



**Solitario Exploration & Royalty (NYSE Amex: XPL; TSX: SLR) engages in the acquisition and exploration of mineral properties located in Peru, Brazil and Mexico. The Company's focus is on gold and silver, and has advanced projects with platinum, palladium, zinc and lead.**





**For a company the size of Solitario, we have an amazingly diversified commodity mix with important projects containing gold, silver, platinum, palladium, zinc, lead and indium. In addition to the diversity of our commodity portfolio, our projects range from early-stage exploration properties to advanced exploration projects on the cusp of development. In this year's annual report, we present our advanced projects first, Bongará and Pedra Branca, and then our exploration projects are presented by commodity type: gold-silver, base metal-polymetallic and royalty properties.**



### Advanced Projects

#### **Bongará: Zinc-Lead-Silver, Peru** | page 6

- 2010 activities: 23 km of road construction, 700 meters of underground workings, metallurgy and 10,000 meters of drilling
- 30%-carried interest, 100%-financed by Votorantim Metais
- Exceptional drilling results from 2006 to 2009

#### **Pedra Branca: Platinum-Palladium, Brazil** | page 8

- Advanced open-pitiable platinum-palladium project
- 35%-carried interest, nearly 100%-financed by Anglo Platinum
- Solid 2004-2009 drilling results

### Gold-Silver Exploration Projects

#### **Pachuca Real: Silver-Gold, Mexico** | page 10

- 38 high-quality, silver-gold targets that are ready to drill
- Close to signing an agreement with a new joint venture partner

#### **Cajatambo: Gold-Silver, Peru** | page 10

- 100%-owned, subject to the Newmont Peru Alliance agreement
- Huge gold and silver anomaly (3.5 km by 1.5 km) in rocks/soils
- Initial drilling scheduled for 2010

### Base Metal & Polymetallic Exploration Projects

#### **La Promesa: Silver-Zinc-Lead-Indium, Peru** | page 12

- 100%-owned, subject to the Newmont Peru Alliance agreement
- Exceptional high-grade surface channel samples
- Initial drilling scheduled for 2010

#### **Chambara: Zinc-Lead-Silver, Peru** | page 12

- Regional zinc project in Peru
- 30%-carried interest, 100%-financed by Votorantim Metais
- Additional work planned on several high-grade zinc prospects in 2010

#### **La Noria: Copper-Oxide, Mexico** | page 12

- 100%-owned
- Copper oxide target averaging 0.32% copper oxide at surface
- Initial drilling recently completed

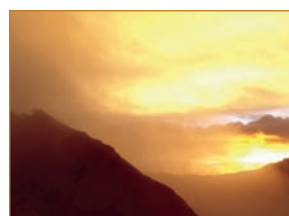
### Royalty Properties

#### **Yanacocha: Gold-Silver-Copper, Peru** | page 13

- 200 square mile property adjacent to largest gold district in South America

#### **Mercurio: Gold, Brazil** | page 13

- New royalty agreement signed in 2010



## Substantial Progress on All Fronts | Letter to Shareholders



In 2009, we saw substantial progress on both our advanced joint ventured properties and our 100%-owned exploration projects. Based upon 2009 work, Votorantim Metais, our joint venture partner on our Bongará high-

grade zinc project, will conduct new groundbreaking activities consisting of access road construction, underground development and metallurgy, as well as an expanded 2010 drilling program. Equally important, we were able to significantly upgrade our pipeline of new exploration targets on 100%-owned properties. Finally, we were successful in signing a new Net Smelter Return Royalty on our Mercurio gold property in Brazil and are close to signing a joint venture agreement on our high-potential Pachuca Real silver-gold project in Mexico.

Even though 2009 remained in the wake of the financial crisis that started in 2008, Solitario maintained its strong financial underpinning. We began 2009 with approximately \$20 million in cash and securities, and ended the year with essentially the same capital position, while, once again, not issuing any new equity. Contributing to the maintenance of our balance sheet for the year was the receipt of approximately \$2.4 million in revenue from property payments and the break-up fee from our attempted Metallic Ventures acquisition.

### **Our Business Model Continues to Deliver Value**

We are building a different kind of exploration and royalty company – one that lowers financial risks, while substantially preserving returns. Our joint ventures are structured similarly to Net Profit Interest Royalties, or NPI royalties, in which we are essentially financed through production to cash flow. This strategy provides a greatly expanded funding platform for our activities versus Solitario independently funding all of its projects to production.

Solitario has important agreements with Newmont Mining (second largest gold producer in the world), Votorantim Metais (third largest zinc producer in the world) and Anglo Platinum (largest platinum producer in the world).

In addition, we hope to add a quality new partner for our Pachuca Real project before mid-year. For 2010, we estimate approximately \$10 million will be spent on Solitario projects by our various joint venture partners.

Most royalty companies are based upon acquiring Net Smelter Return (“NSR”) royalties. NSR royalties generate revenues by being paid a small percentage (typically 1-5%) of the gross value of the products. Favorable attributes of an NSR royalty are no capital or operational cost deductions and no environmental or closure costs. Negative aspects include high acquisition costs and consequently a low return on investment.

Net Profit Interest (“NPI”) royalties generate revenues by participating in a significant percentage (typically 20-40%) of the net profits. Favorable attributes include insulation from equity dilution for feasibility-construction costs and significantly higher revenues and earnings than a NSR royalty for the same producing asset. Negative aspects include exposure to operational costs and the obligation to pay back construction costs from profits.

NPI royalties are not common in other royalty companies – here’s why. To create an NPI royalty, the underlying potential of a property must be revealed. Identifying new properties with exceptional potential and advancing such projects to the point that others can see their economic value is our strong suit. That is why we have multiple NPI royalty structured joint venture arrangements, and others do not. We believe greater value can be delivered to shareholders following our model than the traditional NSR royalty route. In addition, we have the opportunity to discover a really major deposit along the way – which is a game-changer for our shareholders.

