan and the 2006 Plan as of December 31, 2007, 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 <sup>(1)</sup>
<b>1994 Plan:</b>				
Outstanding, beginning of year	1,027,000	\$ 0.74		
Exercised	(917,000)	\$ 0.73		
Outstanding at December 31, 2007	<u>110,000</u>	\$ 0.81	<u>0.6</u>	\$ 503,000
Exercisable at December 31, 2007	<u>110,000</u>	\$ 0.81	<u>0.6</u>	\$ 503,000
<b>2006 Plan</b>				
Outstanding, beginning of year	1,637,500	\$ 2.77		
Granted	612,000	\$ 4.62		
Forfeited	(52,500)	\$ 2.77		
Exercised	(12,500)	\$ 2.77		
Outstanding at December 31, 2007	<u>2,184,500</u>	\$ 3.29	<u>3.8</u>	\$ 4,476,000
Exercisable at December 31, 2007	<u>933,000</u>	\$ 3.07	<u>3.7</u>	\$ 2,121,000

<sup>(1)</sup> The intrinsic value at December 31, 2007 based upon the quoted market price of Cdn\$5.30 per share for our common stock on the Toronto Stock Exchange and an exchange ratio of 1.0194 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, 2007, we anticipate that all 110,000 unexercised options currently outstanding from our 1994 Plan will be exercised prior to their expiration date of August 14, 2008 for estimated proceeds of approximately \$91,000, 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 the 2006 Plan will be exercised in the next year.

#### (e). Cash Flows

Net cash used in operations during the year ended December 31, 2007 increased to \$4,712,000 compared to \$4,483,000 for 2006 primarily as a result of (i) increased exploration expenses of \$3,112,000 in 2007 compared to \$2,942,000 in 2006 and (ii) increased general and administrative costs of \$2,966,000 in 2007 compared to \$2,010,000 in 2006. These increases in cash uses were partially mitigated by (i) the elimination of the costs under the management services agreement in 2007 from \$232,000 in 2006, (ii) the reduction in prepaid expenses and other current assets of \$158,000 during 2007 compared to a use of cash from an increase in these accounts of \$164,000 during 2006, and (iii) the provision of cash from increases in accounts payable and other current

liabilities of options for \$15,000 during 2007 compared to a use of cash from decreases in accounts payable and other current liabilities of \$71,000 during 2006. The remaining uses of cash for operations were comparable in 2007 and 2006.

Net cash provided from investing activities increased to \$5,361,000 during 2007 compared to \$2,273,000 during the year ended December 31, 2006 primarily related to the \$5,548,000 proceeds from the sale of Kinross stock during 2007 compared with \$2,442,000 proceeds from the sale of Kinross stock in 2006. The remaining uses of cash from investing activities were comparable in 2007 and 2006.

Net cash provided from financing activities was \$697,000 during the year ended December 31, 2007 compared to \$994,000 during 2006. The cash provided from financing activities in 2007 consisted of \$607,000 from the exercise of options for 917,000 shares of our common stock compared to \$994,000 in proceeds from the exercise of options for 1,230,500 shares of our common stock during 2006. In addition we received \$90,000 during 2007 from Anglo related to their payment of exploration expenses, pursuant to the terms of the Shareholders Agreement, discussed above, which was credited to additional-paid-in-capital.

## (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 2007 mineral and surface property rental and option payments were approximately \$404,000. In 2008 we estimate property rentals and option payments to be approximately \$340,000. Approximately \$190,000 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, 2007, we have spent approximately \$1,616,000 of this commitment.

As of December 31, 2007, we have no outstanding long-term debt, capital or operating leases or other purchase obligations. We estimate our facility lease costs will be approximately \$38,000 per year, related to the Wheat Ridge, Colorado office.

We currently have deferred tax liabilities recorded in the amount of \$6,808,000. 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. The Bongará project hosts the Florida Canyon zinc deposit, where high-grade zinc mineralization has been encountered in drill holes over an area approximately 2.0 kilometers by 2.0 kilometers in dimension. On March 24, 2007, we signed a definitive agreement, the Framework Agreement pursuant to and replacing, the previously signed Bongará Letter Agreement with Votorantim. Solitario's and Votorantim's property interests will be held through the ownership of shares in a joint operating company that holds a 100% interest in the mineral rights and other project assets.

Votorantim can earn up to a 70% interest in the joint operating company by funding an initial \$1.0 million exploration program (completed), by completing future annual exploration and development expenditures, and by making a cash payment of \$100,000 by August 15, 2007, which was made during the third quarter of 2007 and recorded as joint venture property payment revenue, and by making cash payments to Solitario of \$200,000 on all subsequent annual anniversaries of that date 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. 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 and committed to place the project into production based upon a feasibility study, it has further agreed to finance our 30% participating interest through production. We will repay the loan facility through 50% of the cash flow distributions that we receive from the joint operating company.

### Pachuca Real

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 first 18 months of the agreement. Work commitments over the 4.5 years from the date of the Venture Agreement total \$12.0 million.

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

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 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 the distributions of future earnings or dividends from the venture that we receive. 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 \$45,000 are due to the underlying owner in 2008. Claims fees to be paid to the government of Mexico totaling \$42,000 are due in 2007. As discussed above, all payments to maintain the Pachuca Real property are the responsibility of Newmont as long as they remain in the Venture Agreement.

### Pedra Branca

On January 28, 2003, we entered into a Letter Agreement with Anglo Platinum, Ltd. on our 100%-owned Pedra Branca project in Brazil. 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 PBM, the corporate entity that now holds 100% title to all the assets of the Pedra Branca project, and the mechanics for Anglo Platinum's continued funding of Pedra Branca exploration. On April 24, 2007, we signed the

Shareholders Agreement relating to the Pedra Branca Project in Brazil with Anglo Platinum for the exploration and development of the Pedra Branca Project. Solitario's and Anglo Platinum's property interests are held through the ownership of shares in PBM. To the date of the signing of the Shareholders Agreement, Anglo Platinum had funded approximately \$1.25 million in exploration expenditures. As part of the agreement, Anglo Platinum earned a 15% interest in PBM, as of September 30, 2007, as a result of spending a total of \$2.25 million on exploration at Pedra Branca. Anglo Platinum is not required to make any future funding of exploration expenditures. However future cash contributions by Anglo Platinum will be recorded as additions to minority interest and a decrease in our additional paid-in-capital. Additionally, Anglo Platinum may incrementally earn up to a 51% interest in PBM by spending a total of \$7 million on exploration (\$4.75 million in addition to the \$2.25 million spent as of September 30, 2007) at Pedra Branca by June 30, 2010. Anglo Platinum can earn an additional 9% interest in PBM (for a total of 60%) by either (i) completing a bankable feasibility study or (ii) spending an additional \$10.0 million on exploration or development. Anglo Platinum can also earn an additional 5% interest in PBM (for a total of 65%) by arranging 100% financing to put the project into commercial production. However, Anglo Platinum is not required to fund any future exploration expenditures. We have recorded a receivable of \$4,000 at December 31, 2007 from Anglo Platinum for the reimbursement of costs incurred through December 31, 2007. As of December 31, 2007 we retain an 85% interest in PBM. We recorded a minority interest in PBM of \$388,000, equal to Anglo Platinum's 15% interest in the book value of PBM during the year ended December 31, 2007 as a reduction to additional paid in capital.

As part of the Shareholders Agreement, we also entered into a Services Agreement with Anglo Platinum whereby Solitario (and/or our subsidiaries) would act as an independent contractor directing the exploration and administrative activities for PBM and its shareholders. Under the Services Agreement, Solitario receives a 5% management fee based upon total expenditures. During 2007 we received \$52,000 of management fees included as joint venture reimbursements discussed above under exploration expense in "Results of Operations."

#### **Newmont Alliance**

On January 18, 2005, we signed a Strategic Alliance Agreement (the "Alliance Agreement") with Newmont Overseas Exploration Limited ("Newmont Exploration"), to explore for gold in South America (the "Strategic Alliance"). 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, 2007, we have spent approximately \$1,616,000 of this commitment. If we have not spent the \$3,773,000, by January 18, 2009, Newmont may elect to extend the four-year expenditure period for such additional time necessary to enable Solitario to spend the full \$3,773,000 on qualified exploration expenditures. Newmont may also elect to become the manager of the Alliance Agreement and direct and spend any remaining funds up to the \$3,773,000 on qualified exploration expenditures. If we acquire properties within Alliance Projects 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 in South America, acquired after the signing of the Alliance Agreement, that we may elect to sell an interest in, or joint venture with a third party.