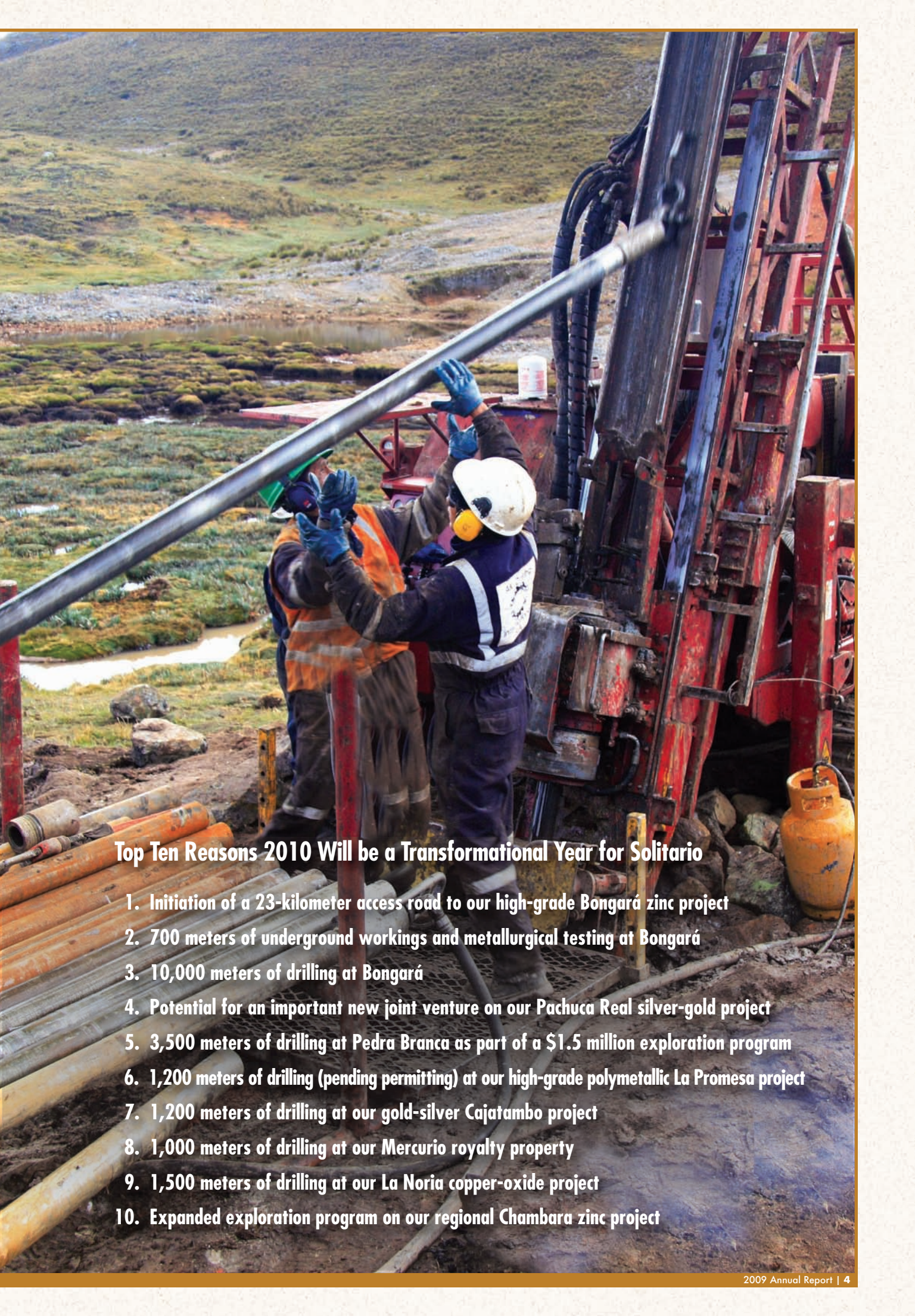
2010 is indeed shaping up to be a transformational year for Solitario with the recent announcement of development-related activities at Bongará, significant new drilling on our Pedra Branca platinum-palladium project, our strongest ever line up of exploration activities in Mexico and Peru, and the potential signing of an important new joint venture on our Pachuca Real silver-gold project.

Sincerely,

A handwritten signature in black ink that reads "Christopher E. Herald". The signature is written in a cursive, flowing style.

Christopher E. Herald  
President & Chief Executive Officer





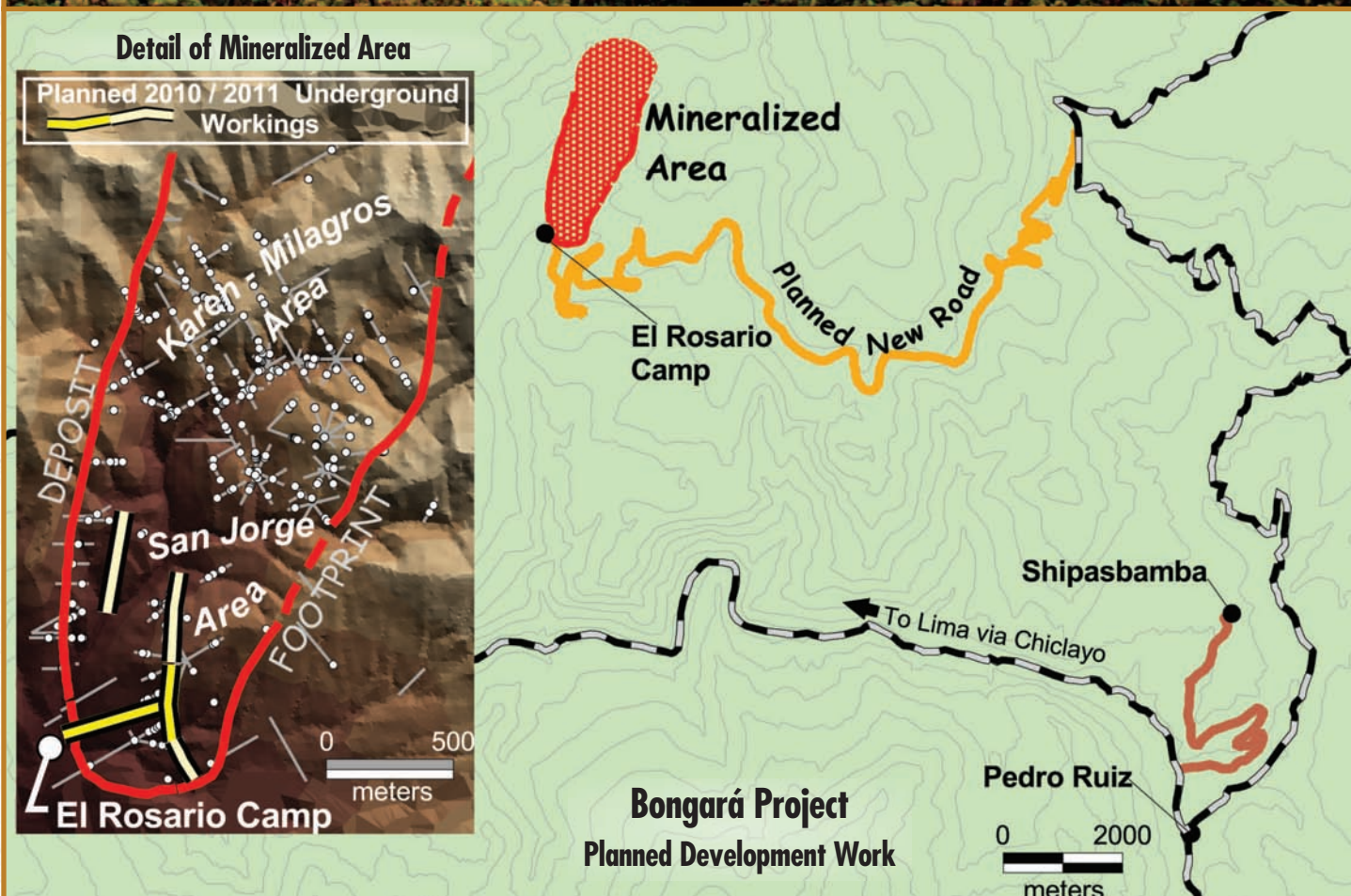
## **Top Ten Reasons 2010 Will be a Transformational Year for Solitario**

- 1. Initiation of a 23-kilometer access road to our high-grade Bongará zinc project**
- 2. 700 meters of underground workings and metallurgical testing at Bongará**
- 3. 10,000 meters of drilling at Bongará**
- 4. Potential for an important new joint venture on our Pachuca Real silver-gold project**
- 5. 3,500 meters of drilling at Pedra Branca as part of a \$1.5 million exploration program**
- 6. 1,200 meters of drilling (pending permitting) at our high-grade polymetallic La Promesa project**
- 7. 1,200 meters of drilling at our gold-silver Cajatambo project**
- 8. 1,000 meters of drilling at our Mercurio royalty property**
- 9. 1,500 meters of drilling at our La Noria copper-oxide project**
- 10. Expanded exploration program on our regional Chambara zinc project**



## The Bongará Agreement with Votorantim Metais

Votorantim Metais has completed approximately \$16.0 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 on a feasibility study and spending a minimum of \$18.0 million on exploration and development. Upon Votorantim committing 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.





### A Transformational Year from Exploration to Development

With four years of outstanding drilling results at the Bongará project in Peru, Solitario's partner and project manager, Votorantim Metais ("Votorantim"), made a major decision to significantly expand exploration and development activities for 2010. Highlights include road construction to the project area, initiation of underground access to the San Jorge mineralized zone, metallurgical testing and an aggressive continuation of surface drilling to further define mineralization. The proposed work plan is a major milestone in the advancement of the project. These activities are critical to the potential development of the project and will form a significant component of the detailed feasibility study currently scheduled to begin in 2011.

The planned road construction encompasses approximately 23 kilometers of new road alignment to the deposit. To date, access to the deposit has occurred via helicopter and foot trails. The initiation of underground access to mineralization is also scheduled for this field season, with approximately 700 meters of planned underground workings. Initially, the underground work will be supported by helicopter transportation of personnel and materials until road access is completed. Construction of additional infrastructure near the underground portal site is planned for personnel and underground operations.

Advanced metallurgical testing will also be conducted on mineralized rock to further evaluate metallurgical recovery and ore characterization. Completion of this work is anticipated in the first half of 2010. Finally, Votorantim has scheduled a 10,000-meter, helicopter-assisted core drilling program to further define and extend mineralization.

Timing of many of the aforementioned activities is substantially contingent upon obtaining permits required by the Peruvian government. In order to fast-track the project, Votorantim is updating its social impact study in parallel with archeological clearance activities, as well as other permit requirements. Approvals are expected sometime in the second quarter of 2010, coinciding with the cessation of the rainy season.

Drilling conducted in 2009 once again did not disappoint – producing some of the best drilling results we have ever generated on the project. These results continue to vali-

date our belief that the Bongará zinc project could ultimately be developed into one of the world's most important new zinc mines, with significant silver and lead credits. Thirteen core holes totaling 3,611 meters were completed, eleven in the San Jorge Zone and two in the Karen-Milagros zone. The program was managed and entirely funded by Votorantim Metais. All 13 holes intersected significant mineralization. The 10 best intercepts were:

Drill Hole Number	Intercept* (meters)	Zinc %	Lead %	Zinc+Lead %
V-168	2.0	27.5	1.8	29.3
V-169	51.6	7.1	0.7	7.8
V-171	6.3	20.0	2.0	22.0
V-172	9.0	20.5	1.5	22.0
V-173	4.0	14.1	0.3	14.4
V-173	13.7	9.8	4.9	14.7
V-177	2.7	11.0	1.8	12.7
V-178	5.1	8.6	1.3	9.9
V-178	5.2	10.2	1.1	11.4
V-178	3.0	30.0	7.3	37.4

\* True thickness has not been estimated for each individual intercept, but in most cases is thought to represent at least 85% of true thickness.

All mineralization discovered to date on our Bongará project is referred to as the Florida Canyon zinc deposit. High-grade zinc mineralization has now been intersected over a four-square kilometer area. The deposit remains open to expansion in all directions. 2009 drilling results continued to demonstrate excellent zinc grades and thicknesses with good internal continuity of mineralization. Within the south-central part of Florida Canyon deposit (San Jorge zone), mineralization has been extended a further 400 meters north towards the Karen-Milagros zone, indicating that the two may be interconnected.