#### **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. In January 2005, the Yanacocha royalty amendment and work commitment Letter of Intent was subsequently replaced by a definitive agreement with the same terms.

#### **La Tola Royalty Property**

In October 2003, we acquired the La Tola project in southern Peru to explore for gold and possibly silver. The project is located in southern Peru. In April 2004, we signed a Letter Agreement with Newmont Peru, whereby Newmont Peru could earn a 51%-interest in the La Tola property by completing \$7.0 million of exploration over four years and an additional 14% interest by completing a feasibility study and by arranging 100% project financing. On June 22, 2005, Newmont Peru informed Solitario that it had elected to terminate its option to earn an interest in the La Tola project and Solitario recorded an \$18,000 impairment related to the La Tola project. Solitario retains one claim covering 1,000 hectares. In August 2007 we signed a Letter of Intent with Canadian Shield Resources ("CSR") allowing CSR to earn a 100%-interest in the property, subject to a 2% net smelter return royalty ("NSR") to our benefit. To earn its interest, CSR is required to spend \$2.0 million in exploration by December 31, 2011. CSM has the right to purchase the 2% NSR for \$1.5 million anytime before commercial production is reached. Because the Letter of Intent with CSR provides that our ending interest in La Tola will be a 2% net smelter royalty, rather than a working interest, we currently classify the La Tola gold property as a royalty property interest.

#### **(h). Wholly Owned Exploration Properties**

##### **Santiago**

In February of 2007, we acquired 5,600 hectares of 100%-owned mineral rights through concessions for our Santiago property in southern Peru. We capitalized \$17,000 during the year ended December 31, 2007 in lease acquisition costs related to these concessions. The Santiago project consists of two claim blocks where previous surface sampling of rocks identified anomalous concentrations of gold in altered Tertiary volcanic rocks. We are currently conducting additional surface sampling and geological mapping to determine if the project warrants drill testing.

##### **Chambara**

In September of 2006, we acquired 3,700 hectares of 100%-owned mineral rights through concessions for our Chambara (formerly called Amazonas) property in northern Peru. We formally held 300 hectares in the project since 1997. We capitalized \$17,000 during the year ended December 31, 2007 in lease acquisition costs related to new concessions covering an additional 5,600 hectares at the Chambara project. The Chambara project consists of six widely spaced areas where previous sampling has identified high-grade zinc mineralization at surface similar to that found at Florida Canyon, discussed above under our Bongará zinc property above. Solitario is in discussions to potentially joint venture the property with a third party. However, we can provide no assurance that a joint venture agreement will be signed on the property.

##### **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 Reais (approximately \$7,000) was paid on signing of the agreement and the next payment of 36,000 Reais (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 were required upon the conversion of garimpeiro licenses to exploration claims which

occurred in the third quarter of 2006. During 2007 payments totaled approximately \$55,471. To purchase the property, an escalating scale of payments totaling 780,000 Reais (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 Reais (approximately \$1,350,000). 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 have conducted extensive soil sampling and auger testing of soils over a large portion of the property during the past three years and two rounds of core drilling of 23 holes totaling 4,031 meters during 2005 and 2006. A third round of core drilling is currently underway and is expected to be completed by the end of the first quarter of 2008.

#### **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, a payment of \$35,000, which was paid in June 2007 and a payment of \$45,000 due 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 three holes were drilled in the first half of 2007. The results of these three holes were highly encouraging, but we are monitoring the political situation in Bolivia before committing to a second round of drilling.

#### **(i) Discontinued Projects**

During 2007 we abandoned the following projects:

##### **Corazon / Concepcion del Oro**

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, which included the Corazon gold property (formerly called the Concepcion del Oro property), located in the Concepcion del Oro mining district near the city of Mazapil in the state of Zacatecas. The Corazon property consists of 35 concessions totaling approximately 1,420 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 Corazon and the La Purisima properties. The other two properties were dropped. As a result of ongoing geologic and exploration activities including mapping and sampling, we made the decision to drop our interest in the Corazon property. We recorded property abandonment and impairment expense of \$5,000 related to the write-off of the capitalized costs on this property during 2007. We have no additional work or payment obligations and no further work is planned for the Corazon property.

##### **La Purisima**

The La Purisima gold property is located near the city of Tepic in the state of Navarrit in Mexico and consists of six concessions totaling 600 hectares. The La Purisima property was acquired as part of the four property agreement discussed above under Corazon. The La Purisima property required payments to the concession holder of \$10,000 in 2006, which has been paid, and \$35,000 in 2007 to maintain the option agreements in good standing. As a result of ongoing geologic and exploration activities during the first three months of 2007, we made the decision to drop our interest in the La Purisima project. We recorded property abandonment and impairment expense of \$5,000 related to the write-off of the capitalized costs on this property during 2007. We have no additional work or payment obligations and no further work is planned for the La Purisima property.

##### **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 silver

project in Bolivia. We capitalized our initial payment under the lease of \$10,000. The lease calls for additional escalating lease payments over a six year period totaling \$990,000, 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.

In 2007 we completed a five-hole 1,031-meter core drilling program to test silver bearing vein observed at surface at deeper levels. Although all five drill holes intersected anomalous silver concentrations, we do not believe further exploration would enhance our results. Consequently, we recorded property abandonment and impairment expense of \$10,000 related to the write-off of the capitalized costs on this property during 2007. We have no additional work or payment obligations and no further work is planned for the Titicayo property.

#### **(j). 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 \$20,000 and \$35,000 write-down of our mineral properties during the years ended December 31, 2007 and 2006, 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, 2007 and December 31, 2006, we have recorded unrealized holding gains of \$22,588,000 and \$17,004,000, respectively, net of deferred taxes of \$8,347,000 and \$6,553,000, respectively, related to our marketable equity securities.

##### **Derivative Instruments**

Solitario accounts for its derivative instruments in accordance with

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." On October 12, 2007 we entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement between us and UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS") whereby we pledged 900,000 shares of Kinross Gold Corporation ("Kinross") common shares. The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on 900,000 shares of the 1,342,920 shares we own as of December 31, 2007, in the event Kinross stock were to drop significantly from the price on the date we entered into the Kinross Collar. Pursuant to SFAS 133, we have not designated the Kinross Collar as a hedging instrument and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. We recorded a loss on derivative instrument and related liability of \$1,702,000 for the change in the fair market value of the Kinross Collar from its inception to December 31, 2007.

### Revenue Recognition

We record any proceeds from the sale of property interests subject to joint ventures or shareholder agreements as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue. To the extent such proceeds are made in connection with properties subject to a joint venture or shareholder agreement where no property interests are transferred, the proceeds are recorded as revenue in accordance with the terms of the joint venture or shareholder agreement.

Grant Date	9/07/07	6/14/07	2/08/07	6/27/06
Options granted	502,000	100,000	10,000	1,655,000
Grant date fair value	\$ 976,000	\$ 223,000	\$ 17,000	\$ 2,537,000
Weighted average fair value	\$ 1.94	\$ 2.23	\$ 1.71	\$ 1.53
Risk-free interest rate	4.7%	5.2%	4.8%	5.2%
Expected Life (in years) <sup>(1)</sup>	4	4	4	4
Expected volatility <sup>(2)</sup>	52%	53%	56%	76%
Exchange rate (Cdn\$ to US\$) <sup>(3)</sup>	0.94930	0.93612	0.84551	0.8939
Intrinsic value per share	-	-	-	-

<sup>(1)</sup> Based upon expected volatility and past historical exercise patterns.

<sup>(2)</sup> Expected volatility mirrors the historical volatility based upon the daily quoted stock price from the Toronto Stock Exchange over the four years prior to the date of grant.

<sup>(3)</sup> The exchange rate on the date of grant.

We have elected to recognize the fair value of all option grants over their 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. We have assumed a zero forfeiture rate and a zero dividend rate for all grants, based upon historical experience.

During 2007 and 2006 we have recognized \$1,018,000 and \$955,000 in option compensation expense, respectively. During 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, originally granted on June 27, 2006, will not be recognized over the remaining vesting period of the options. No options were forfeited during 2006.

As of December 31, 2007, Solitario has recognized \$1,969,000 of option compensation expense for the vesting of the fair value as of the date of the grant over the life of all option grants, as discussed above under results of operations, which has been included in general and administrative expense. Solitario will recognize the balance of its unrecognized stock options compensation expense of \$1,734,000 for its existing stock option grants over the remaining vesting periods at the rate of approximately \$230,000 per quarter.

### Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes

### Stock-based Compensation

We account for any share-based payments under the provisions of SFAS No. 123(R), whereby 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.

During 2007, we determined the fair value of the 2006 Plan options granted on September 7, 2007, June 14, 2007 and February 8, 2007, respectively, of \$976,000, \$223,000 and \$17,000, using a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.94, \$2.23, and \$1.71 respectively, per share.

During 2006, we determined the fair value of the 2006 Plan options granted on June 27, 2007 of \$2,537,000 using a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.53 per share.

We utilized the following assumptions:

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 foreign net operating losses and 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.

### Accounting for Uncertainty in Income Taxes

We adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48") as of January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We also adopted FASB



Interpretation No.48" ("FSP FIN 48-1") as of January 1, 2007. FSP FIN 48-1 provides that a company's tax position will be considered settled if the taxing authority has completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. The adoption of FIN 48 and FSP FIN 48-1 had no effect on our financial position or results of operations.

### **(k). Related Party Transactions**

#### ***Crown Resources Corporation***

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. We did not incur any management service fees during 2007. Our management service fees were \$232,000, and \$423,000 for the years ended December 31, 2006 and 2005, respectively.

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 the remaining 3,077 shares of our stock became the property of Kinross which is not a related party to Solitario.

#### ***Kinross Merger Agreement***

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.

#### ***Mark Jones Consulting Agreement***

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 \$80,000 for consulting expense, related to the agreement, included in general and administrative expense for the year ended December 31, 2007 compared to \$27,000 for the year ended December 31, 2006. We will amortize the remaining balance of prepaid consulting fees of \$53,000, included in current assets as of December 31, 2007, during 2008.

#### ***TNR Gold Corp.***

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, 2007, we own 1,000,000 shares of TNR that are classified as marketable equity securities held for sale and are recorded at their fair market value of \$316,000 and included in marketable equity securities. As of December 31, 2007 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, and \$20,000, for the decrease in the value of its warrants during the years ended December 31, 2006 and 2005, respectively. Christopher E. Herald, our CEO, is a member of the Board of Directors of TNR.

### **(l). Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 151" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary and amends certain consolidation procedures of Accounting Research Bulletin ("ARB") 151 for consistency with the requirements of FASB statement No. 141. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. We have not yet determined the impact of adopting SFAS No. 160 on our financial position, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141R, "Business Combinations (revised 2007)," ("SFAS No. 141R"). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the

financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's fiscal year that begins on or after December 15, 2008. We have not yet determined the impact, if any, of adopting SFAS No. 141R on our financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option For Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective for Solitario as of January 1, 2008. We have not yet determined the impact of adopting SFAS No. 159 on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 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 No. 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 No. 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 about market participant assumptions. SFAS No. 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 No. 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 No. 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 the impact of adopting SFAS No. 157 on our financial position, results of operations or cash flows.

## **Market Risk**

### **(a) Equity Price Risks**

(1) Solitario's investment in Kinross is subject to equity market risk.

As of December 31, 2007 a hypothetical increase of ten percent in the price of Kinross common stock would increase the value of our holdings of Kinross by \$2,471,000 and increase other comprehensive income by and total stockholders' equity by the same amount, net of deferred taxes of \$922,000. Additionally our working capital would also be increased by \$552,000 from a hypothetical increase of ten percent in the price of Kinross common stock, net of deferred taxes of \$206,000. This increase is based upon all of our 1,342,920 Kinross common shares as of December 31, 2007, and is subject to the Kinross Collar discussed above.

A hypothetical decrease of ten percent in the price of Kinross common stock would have the opposite effect of the increase discussed above. This decrease is based upon all of our 1,342,920 Kinross common shares as of December 31, 2007, and is subject to the Kinross Collar discussed above.

(2) Solitario's Kinross Collar derivative instrument is subject to equity market risk.

We have estimated, using a Black-Scholes option pricing model that as of December 31, 2007 a hypothetical increase of ten percent in the price of Kinross common stock would increase the value of our liability under the Kinross Collar by \$1,521,000, net of deferred taxes of \$567,000 and increase our net loss in the statement of operations by \$954,000. We have also estimated that as of December 31, 2007 a hypothetical decrease of ten percent in the price of Kinross common stock would decrease the value of our liability under the Kinross Collar by \$1,138,000, net of deferred taxes of \$424,000 and would decrease our net loss in the statement of operations by \$714,000.

### **(b) Interest Rate Risks**

Solitario's Kinross Collar derivative instrument fair market valuation is subject to interest rate risk.

We have estimated, using a Black-Scholes option pricing model, that as of December 31, 2007 a hypothetical increase of ten percent in the risk-free interest rate used to compute the fair market value of our liability under the Kinross Collar would increase the liability by \$50,000, net of deferred taxes of \$19,000 and increase our net loss in the statement of operations by \$31,000. We have also estimated that as of December 31, 2007 a hypothetical decrease of ten percent in the risk-free interest rate used to compute the fair market value of our liability under the Kinross Collar would decrease the liability by \$64,000, net of deferred taxes of \$24,000 and would decrease our net loss in the statement of operations by \$40,000.

We have no other material interest rate risks as we have no interest bearing debt and our interest bearing cash deposits do not generate a material amount of interest income.

# 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 accompanying consolidated balance sheets of Solitario Resources Corporation (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) 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 of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solitario Resources Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Solitario Resources Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

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Ehrhardt Keefe Steiner & Hottman PC

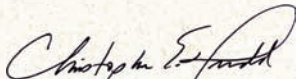
March 6, 2008  
Denver, Colorado

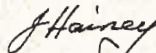
# Consolidated Balance Sheets

IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS

	December 31, 2007	December 31, 2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,250	\$ 904
Joint venture receivable	4	88
Investments in marketable equity securities, at fair value	5,520	5,176
Prepaid expenses and other	198	219
Total current assets	7,972	6,387
Mineral properties, net	2,704	2,687
Investments in marketable equity securities, at fair value	19,506	15,728
Other assets	248	236
Total assets	\$ 30,430	\$ 25,038
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 195	\$ 163
Deferred income taxes	1,515	1,652
Other	17	17
Total current liabilities	1,727	1,832
Derivative instrument fair value	1,702	-
Deferred income taxes	5,293	4,131
Other	14	31
<b>Commitments and contingencies (Notes 2 and 6)</b>		
Minority interest	388	-
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2007 and 2006)	-	-
Common stock, \$0.01 par value, authorized, 50,000,000 shares (29,619,492 and 28,689,992 shares issued and outstanding at December 31, 2007 and 2006, respectively)	296	287
Additional paid-in capital	30,836	28,462
Accumulated deficit	(24,067)	(20,156)
Accumulated other comprehensive income	14,241	10,451
Total stockholders' equity	21,306	19,044
Total liabilities and stockholders' equity	\$ 30,430	\$ 25,038

On behalf of the Board:

  
Christopher E. Herald  
Director

  
John Hairney  
Director

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Operations

IN THOUSANDS EXCEPT PER SHARE AMOUNTS

	<b>For the year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Property and joint venture revenue</b>			
Joint venture property payments	\$ 100	\$ -	\$ -
<b>Costs, expenses and other:</b>			
Exploration expense, net	3,112	2,942	2,072
Depreciation and amortization	85	49	29
General and administrative	2,966	2,010	576
Management fees to Crown	-	232	423
Unrealized loss on derivative instruments	1,702	5	20
Asset write-downs	20	35	30
Loss on sale of assets	1	3	-
Interest and other, net	(76)	(26)	(52)
<b>Total costs expenses and other</b>	<b>7,810</b>	<b>5,250</b>	<b>3,098</b>
Other income - gain on sale of marketable equity securities	4,085	2,121	-
Other income - Crown dividend payment	-	-	1,275
<b>Loss before minority interest and income taxes</b>	<b>(3,625)</b>	<b>(3,129)</b>	<b>(1,823)</b>
Minority interest in loss of consolidated subsidiary	17	-	-
<b>Loss before income taxes</b>	<b>(3,608)</b>	<b>(3,129)</b>	<b>(1,823)</b>
<b>Income tax expense</b>	<b>(303)</b>	<b>(54)</b>	<b>(257)</b>
<b>Net loss</b>	<b>\$ (3,911)</b>	<b>\$ (3,183)</b>	<b>\$ (2,080)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.13)</b>	<b>\$ (0.11)</b>	<b>\$ (0.08)</b>
<b>Basic and diluted weighted average shares outstanding</b>	<b>29,467</b>	<b>28,422</b>	<b>27,311</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Stockholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005  
IN THOUSANDS, EXCEPT SHARE AMOUNTS