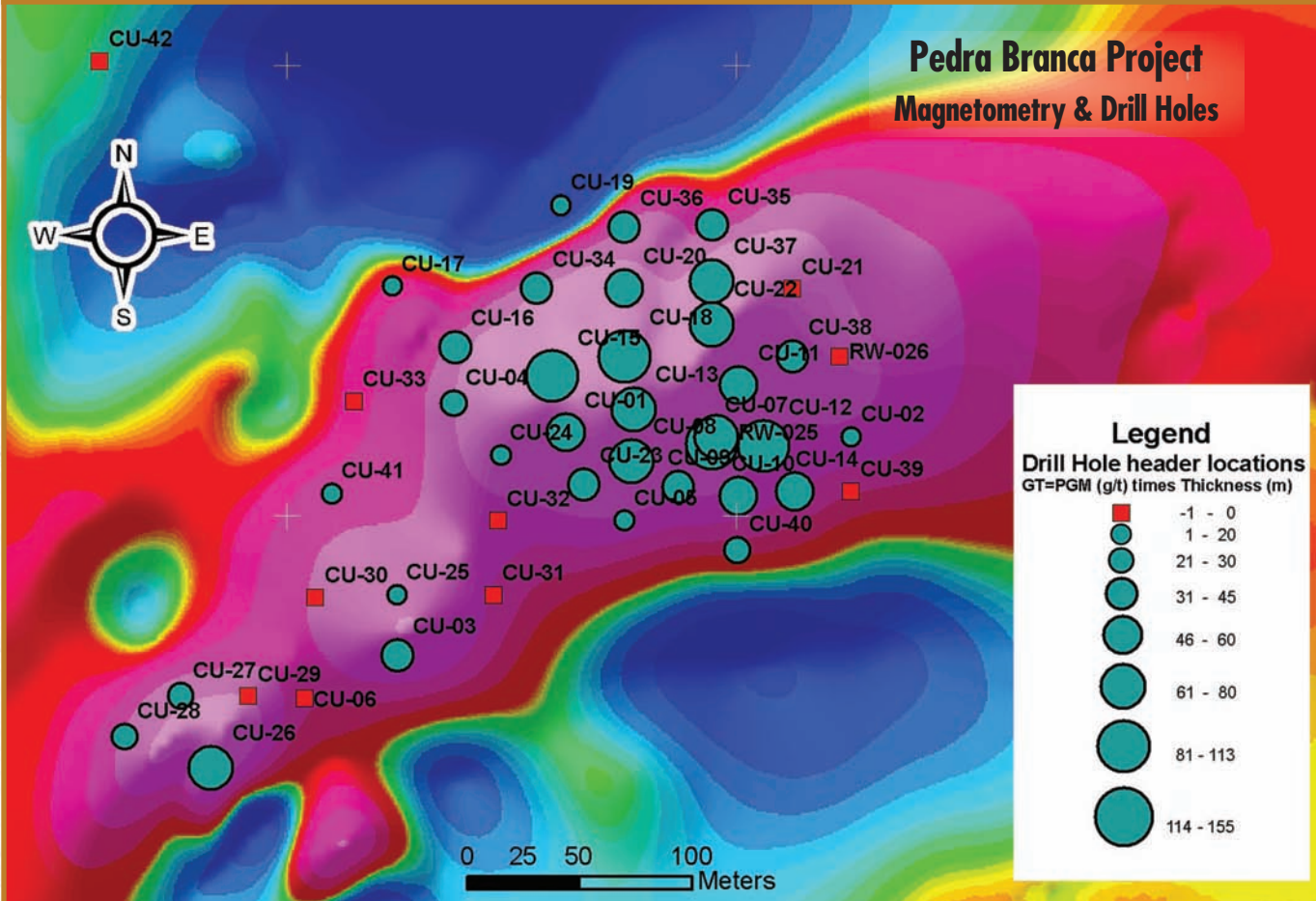
### About Votorantim Metais

Votorantim Metais belongs to a privately held Brazilian industrial 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 2008, Votorantim Group's revenues amounted to US\$19.1 billion. The metal business division accounted for approximately 30% of revenues and produces zinc, nickel, steel and aluminum. Votorantim Metais is the world's third largest primary zinc producer with three operating zinc smelters, two operating zinc mines and other zinc processing facilities in the USA and China. It owns the recently expanded Cajamarquilla zinc smelter and is a major shareholder of Peruvian zinc producer – Milpo, both located in Peru.





## Pedra Branca Project Magnetometry & Drill Holes





### Progress in Defining Platinum-Palladium Resources

In March 2010, Anglo Platinum informed us that they would fund our proposed \$1.5 million exploration program for 2010 at our Pedra Branca platinum-palladium project in northern Brazil.

In 2009, forty-eight core holes totaling 3,675 meters were completed on seven different prospects. This \$1.5 million exploration program was managed by Solitario, but entirely funded by our joint venture partner, Anglo Platinum Ltd.

The Pedra Branca project hosts eight separate deposits of near-surface platinum-palladium mineralization. The Curiu deposit has continued to deliver higher grade mineralization and 2009 drilling expanded this zone of mineralization. We believe that there is potential for further expansion at Curiu, as is the case at the recently drilled Trapia I, Trapia II and Cedro prospects. The 10 best intercepts for 2009 drilling are provided below.

Our 2010 exploration program includes about 3,500 meters of drilling, potentially an airborne geophysical orientation survey, and scoping level studies that may include a new resource estimation. Drilling plans include further definition of mineralization at several of the Cedro deposits and drill testing of two exciting new targets that were identified in 2009 – Galante East and Curiu North. Both of these targets have significant magnetic signatures, that, if well mineralized, could add significantly to the value of this project. Drilling is anticipated to begin before the end of the second quarter.

### The Pedra Branca Agreement with Anglo Platinum

The property is owned through our jointly held Brazilian subsidiary, Pedra Branca Mineração (“PBM”). Anglo Platinum, the largest platinum producer in the world, has funded approximately \$5.5 million for exploration since signing the initial Letter Agreement in January 2003 and has earned a 30% interest in PBM.