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
<b>Balance at 12/31/2004</b>	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)
<b>Balance at 12/31/2005</b>	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
<b>Balance at 12/31/2006</b>	28,689,992	287	28,462	(20,156)	10,451	19,044
Shares issued:						
Option exercise	929,500	9	598	-	-	607
Deferred taxes on option exercises	-	-	1,072	-	-	1,072
Stock option expense from vesting	-	-	1,018	-	-	1,018
Minority interest	-	-	(404)	-	-	(404)
Minority shareholder equity contribution	-	-	90	-	-	90
Comprehensive income:						
Net loss	-	-	-	(3,911)	-	(3,911)
Net unrealized gain on marketable equity securities (net of tax of \$1,794)	-	-	-	-	3,790	3,790
Comprehensive loss	-	-	-	-	-	(121)
<b>Balance at 12/31/2007</b>	29,619,492	\$ 296	\$ 30,836	\$ (24,067)	\$ 14,241	\$ 21,306

# Consolidated Statements of Cash Flows

IN THOUSANDS

	<b>For the year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Operating activities:</b>			
Net loss	\$ (3,911)	\$ (3,183)	\$ (2,080)
Adjustments:			
Unrealized loss on derivative instruments	1,702	5	20
Depreciation and amortization	85	49	29
Asset write-downs	20	35	30
Employee stock option expense from vesting	1,018	955	-
Deferred income taxes	303	54	257
Gain on asset and equity security sales	(4,085)	(2,118)	-
Minority interest in loss of consolidated subsidiary	(17)	-	-
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	158	(164)	279
Accounts payable and other current liabilities	15	(71)	(73)
Due to Crown Resources Corporation	-	(45)	(34)
Net cash used in operating activities	(4,712)	(4,483)	(1,572)
<b>Investing activities:</b>			
Additions to mineral interests and other	(37)	(50)	(52)
Other assets	(150)	(119)	(126)
Proceeds from sale of marketable equity securities	5,548	2,442	-
Net cash (used in) provided by investing activities	5,361	2,273	(178)
<b>Financing activities:</b>			
Minority shareholder equity contribution	90	-	-
Issuance of common stock	607	994	3,794
Net cash provided by financing activities	697	994	3,794
Net increase (decrease) in cash and cash equivalents	1,346	(1,216)	2,044
Cash and cash equivalents, beginning of year	904	2,120	76
Cash and cash equivalents, end of year	\$ 2,250	\$ 904	\$ 2,120
<b>Supplemental disclosure of cash flow information:</b>			
Deferred taxes on stock option exercises charged to additional paid-in capital	\$ 1,072	\$ 616	\$ 11

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

## 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 has been actively involved in this business since 1993. Solitario recorded revenues from joint venture payments of \$100,000 related to the Bongará Project during 2007. Previously, Solitario's last significant revenues were recorded in 2000 upon the sale of the 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, 2007 Solitario had eight exploration properties in Peru, Bolivia, Mexico and Brazil. Solitario is conducting exploration activities in all of those countries.

Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of Crown Resources Corporation ("Crown"). 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.

We have a significant investment in Kinross at December 31, 2007, which consists of 1,342,920 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 Crown – Kinross merger. During 2007, Solitario sold 400,000 shares of Kinross common stock for proceeds of \$5,548,000 and during 2006 Solitario sold 200,000 Kinross common shares for net proceeds of \$2,442,000. As of March 6, 2008, Solitario owns 1,242,920 shares of Kinross common stock. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources. In October 2006, we entered into a collar that limits the proceeds on 900,000 shares of Solitario's investment in Kinross common shares, discussed below under "Derivative instruments."

### *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.

### *Revenue recognition*

Solitario records any proceeds from the sale of property interests subject to joint ventures or shareholder agreements as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue. To the extent such proceeds are made in connection with properties subject to a joint venture or shareholder agreement where no property interests are transferred, the proceeds are recorded as revenue in accordance with the terms of the joint venture or shareholder agreement.

### *Minority interest*

Solitario records minority interest for the portion of its assets and net loss in any subsidiaries which are less than 100% owned. During 2007, Solitario's share of its investment in its subsidiary Pedra Branca Mineracao, Ltda. ("PBM") was reduced to 85% in accordance with the terms of PBM's Shareholder Agreement. Solitario recorded a minority interest in its statement of financial position of \$388,000 as of December 31, 2007 and recorded a credit of \$17,000 in its statement of operations for the minority interest in the loss of PBM.

### *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 estimate of the fair value of stock option compensation included in the statement of operations, the ability of Solitario to realize its deferred tax assets, the current portion of Solitario's investment in Kinross shares included in marketable equity securities and the fair value of Solitario's Zero Premium Equity Collar of its holdings of Kinross, discussed below.

### *Cash equivalents*

Cash equivalents include investments in highly-liquid money-market securities with original maturities of three months or less when purchased. As of December 31, 2007 and 2006, Solitario had concentrations of cash and cash equivalents in excess of federally insured amounts and cash in foreign banks for which there was no US federal insurance.

### *Mineral properties*

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, 2007, 2006 and 2005, Solitario recorded impairments of \$20,000, \$35,000 and \$30,000 of its mineral properties, respectively.



Solitario's net capitalized mineral properties of \$2,704,000 and \$2,687,000 at December 31, 2007 and 2006, respectively, related to gross land, leasehold and acquisition costs of \$3,727,000 and \$3,710,000 at December 31, 2007 and 2006, respectively, less accumulated amortization of \$1,023,000 at December 31, 2007 and 2006. 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**

Solitario accounts for its derivative instruments as provided in Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133). On October 12, 2007 Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement between Solitario and UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS") whereby Solitario pledged 900,000 shares of Kinross Gold Corporation ("Kinross") common shares to be sold (or delivered back to Solitario with any differences settled in cash) in the amounts of (i) 400,000 shares on April 14, 2009 for a lower threshold price of no less than \$13.81 per share (the "Floor Price") and an upper threshold price of no more than \$21.77 per share (Cap Price One); (ii) 400,000 shares on April 13, 2010 for a lower threshold of the Floor Price and an upper threshold price of no more than \$24.46 per share ("Cap Price Two"); and (iii) 100,000 shares on April 12, 2011 for no less than the Floor Price and an upper threshold price of no more than \$27.62 per share ("Cap Price Three"). Kinross' quoted closing price was \$16.37 per share on October 12, 2007, the date of the initiation of the Kinross Collar.

The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on 900,000 shares of the 1,342,920 shares Solitario currently owned, in the event Kinross stock were to drop significantly from the price on the date Solitario entered into the Kinross Collar. In consideration for obtaining this price protection, Solitario has given up the upside appreciation above the Cap Prices during the term of the respective tranches.

Solitario has not designated the Kinross Collar as a hedging instrument as described in SFAS No. 133 and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. Solitario recorded a loss on derivative instrument and related liability of \$1,702,000 for the change in the fair market value of the Kinross Collar from its inception to December 31, 2007.

#### **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. Unrealized 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 \$25,026,000 and \$20,904,000, respectively, and cost of \$2,438,000 and \$3,900,000, respectively, at December 31, 2007 and 2006. Solitario has accumulated other comprehensive income for unrealized holding gains of \$22,588,000 and \$17,005,000, respectively, net of deferred taxes of \$8,347,000 and \$6,554,000, respectively, at December 31, 2007 and 2006 related to our marketable equity securities. Solitario sold 400,000 and 200,000 shares, respectively, of its Kinross common stock during 2007 and 2006 for gross proceeds of \$5,548,000 and \$2,442,000, respectively.

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

	2007	2006	2005
Gross cash proceeds	\$ 5,548	\$ 2,442	\$ -
Cost	1,463	321	-
Gross gain on sale included in earnings during the period	4,085	2,121	-
Gross loss on sale included in earnings during the period	-	-	-
Unrealized holding gain arising during the period included in other comprehensive income, net of tax of \$3,317, \$3,590 and \$704	6,352	5,615	1,100
Reclassification adjustment for net losses (gains) included in earnings during the period, net of tax of \$1,524, \$827 and \$0	(2,562)	(1,294)	-

#### **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.

#### **Accounting for uncertainty in income taxes**

Solitario adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48") as of January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We also adopted FASB Staff Position No. FIN 48-1, "Definition of Settlement in FASB Interpretation No.48" ("FSP FIN 48-1") as of January 1, 2007. FSP FIN 48-1 provides that a company's tax position will be considered settled if the taxing authority has completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. The adoption of FIN 48 and FSP FIN 48-1 had no effect on Solitario's financial position or results of operations. See Note 4—Income Taxes.