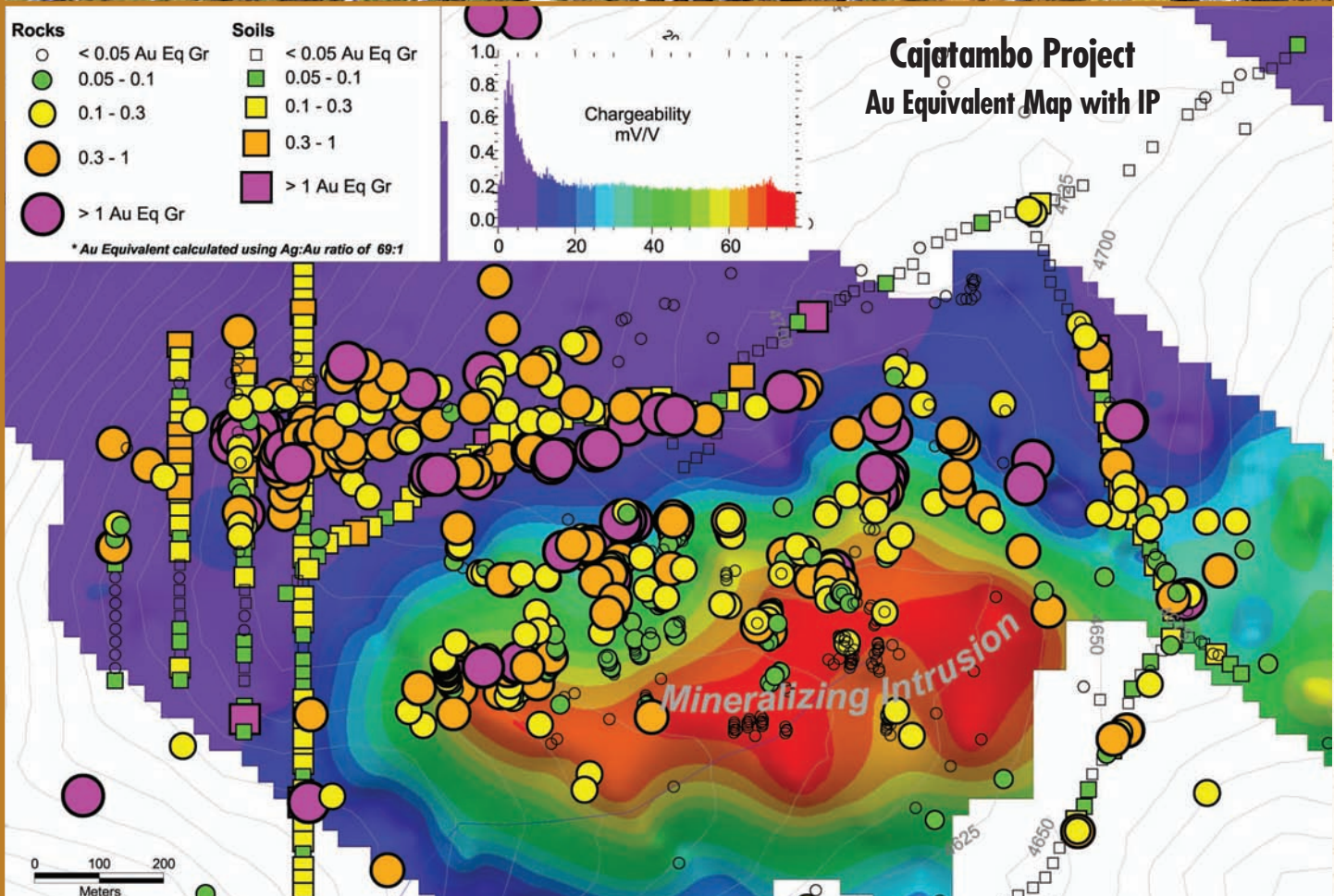
Upon completion of the \$1.5 million program in 2010 (total of \$7 million), Anglo Platinum will have earned a 51% interest in PBM. Anglo Platinum can earn an additional 9% interest (for a total of 60%) by funding a further \$10.0 million on exploration or development.

After Anglo Platinum has spent \$17 million, we would fund our 40% share of feasibility expenses. Anglo Platinum has the option to earn an additional 5% interest (for a total of 65%) by arranging for 100% financing to put the project into commercial production.

Prospect Name	Drill Hole Number	Intercept* (meters)	Platinum grams/t	Palladium grams/t	Gold grams/t	PGE + Gold grams/t
<b>Curiu</b>	CU-28	5.6	1.65	2.58	0.02	4.25
	CU-34	11.0	0.75	1.80	0.09	2.64
	CU-35	11.3	1.76	2.06	0.09	3.90
	CU-36	8.0	0.42	1.46	0.17	2.05
	CU-37	11.1	1.82	2.04	0.09	3.95
	and	10.2	0.60	1.59	0.22	2.41
	CU-38	6.6	1.78	3.41	0.10	5.30
	CU-40	10.4	0.73	1.32	0.07	2.12
<b>Cedro I</b>	CD-66	11.5	0.27	1.46	0.02	1.75
	CD-67	12.5	0.65	1.30	0.07	2.02

\* True thicknesses have not been determined for these intervals.







### Pachuca Real – Ready to Drill with the Right Partner

The Pachuca-Real del Monte silver-gold district is one of the most prolific precious metals mining camps ever discovered in the world. With over 1.4 billion ounces of historic silver production, and 7.0 million ounces of gold, we believe outstanding potential exists to make significant new discoveries, particularly in the “North District,” where most of our exploration to date has focused.

Work conducted by Solitario and its previous joint venture partner, Newmont Mining, identified at least 38 high-quality drill targets within our vast 31,000-hectare claim block. The targets at Pachuca Real consist of high-grade, silver-gold veins that are distributed over a geographic area measuring 20 kilometers long and ten kilometers wide. Veins in the historic district were very continuous over long distances along strike and down dip.

One interesting development during 2009 was our research of previously unavailable old records of the district documenting early exploration on land that now belongs to Solitario. This investigation uncovered a number of drill hole intercepts generated during exploration in the 1930’s that appear to have never been followed up. Some of the more interesting intercepts include:

	Meters	Silver grams/t	Gold grams/t
Intercept 1	2.44	1374	10
Intercept 2	1.53	1420	8
Intercept 3	0.20	490	2

Armed with our vast new data base generated by Newmont and our newly discovered “old” data, we are very close to signing an agreement with a new joint venture partner. Although closing the aforementioned agreement is not a certainty, we are hopeful that such an agreement will be signed sometime in the second quarter of 2010.

### Cajatambo – Exceptionally Large Zone of Gold-Silver Mineralization

Two years ago we drilled a small portion of our large 9,000-hectare Cajatambo property in central Peru. Results were disappointing and we came close to dropping the project, but decided to follow up a couple of isolated gold anomalies that were located about nine kilometers north of the previously drilled tested area. That decision subsequently proved to have been very wise with the discovery of a large new area of gold-silver mineralization that we now call the Cochass zone.

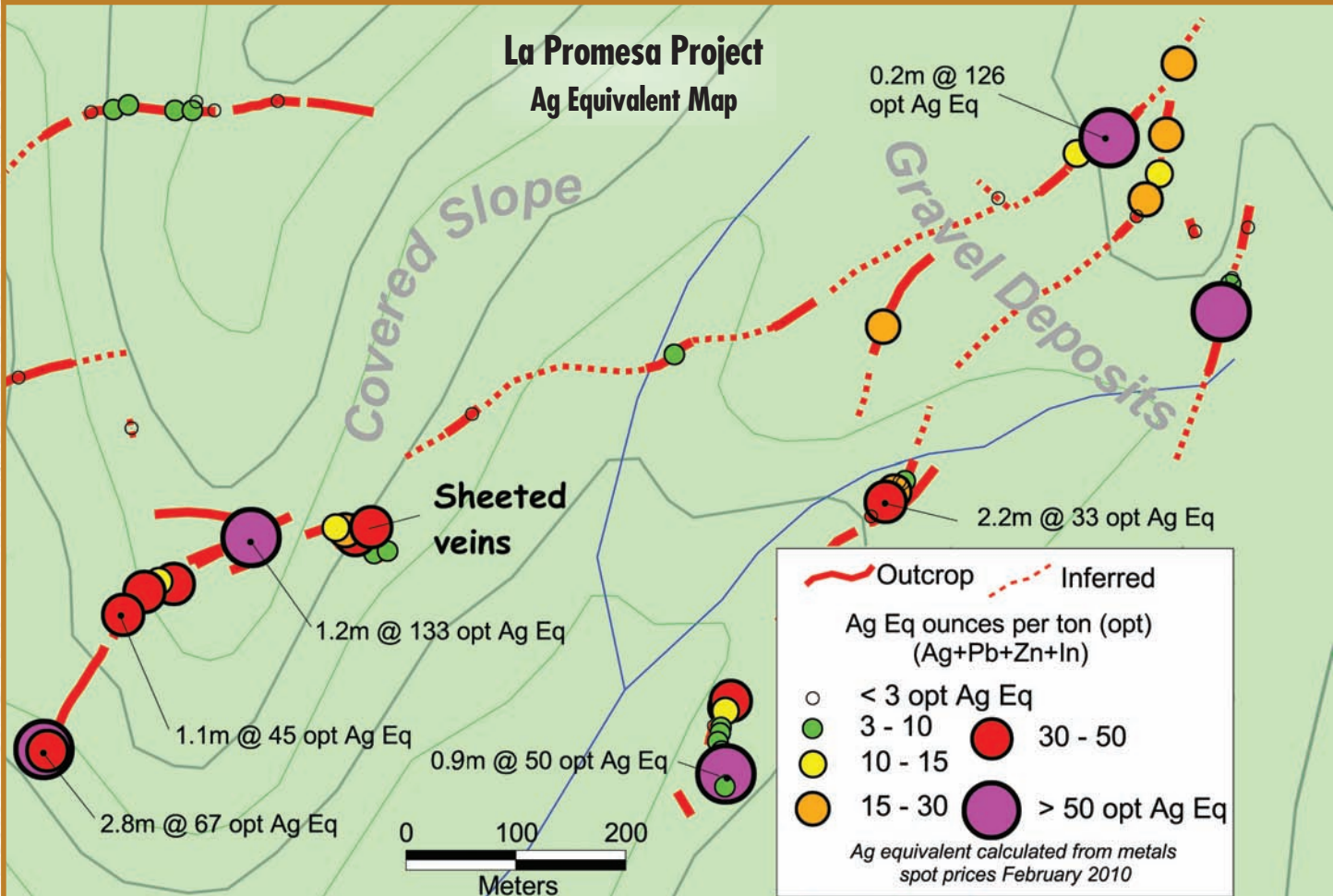
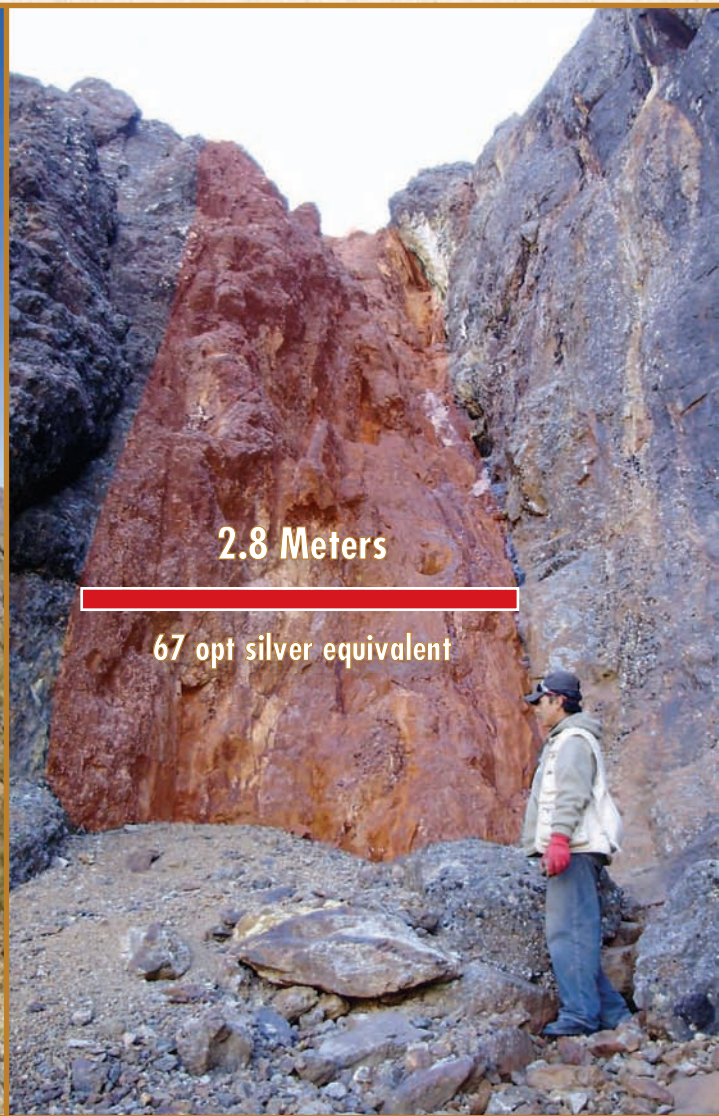
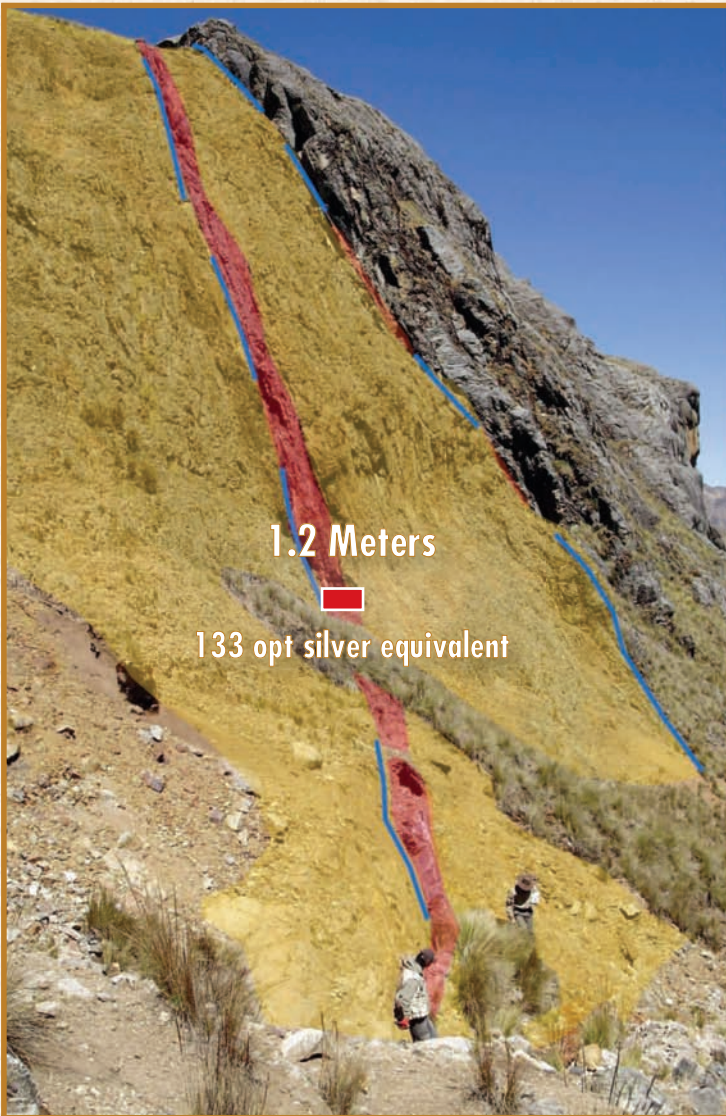
A substantial amount of work was completed on the Cochass zone in 2009. This included collecting nearly 2,000 rock and soil samples and completing approximately 10 kilometers of Induced Polarization (“IP”) geophysical survey. Based upon the geochemical sampling program, an area measuring 3.5 kilometers long and 1.5 kilometers of very anomalous gold and silver has been defined. The IP geophysical survey indicates that gold-silver mineralization occurs along the margin of a strong IP-chargeability anomaly. This anomaly reflects high concentrations of metal-sulfide minerals in the underlying bedrock.