#### **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, 2007, 2006 and 2005. Potentially dilutive shares related to outstanding common stock options of

2,294,500, 2,664,500, and 2,240,000 for the years ended December 31, 2007, 2006 and 2005, 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 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. On June 14, 2007, Solitario's shareholders approved certain technical modifications to the 2006 Plan, which among other things, modified the definition of the market price of a grant of an option to be equal to the closing market price in Canadian Dollars on the Toronto Stock Exchange on the date of granting such option. Previously under the 2006 Plan, the market price had been 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 of granting such option.

All 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 three years from the date of grant.

During 2007, Solitario determined the fair value of the 2006 Plan options granted on September 7, 2007, June 14, 2007 and February 8, 2007, respectively, of \$976,000, \$223,000 and \$17,000, using a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.94, \$2.23, and \$1.71 respectively, per share.

During 2006, we determined the fair value of the 2006 Plan options granted on June 27, 2007 of \$2,537,000 using a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.53 per share.

Solitario utilized the following assumptions:

Grant Date	9/07/07	6/14/07	2/08/07	6/27/06
Options granted	502,000	100,000	10,000	1,655,000
Option exercise price (Cdn\$)	\$ 4.53	\$ 4.38	\$ 5.12	\$ 2.77
Grant date fair value	\$ 976,000	\$ 223,000	\$ 17,000	\$ 2,537,000
Weighted average fair value	\$ 1.94	\$ 2.23	\$ 1.71	\$ 1.53
Risk-free interest rate	4.7%	5.2%	4.8%	5.2%
Expected Life <sup>(1)</sup>	4 yrs	4 yrs	4 yrs	4 yrs
Expected volatility <sup>(2)</sup>	52%	53%	56%	76%
Exchange rate (Cdn\$ to US\$) <sup>(3)</sup>	0.94930	0.93612	0.84551	0.8939
Intrinsic value per share	-	-	-	-

<sup>(1)</sup> Based upon expected volatility and past historical exercise patterns.

<sup>(2)</sup> Expected volatility mirrors the historical volatility based upon the daily quoted stock price from the Toronto Stock Exchange over the four years prior to the date of grant.

<sup>(3)</sup> The exchange rate on the date of grant.

Solitario has elected to recognize the fair value of all option grants over their 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 for all grants, based upon historical experience.

During 2007 and 2006 Solitario has recognized \$1,018,000 and \$955,000, respectively, in option compensation expense. 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.

Options for 12,500 and 17,500 shares, respectively, from the 2006 Plan were exercised during 2007 and 2006, respectively for proceeds of \$35,000 and \$42,000, respectively. The intrinsic value of the shares exercised during 2007 and 2006 on the date of exercise of options from the 2006 Plan was \$27,000 and \$30,000, respectively.

During 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, originally granted on June 27, 2006, will not be recognized over the remaining vesting period of the options. No options were forfeited during 2006.

As of December 31, 2007, Solitario has recognized \$1,969,000 of option compensation expense for the vesting of the fair value of all option grants which has been included in general and administrative expense. Solitario will recognize the balance of its unrecognized stock options compensation expense of \$1,734,000 for its existing stock option grants over the remaining vesting periods at the rate of approximately \$230,000 per quarter.

#### 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. All options from the 1994 Plan were vested as of December 31, 2006 and no compensation expense was recorded for the 1994 plan during 2007. Solitario 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, 2007, Solitario has vested and outstanding options for 110,000 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, 2007 Solitario had 110,000 exercisable at Cdn\$0.81 per share that expire August 14, 2008. Options from the 1994 Plan for 917,000 shares were exercised during the year ended December 31, 2007 for proceeds of \$574,000. The intrinsic value of the shares issued during 2007 on the date of exercise of options from the 2004 Plan was \$2,901,000. 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. As of December 31, 2007, 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 year ended December 31, 2005:

(in 000s, except per share amounts) 2005	
Net loss as reported	\$(2,080)
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(8)
Pro forma net income (loss)	<u>\$(2,088)</u>
Basic and diluted net loss per share	
As reported	\$ (0.08)
Pro forma	<u>\$ (0.08)</u>

#### 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, 2007, 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 <sup>(1)</sup>
<b>1994 Plan:</b>				
Outstanding, beginning of year	1,027,000	\$ 0.74		
Exercised	<u>(917,000)</u>	\$ 0.73		
Outstanding at December 31, 2007	110,000	\$ 0.81	<u>0.6</u>	\$ 503,000
Exercisable at December 31, 2007	<u>110,000</u>	\$ 0.81	<u>0.6</u>	\$ 503,000
<b>2006 Plan</b>				
Outstanding, beginning of year	1,637,500	\$ 2.77		
Granted	612,000	\$ 4.62		
Forfeited	(52,500)	\$ 2.77		
Exercised	<u>(12,500)</u>	\$ 2.77		
Outstanding at December 31, 2007	2,184,500	\$ 3.29	<u>3.8</u>	\$ 4,476,000
Exercisable at December 31, 2007	<u>933,000</u>	\$ 3.07	<u>3.7</u>	\$ 2,121,000

<sup>(1)</sup> The intrinsic value at December 31, 2007 based upon the quoted market price of Cdn\$5.30 per share for our common stock on the Toronto Stock Exchange and an exchange ratio of 1.01936 Canadian dollars per United States dollar.

#### Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2007, 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, 2007 and 2006 are total assets of \$3,407,000 and \$2,854,000, 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, 2007 and 2006 are net capitalized costs related to the Pedra Branca Property, located in Brazil, of \$2,607,000. Solitario is not aware of any foreign exchange restrictions on its subsidiaries located in foreign countries.

#### Recent accounting pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 151" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary and amends certain consolidation procedures of Accounting Research Bulletin ("ARB") 151 for consistency with the requirements of FASB statement No. 141. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. Solitario has not yet determined the impact of adopting SFAS No. 159 on its financial position, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141R, "Business Combinations (revised 2007)," ("SFAS No. 141R") SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's fiscal year that begins on or after December 15, 2008. Solitario has not yet determined the impact, if any, of adopting SFAS No. 141R on its financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option For Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments

and certain other items at fair value. The provisions of SFAS No. 159 are effective for Solitario as of January 1, 2008. Solitario has not yet determined the impact of adopting SFAS No. 159 on its financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS No. 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 No. 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 No. 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 about market participant assumptions. SFAS No. 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 No. 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 No. 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 the impact of adopting SFAS No. 157 on its financial position, results of operations 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. 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,	
	2007	2006
Mineral interests	\$ 3,727	\$ 3,710
Accumulated amortization	(1,023)	(1,023)
Net mineral interests	<u>\$ 2,704</u>	<u>\$ 2,687</u>

Solitario classifies its interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to Emerging Issues Task Force No. 04-2 ("EITF No. 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 and recorded amortization of the intangible asset. Pursuant to EITF 04-2, we no longer amortize our interest in Mineral Properties, net.

### 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.

### (a) 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 100%-owned Bongará zinc project. On March 24, 2007, Solitario signed a definitive agreement, the Framework Agreement for the Exploration and Potential Development of Mining Properties, (the "Framework Agreement") pursuant to, and replacing, the previously signed Bongará Letter Agreement with Votorantim Metais ("Votorantim"). Solitario's and Votorantim's property interests will be held through the ownership of shares in a joint operating company that holds a 100% interest in the mineral rights and other project assets. Solitario currently owns 100% of the shares in this company (Minera Bongará S.A.).

Votorantim can earn up to a 70% shareholding interest in the joint operating company by funding an initial \$1.0 million exploration program (completed), by completing future annual exploration and development expenditures, by making a cash payment of \$100,000 on August 15, 2007 (completed) and further payments to Solitario of \$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 and committed to place the project into production based upon a feasibility study, it has further agreed to finance Solitario's 30% participating interest through production. Solitario will repay the loan facility through 50% of Solitario's cash flow distributions from the joint operating company.