We have initiated permitting to allow us to drill test the Cochass zone in 2010. We anticipate drilling to begin before the end of the second quarter with approximately 1,200 meters initially planned. The Cajatambo property is 100%-owned by Solitario, but subject to the Newmont Strategic Alliance as described below.

### The Peru Alliance Agreement with Newmont Mining

In 2005 we signed a Strategic Alliance Agreement (the “Alliance Agreement”) with various subsidiaries of Newmont Mining (“Newmont”) to explore for gold in South America. At the same time, Newmont purchased 2.7 million shares of Solitario (9.9% equity interest) for approximately \$3.8 million. As part of the Alliance Agreement we spent \$3.8 million on gold exploration in regions that were mutually agreed upon by Newmont and Solitario. Five properties are subject to the Alliance Agreement. Currently we own 100% of each of these properties, but Newmont has the right to joint venture these properties and earn up to a 75% interest by taking the project through feasibility and financing Solitario’s retained 25% interest into production. Newmont may elect to earn a lesser interest or no interest at all, in which case it would retain a 2% net smelter return royalty.







### La Promesa – Exceptional High Grade Veins

The 2,000-hectare La Promesa property in Peru is a new Solitario discovery. At surface, we have traced two veins for at least 400 meters along strike, and we have strong indications that at least five other veins may be present. Solitario currently owns 100% of the La Promesa property, subject to the provisions of the Peru Alliance Agreement with Newmont Mining as discussed on page 10.

What sets La Promesa apart from other properties are the exceptionally high surface grades in silver, zinc, lead and indium. Although our sampling on the project to date is limited, it is very encouraging. For instance, on the western vein, two channel samples were collected 300 meters apart with true widths of 2.8 and 1.2 meters that graded 760 gpt silver, 15.6% zinc, 7.2% lead and 153 ppm indium, and 1,981 gpt silver, 33.1% zinc, 5.6% lead and 430 ppm indium, respectively. On the eastern vein, located about 600 meters east of the western vein, a 0.9 meter (true width) channel sample graded 678 gpt silver, 15.0% zinc, 4.5% lead and 12 ppm indium. There appears to be a systematic trend towards greater vein thickness with depth, as the widest observed vein in outcrop occurs at the lowest elevation sampled to date.

Work conducted in late 2009 revealed a very anomalous stream sediment sample (6.7 ppm silver and 0.63% zinc) draining an area that visually displays a large zone of altered rocks – similar in appearance to the mineralized zone that has yielded such spectacular surface geochemistry. However, because of weather, we were unable to access this very interesting zone of alteration and the apparent source of the exceptionally strong geochemical anomaly. Our plans call for completing all permitting activities necessary to conduct additional surface work and to further define drill targets. Assuming permits are received in a timely fashion, drilling is anticipated to occur during the third quarter of 2010. We anticipate an initial eight-hole, 1,200 meter drilling program.

*(photos opposite page, top left are color enhanced)*

### Chambara Zinc Project – A Large-Scale Regional Program

The Chambara zinc project in northern Peru is centered in what we consider to be one of the best under-explored zinc terrains in the world. In 2008 we signed a joint venture arrangement with Votorantim Metais that established a huge area of interest that is approximately 200 kilometers long and 85 kilometers wide – about the size of New Jersey. Any acquisition of properties within this area of interest by Votorantim is subject to this joint venture. Consequently, we will participate in all new projects that Votorantim generates in the future. As with our other agreements with major mining company partners, this agreement is a NPI royalty structured joint venture.

To date, four high-quality zinc prospects have been identified within our vast 175,000-hectare land position. Surface work has demonstrated sizable areas of high-grade zinc in rock outcrops. Additional surface work is required before drill targets can be firmly established. However, we are optimistic that significant new zinc discoveries, similar in size to Florida Canyon, will be made within our area of interest. Votorantim is planning approximately 2,000 meters of drilling on this project, pending receipt of permit approvals.

### La Noria – Drilling a New Copper Oxide Discovery

La Noria is a 100%-owned, 10,000-hectare property located in northern Mexico. Late in 2009 we received the results of 100 channel samples collected from a mineralized zone measuring about 700 meters long and 150 meters wide. We were pleasantly surprised at the average copper grade of these samples - 0.32% copper, and moved quickly to drill test the property.