### (b) Yanacocha royalty property

The Yanacocha royalty property consists of 69 concessions totaling approximately 61,000 hectares in northern Peru 25 kilometers north of the city of Cajamarca. In January 2005, Solitario signed an Amended and Restated Royalty Grant with Minera Los Tapados S.A., a subsidiary of Newmont Peru Limited, Minera Yanacocha S.R.L., and Minera Chaupiloma Dos de Cajamarca, S.R.L. (affiliates of Newmont Peru, Ltd., collectively "Newmont Peru") to modify the net smelter return ("NSR") royalty on the Yanacocha Royalty property located immediately north of the Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America. The amended royalty provides for a sliding scale royalty which pays a maximum of 5.75% joint government of Peru plus Solitario royalty when the gold price is greater than \$400 per ounce. Solitario may receive up to a 5% royalty, however that royalty to Solitario is reduced by any royalty paid to the government of Peru, which is currently between one and two percent. 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 Solitario's royalty property and provides Solitario access to Newmont Peru's future exploration results on an annual basis. The Yanacocha royalty amendment and work commitment Letter Agreements were subsequently replaced by a definitive agreement with the same terms. Newmont has not reported reserves on the Yanacocha property and Solitario has not received any royalty income from Newmont.

### (c) La Tola royalty property

In October 2003, Solitario acquired the La Tola project in southern Peru to explore for gold and possibly silver. Solitario retained one claim covering 1,000 hectares. In August 2007

Solitario signed a Letter of Intent with Canadian Shield Resources ("CSR") allowing CSR to earn a 100%-interest in the property, subject to a 2% net smelter return royalty ("NSR") to Solitario's benefit. To earn its interest, CSR is required to spend \$2.0 million in exploration by December 31, 2011. CSM has the right to purchase the 2% NSR for \$1.5 million anytime before commercial production is reached.

#### (d) Santiago

In February of 2007, Solitario acquired 5,600 hectares of 100%-owned mineral rights through concessions for its Santiago property in southern Peru. Solitario capitalized \$17,000 during the year ended December 31, 2007 in lease acquisition costs related to these concessions. The Santiago project consists of a single property block where previous surface sampling of rocks identified anomalous concentrations of gold in altered Tertiary volcanic rocks. Solitario is currently conducting additional surface sampling and geological mapping to determine if the project warrants drill testing.

#### (e) Chambara

In September of 2006, Solitario acquired 5,200 hectares of 100%-owned mineral rights through concessions for its Chambara property (formerly called the Amazonas property) in northern Peru. Solitario capitalized \$17,000 during the year ended December 31, 2007 in lease acquisition costs related to new concessions covering an additional 5,600 hectares at the Amazonas project. The Amazonas project consists of six widely spaced areas where previous sampling has identified high-grade zinc mineralization at surface similar to that found at Florida Canyon, discussed above under the Bongará zinc property above. We may seek a joint venture partner for the property during 2008.

#### (f) Newmont Strategic Alliance

On January 18, 2005, Solitario signed a Strategic Alliance Agreement (the "Alliance Agreement") with Newmont Overseas Exploration Limited ("Newmont Exploration"), to explore for gold in South America (the "Strategic Alliance"). Prior to the definitive agreement, Solitario 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 Solitario is 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 Solitario. As of December 31, 2007, Solitario has spent approximately \$1,616,000 of this commitment. If Solitario has not spent the \$3,773,000, by January 18, 2009, Newmont may elect to extend the four-year expenditure period for such additional time necessary to enable Solitario to spend the full \$3,773,000 on qualified exploration expenditures. Newmont may also elect to become the manager of the Alliance Agreement and direct and spend up to the \$3,773,000 qualified exploration expenditures using Solitario funds. If Solitario acquires properties within Alliance Project Areas and meets 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 in South America, 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, 2007 Solitario has identified three property positions that fall within the currently defined Strategic Alliance area. These include the Cajatambo, Excelsior and Twin Lakes properties. The Twin Lakes property was staked in 2007, while the Cajatambo and Excelsior properties were staked in early 2008.

Solitario capitalized \$3,000 during the year ended December 31, 2007 in lease acquisition costs related to the Twin Lakes property. The Twin Lakes property consists of one concession totaling 1,000 hectares. The geology of the property consists of Tertiary

volcanics cut by a system of parallel quartz veins. Veins are up to two meters wide and can be traced along strike up to 1.2 kilometers. The veins are polymetallic in character, within a low-sulfidation environment.

### Brazil

#### (a) 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"). At December 31, 2007, the Pedra Branca project consisted of 124 exploration concessions totaling approximately 178,514 hectares in Ceará State, Brazil. We have applied to the National Department of Mineral Production ("DNPM") to convert five exploration concessions to mining concessions. These applications are under review by the DNPM. Pedra Branca do Mineração S.A., an 85%-owned subsidiary of Solitario incorporated in Brazil, holds 100%-interest in all concessions. Eldorado Gold Corporation is entitled to a 2% NSR royalty on 10 of the concessions totaling 10,000 hectares.

On January 28, 2003, Solitario entered into a Letter Agreement with Anglo Platinum Ltd. ("Anglo Platinum") whereby Anglo Platinum could earn various incremental interests, in Pedra Branca do Mineração up to a 65% interest, by making annually increasing exploration expenditures totaling \$7.0 million, completing a bankable feasibility study, or spending an additional \$10 million on exploration and development, whichever occurred first, and arranging financing to put the project into commercial production. On July 14, 2006, Solitario signed the Pedra Branca Framework Agreement with Anglo Platinum to establish and govern Pedra Branca do Mineração S.A., ("PBM") the corporate entity that now holds 100% title to all the assets of the Pedra Branca project, and the mechanics for Anglo Platinum's continued funding of Pedra Branca exploration.

On April 24, 2007, Solitario signed the definitive agreement, the Shareholders Agreement, relating to the Pedra Branca Project in Brazil, (the "Shareholders Agreement") pursuant to the previously signed Pedra Branca Letter Agreement with Anglo Platinum for the exploration and development of the Pedra Branca Project. The Shareholders Agreement provides for Solitario and Anglo Platinum property interests to be held through the ownership of shares PBM that holds a 100% interest in the mineral rights and other project assets. As part of the agreement, Anglo Platinum earned a 15% interest in PBM as of September 30, 2007, as a result of spending a total of \$2.25 million on exploration at Pedra Branca. Additionally, the Shareholders Agreement provides that Anglo Platinum may incrementally earn up to a 51% interest in PBM by spending a total of \$7 million on exploration (\$4.75 million in addition to the \$2.25 million spent as of September 30, 2007) at Pedra Branca by June 30, 2010. However, Anglo Platinum is not required to fund any future exploration expenditures. Anglo Platinum can earn an additional 9% interest in PBM (for a total of 60%) by completing either (i) a bankable feasibility study or (ii) spending an additional \$10.0 million on exploration or development. Anglo Platinum can also earn an additional 5% interest in PBM (for a total of 65%) by arranging for 100% financing to put the project into commercial production.

As part of the Shareholders Agreement, Solitario entered into a Services Agreement with Anglo Platinum whereby Solitario (and/or our subsidiaries) would act as an independent contractor directing the exploration and administrative activities for PBM and its shareholders. Under the Services Agreement, Solitario receives a 5% management fee based upon total expenditures. During 2007 we received \$52,000 of management fees included as joint venture reimbursements discussed below under exploration expense.

During 2007, seventy-seven (77) new concessions were added totaling 133,149 hectares. Land payments for 2008 are projected to be approximately \$186,000 including annual claim maintenance payments and smaller surface rights payments to local landowners. This amount may change due to the reduction or addition of properties, or a change in the currency exchange rate.

#### (b) 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 20,000 Brazilian Reais (approximately \$7,000) was paid on signing of the agreement and the next payment of 36,000 Reais (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 totaled approximately \$55,000. To purchase the property, an escalating scale of payments totaling 780,000 Reais (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 Reais (approximately \$1,220,000). 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. Solitario may terminate the agreement at any time at our 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 during the third quarter of 2006 for which assay results have been received and are under review. A third round of drilling began in late 2007 and was completed by the end of February 2008 for which assays are pending.

#### **Bolivia 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, a payment of \$35,000, which was paid in June 2007 and a payment of \$45,000 due 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 three holes were drilled in the first half of 2007. Solitario is reviewing the results and may plan another round of drilling during 2008.

#### **Mexico Pachuca**

The Pachuca-Real property consists of approximately 47,300 hectares of mineral rights encompassing about 30% of the historic Pachuca-Real del Monte silver-gold mining district of central Mexico, but mainly areas situated to the north and northwest of the historic district, termed the North District. Solitario owns 100% of the property, except for the 13,600-hectare El Cura claim, that is subject to an Option to Purchase agreement with a private Mexican party. The option requires payments of \$500,000 over four years for a 100% interest in the claim. Solitario may terminate its option at anytime without any further costs.

On September 25, 2006 Solitario 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. The Venture Agreement calls for a firm work commitment by Newmont of \$2.0 million over the next 18 months. Work commitments over the first 4.5 years total \$12.0 million.

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

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 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%.

#### **Discontinued Projects**

##### **(a) Corazon / Conception del Oro**

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, which included the Corazon gold property (formerly called the Conception del Oro property), located in the Conception del Oro mining district near the city of Mazapil in the state of Zacatecas. The Corazon property consists of 35 concessions totaling approximately 1,420 hectares. As a result of ongoing geologic and exploration activities including mapping and sampling, Solitario made the decision to drop its interest in the Corazon property. Solitario recorded property abandonment and impairment expense of \$5,000 related to the write-off of the capitalized costs on this property during 2007.

##### **(b) La Purisima**

The La Purisima gold property is located near the city of Tepic in the state of Navarit in Mexico and consists of six concessions totaling 600 hectares. As a result of ongoing geologic and exploration activities during the first three months of 2007, Solitario made the decision to drop its interest in the La Purisima project. Solitario recorded property abandonment and impairment expense of \$5,000 related to the write-off of the capitalized costs on this property during 2007.

##### **(c) Titicayo**

On March 31, 2006, Solitario signed a lease agreement with a private Bolivian company to lease certain concessions covering approximately 1,300 hectares, which comprise the Titicayo silver project in Bolivia. In 2007, Solitario completed a five-hole 1,031-meter core drilling program to test silver bearing vein observed at surface at deeper levels. Although all five drill holes intersected anomalous silver concentrations, Solitario does not believe further exploration would enhance its results. Consequently, Solitario recorded property abandonment and impairment expense of \$10,000 related to the write-off of the capitalized costs on this property during 2007.

#### **Exploration Expense**

The following items comprised exploration expense:

(in thousands)	2007	2006	2005
Geologic, drilling and assay	\$ 1,569	\$ 1,370	\$ 923
Field expenses	1,369	995	727
Administrative	1,216	842	522
Joint venture reimbursement	(1,042)	(265)	(100)
Total exploration expense	\$ 3,112	\$ 2,942	\$ 2,072

On September 30, 2007, Anglo earned a 15% interest in PBM, discussed above under Pedra Branca. As a result of earning this minority interest, funding of PBM exploration expenses by Anglo are no longer recorded as joint venture reimbursements but are

recorded as equity contributions to Solitario's additional paid-in capital for Solitario's 85% of the funding by Anglo. Additionally, we record minority interest in the statement of operations for Anglo's share of PBM income or loss. During 2007, subsequent to September 30, 2007, we received a cash payment for funding of PBM exploration expenses from Anglo of \$90,000 and we recorded a credit of \$17,000 in the statement of operations for Anglo's share of PBM's loss from September 30, 2007 until December 31, 2007.

### 3. Related Party Transactions:

#### **Crown Resources Corporation**

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. Solitario's management believed these allocations were reasonable and the allocations were periodically reviewed by its management and approved by independent Board members of both Crown and Solitario. Management service fees were billed monthly, due on receipt and were generally paid within thirty days. Solitario did not incur any management service fees during 2007. The management service fees were \$232,000, and \$423,000 for the years ended December 31, 2006 and 2005, respectively.

#### **Kinross Merger Agreement**

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 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, 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.

#### **Mark Jones Consulting Agreement**

On September 1, 2006, Solitario 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 the 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. Solitario has charged \$80,000 for consulting expense, related to the agreement, included in general and administrative expense for the year ended December 31, 2007 compared to \$27,000 for the year ended December 31, 2006. Solitario will amortize the remaining balance of prepaid consulting fees of \$53,000, included in current assets as of December 31, 2007, during 2008.

#### **TNR Gold Corp.**

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. Solitario received this warrant in July 2004 when it 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. The TNR shares are classified as marketable equity securities held for sale. As of December 31, 2007, 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, and \$20,000, for the decrease in the value of its warrants during the years ended December 31, 2006 and 2005, respectively. Christopher E. Herald, our CEO, is a member of the Board of Directors of TNR.

#### **Crown Spin-off**

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 the remaining 3,077 shares of our stock became the property of Kinross which is not a related party to Solitario.

### 4. Income Taxes:

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

(in thousands)	2007	2006	2005
Deferred:			
United States	\$(1,288)	\$ (492)	\$ 31
Foreign	86	-	-
Operating loss and credit carryovers:			
United States	1,591	546	226
Foreign	(86)	-	-
Income tax expense	<u>\$ 303</u>	<u>\$ 54</u>	<u>\$ 257</u>

Consolidated income (loss) before income taxes includes losses from foreign operations of \$3,872,000, \$3,286,000, and \$2,476,000, in 2007, 2006 and 2005, respectively. During 2007, 2006 and 2005, Solitario recognized income tax deductions of \$2,874,000, \$1,579,000, and \$28,000, respectively, from the exercise of nonqualified stock options. Stockholders' equity has been credited in the amount of \$1,072,000, \$616,000, and \$11,000, respectively, for the income tax benefit of these deductions during 2007, 2006 and 2005.

During 2007, 2006 and 2005, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of \$9,669,000, \$9,205,000, and \$1,804,000, respectively. Other comprehensive income has been charged \$3,317,000, \$3,590,000, and \$704,000, respectively, for the income tax expense associated with these gains. During 2007 and 2006, Solitario transferred unrealized gain of \$4,085,000 and \$2,121,000, respectively from other comprehensive income upon the sale of 400,000 and 200,000 shares, respectively, of Kinross common stock, less income tax of \$1,524,000 and 827,000, respectively, associated with these unrealized gains.

The net deferred tax assets/liabilities in the December 31, 2007 and 2006 consolidated balance sheets include the following components:

(in thousands)	2007	2006
Deferred tax assets:		
Net operating loss (NOL) carryovers	\$ 7,032	\$ 6,543
Stock option compensation expense	556	373
Royalty	1,492	1,560
Derivative instruments	635	-
Other	24	50
Valuation allowance	(6,436)	(5,320)
Total deferred tax assets	<u>3,303</u>	<u>3,206</u>
Deferred tax liabilities:		
Unrealized gain on derivative securities	835	1,467
Exploration costs	845	870
Unrealized gains on marketable equity securities	8,425	6,632
Other	6	20
Total deferred tax liabilities	<u>10,111</u>	<u>8,989</u>
Net deferred tax liabilities	<u>\$ 6,808</u>	<u>\$ 5,783</u>

At December 31, 2007 and 2006, Solitario has classified \$1,515,000 and \$1,652,000, 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:

(in thousands)	2007	2006	2005
Expected income tax expense (benefit)	\$ (1,227)	\$ (1,064)	\$ (620)
Non-deductible foreign expenses	(12)	122	202
Foreign tax rate differences	53	38	25
State income tax	23	7	33
Change in enacted tax rates	191	-	-
Change in valuation allowance	1,116	957	609
Permanent differences and other	159	(6)	8
Income tax expense (benefit)	<u>\$ 303</u>	<u>\$ 54</u>	<u>\$ 257</u>

During 2007, 2006 and 2005, the valuation allowance was increased by \$1,116,000, \$957,000, and \$609,000, 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, 2007, Solitario has unused US Net Operating Loss ("NOL") carryovers of \$3,331,000 which begin to expire commencing in 2012. Solitario also has foreign NOL carryovers at December 31, 2007 of \$17,708,000 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 fifty percent change in ownership as defined in Section 382 of the Internal Revenue Code. Pursuant to Section 382, the resulting annual limitation on the amount of future taxable income in the United States available to be offset by Solitario's carryovers is approximately \$614,000 per year.

On January 1, 2007, Solitario adopted the provisions of FIN 48, which 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. FIN 48 requires that Solitario recognize in our consolidated financial statements, only those tax positions that are "more-likely-than-not" of being sustained as of the adoption date, based on the technical merits of the position. As a result of the implementation of FIN 48, Solitario performed a comprehensive review of our material tax positions in accordance with recognition and measurement standards established by FIN 48. The provisions of FIN 48 had no effect on Solitario's financial position, cash flows or results of operations at either January 1, 2007 or December 31, 2007 as Solitario had no unrecognized tax benefits.

Solitario and its subsidiaries are subject to the following material taxing jurisdictions: United States Federal, State of Colorado, Mexico, Peru and Brazil. The tax years that remain open to examination by the United States Internal Revenue Service are years 2004 through 2007. The tax years that remain open to examination by the State of Colorado are years 2003 through 2007. The tax years that remain open to examination by Mexico are years 2005 through 2007. All tax years remain open to examination in Peru and Brazil. Solitario's policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. Solitario has no accrued interest or penalties related to uncertain tax positions as of January 1, 2007 or December 31, 2007.

#### 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 shares was \$24,710,000 and \$20,706,000 at December 31, 2007 and 2006, respectively. The fair value of the TNR shares was \$316,000 and \$198,000 at December 31, 2007 and 2006, respectively.

The fair value of the Kinross Collar at December 31, 2007 was \$1,702,000, recorded as a liability and a loss on derivative instrument of the same amount in the statement of operations based upon a determination of Solitario using a Black-Scholes option pricing model and an evaluation of what a willing buyer and willing seller would exchange the Kinross Collar for in an arm's-length transaction. Solitario used independent inputs to its Black-Scholes option pricing model for the market price of a share of Kinross common stock, the historical volatility of Kinross common stock, the risk-free interest rate and the life of the collar for each of the Floor Price and Cap Price in the Kinross Collar discussed above in Note 1.

#### 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 2008 mineral property rental and option payments to be approximately \$340,000. If Solitario's current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2008, Solitario would be reimbursed for approximately \$190,000 of those costs.

Solitario is required to spend \$3,773,000 on Alliance Properties as discussed above under "Newmont Alliance" over the four years ended January 18, 2009 on gold exploration in regions that are mutually agreed upon by Newmont Exploration and Solitario. As of December 31, 2007, we have expended \$1,616,000 of the total commitment of \$3,773,000. If Solitario has not spent the \$3,773,000, by January 18, 2009, Newmont may elect to extend the four-year expenditure period for such additional time necessary to enable Solitario to spend the full \$3,773,000 on qualified exploration expenditures. Newmont may also elect to become the manager of the Alliance Agreement and direct and spend up to the \$3,773,000 qualified exploration expenditures using Solitario funds.



Solitario has entered into certain month-to-month office leases for its field offices in Peru, Mexico and Brazil. The total rent expense for these offices during 2007, 2006 and 2005 was approximately \$42,000, \$28,000, and \$36,000,

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 \$38,000 in 2008.

## 7. Stock Option Plans:

The activity in the 1994 Plan and the 2006 Plan for the three years ended December 31, 2007 is as follows:

	2007		2006		2005	
	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)
<b>1994 Plan</b>						
Outstanding, beginning of year	1,027,000	\$ 0.74	2,240,000	\$ 0.82	2,272,500	\$ 0.82
Exercised	(917,000)	\$ 0.73	(1,213,000)	\$ 0.90	(32,500)	\$ 0.75
Outstanding, end of year	<u>110,000</u>	\$ 0.81	<u>1,027,000</u>	\$ 0.74	<u>2,240,000</u>	\$ 0.82
Exercisable, end of year	<u>110,000</u>	\$ 0.81	<u>1,027,000</u>	\$ 0.74	<u>2,219,375</u>	\$ 0.83
<b>2006 Plan</b>						
Outstanding, beginning of year	1,637,500	\$ 2.77	-	-	-	-
Granted	612,000	\$ 4.62	1,655,000	\$ 2.77	-	-
Forfeited	(52,500)	\$ 2.77	-	-	-	-
Exercised	(12,500)	\$ 2.77	(17,500)	\$ 2.77	-	-
Outstanding, end of year	<u>2,184,500</u>	\$ 3.29	<u>1,637,500</u>	\$ 2.77	<u>-</u>	<u>-</u>
Exercisable, end of year	<u>933,000</u>	\$ 3.07	<u>396,250</u>	\$ 2.77	<u>-</u>	<u>-</u>

The following table summarizes Solitario's stock options as of December 31, 2007:

Exercise Price	Number	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price (Cdn\$)	Number Exercisable	Weighted Average Exercise Price (Cdn\$)
<b>1994 Plan</b>					
Cdn\$0.81	<u>110,000</u>	.6	\$ 0.81	<u>110,000</u>	\$ 0.81
<b>2006 Plan</b>					
Cdn\$2.77	1,572,500	2.5	\$ 2.77	780,000	\$ 2.77
Cdn\$4.38	10,000	3.9	\$ 4.38	2,500	\$ 4.38
Cdn\$5.12	100,000	4.5	\$ 5.12	25,000	\$ 5.12
Cdn\$4.53	<u>502,000</u>	4.7	\$ 4.53	<u>125,500</u>	\$ 4.53
	<u>2,184,500</u>	3.8	\$ 3.29	<u>933,000</u>	\$ 3.07

## 8. Stockholders' Equity:

During 2007 options for 929,500 shares of Solitario common stock were exercised for proceeds of \$607,000 and during 2006 options

for 1,230,500 shares of Solitario common stock were exercised for proceeds of \$994,000.

**9. Selected Quarterly Financial Data (Unaudited):**

(in thousands)	2007			
	March 31, (1) (2)	June 30, (2)	Sept. 30, (1) (2) (3)	Dec. 31, (1) (2) (4)
Revenue	\$ -	\$ -	\$ 100	\$ -
Net income (loss)	\$ 373	\$ (1,099)	\$ (909)	\$ (2,276)
Earnings (loss) per share:				
Basic and diluted	\$ 0.01	\$ (0.04)	\$ (0.03)	\$ (0.07)
Weighted shares outstanding:				
Basic	29,028	29,607	29,607	29,617
Diluted	30,228	29,607	29,607	29,617

(in thousands)	2006			
	March 31,	June 30,	Sept. 30, (5)	Dec. 31, (5) (6)
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

(1) Solitario sold 200,000 shares of Kinross common stock in the first quarter for proceeds of \$2,645,000 and a gain of \$2,068,000, sold 100,000 shares of Kinross common stock in the third quarter for proceeds of \$1,332,000 and a gain of \$889,000, and sold 100,000 shares of Kinross common stock in the fourth quarter for proceeds of \$1,571,000 and a gain of \$1,128,000.

(2) Exploration expense increased from \$393,000 in the first quarter to \$659,000 in the second quarter to \$846,000 in the third quarter to \$1,214,000 in the fourth quarter, contributing to the increasing loss by quarter after consideration of the Kinross stock sales in the first, third and fourth quarters discussed above.

(3) In the third quarter Solitario received a payment of \$100,000 in joint venture revenue on its Bongará project in Peru.

(4) In the fourth quarter, we recognized \$1,702,000 derivative loss on the Kinross Collar, which contributed to the increased loss in the quarter.

(5) 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.

(6) 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.

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.

# Solitario Resources Corporation

## CORPORATE

### Corporate Offices

4251 Kipling Street, Suite 390  
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Fogler, Rubinoff LLP  
Toronto, Ontario

### Auditors

Ernhardt Keefe Steiner and Hottman, PC  
Denver, Colorado

### Transfer Agent

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

### Investor Relations

Questions and requests for information should be directed to Debbie Mino Austin,  
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 Thursday,  
June 12, 2008 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.

## OFFICERS | DIRECTORS

### Christopher E. Herald

President, CEO & Director

### James R. Maronick

Chief Financial Officer

### Walter H. Hunt

President – SA Operations

### Steven A. Webster

Chairman of the Board

### Mark E. Jones, III

Vice Chairman of the Board

### John Hainey

Director

### Leonard Harris

Director

### Brian Labadie

Director



## SOLITARIO RESOURCES CORPORATION

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### SILVER/GOLD

**Pachuca Real, Mexico  
Drilling | Early-Stage Exploration**

### ZINC

**Bongará, Peru  
Drilling | Advanced Exploration**

**Chambara, Peru  
Property Acq. | Early-Stage Exploration**

### NSR ROYALTIES

**Yanacocha, Peru  
Drilling | Early-Stage Exploration**

### GOLD

**Mercurio, Brazil  
Drilling | Exploration**

### PLATINUM/PALLADIUM

**Pedra Branca, Brazil  
Drilling | Advanced Exploration**

### PERU ALLIANCE

**Newmont Mining  
Property Acq. | Early-Stage Exploration**