In the first quarter of 2010 we completed a 11-hole, 1,571 meter reverse circulation drilling program. Drilling confirmed the presence of copper oxide mineralization in the subsurface. Drill hole LN-01 had the best mineralized intercept grading 0.22% copper from the surface down to 106 meters, including 46 meters grading 0.35% copper from 60-106 meters in depth, and totally within the oxide zone. We are currently evaluating the results of the drilling program to determine if a second round of drilling is warranted.



## Royalty Properties | Yanacocha, Mercurio & La Tola

Besides our NPI royalty structured joint ventures, Solitario has three net smelter return (“NSR”) royalty properties.

### Yanacocha – Largest Gold District in South America

We consider our Yanacocha property in Peru our most important NSR royalty property. The Yanacocha royalty covers a strategically located 61,000-hectare (approximately 200 square miles) property position adjacent to the largest gold producing district in South America – the Yanacocha district. There are significant mining operations to the south and north of our property and development projects to both the east and west. Solitario currently receives no income from this royalty; however, Minera Yanacocha (51%-owned by Newmont Mining Corporation and 44%-owned by Buenaventura), manager of Solitario’s royalty property, continues to conduct district-wide exploration, including important new geologic and geophysical work on our property. We are hopeful that Newmont’s focused efforts will lead to the establishment of resources and eventually production on our property.

### Mercurio – Our Newest NSR Property

In March of 2010, we successfully optioned the Mercurio gold project in Brazil to Regent Holding Ltd, a private company. Regent has the option to purchase the property for \$1.0 million in cash payable in escalating annual payments over a four-year period and drilling a minimum of 8,000 meters over a three-year period, with a firm 1,000 meter commitment the first year, subject to due

diligence. Upon completion of the cash payments and work commitments, Solitario would retain a 1.5% NSR royalty for the first two million ounces of production, and a 2% NSR royalty for all production thereafter. The 2% NSR royalty could be reduced to 1.5% by a one-time cash payment of \$1.0 million to Solitario.

The Mercurio Gold Property, located in Para State in northern Brazil, consists of three concessions totaling 8,476 hectares. Regent will be responsible for making all payments to the underlying claim and surface rights holder that total \$512,000 over the next two years. Thirty-six drill holes totaling 4,621 meters have thus far tested three principal target areas: the Colonia, Patoa and Tucanaré prospects. Mineralization remains open at all three prospects and numerous additional geochemical targets remain untested.

### La Tola – An Early Stage Property

In August 2007 we signed a Letter of Intent with Canadian Shield Resources (“CSR”) allowing CSR to earn a 100%-interest in our 1,000 hectare La Tola property in southern Peru. We will retain a 2% NSR royalty. To earn its interest, CSR is required to spend \$2.0 million in exploration by December 31, 2011. CSR has the right to purchase the 2% NSR royalty for \$1.5 million anytime before commercial production is reached.

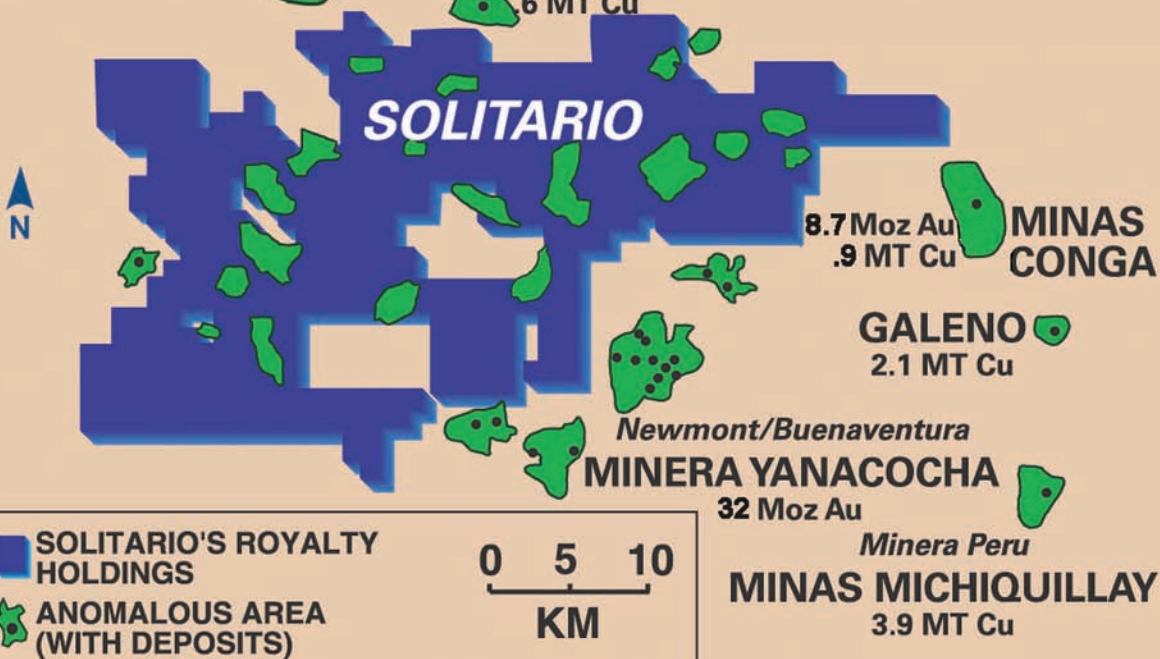
### Southern Peru Copper

#### TANTA HUATAY SINCHAO

1.0 Moz Au  
3.0 MT Cu

CORONA  
3.3 Moz Au  
6 MT Cu

#### Yanacocha Royalty Property





As discussed in Note 11 to the consolidated financial statements, the financial statements as of and for the years ended December 31, 2008 and 2007 have been restated to reflect certain payments as deferred noncontrolling shareholder payments. The following management's discussion and analysis of financial condition and results of operations gives effect to the restatement.

The following discussion should be read in conjunction with the information contained in the consolidated financial statements and notes thereto included below. 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 may also evaluate mineral properties to potentially buy a royalty.

Solitario was 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 delay rental payments of \$200,000, \$200,000 and \$100,000, respectively, related to our Bongará Project during 2009, 2008 and 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, 2009 we had 15 exploration properties in Peru, Bolivia, Mexico and Brazil, and two royalty properties in Peru. We are conducting exploration activities in all of those countries.

Our principal expertise is in identifying mineral properties with promising mineral potential, acquiring these mineral properties and exploring them to enable us to sell, joint venture or create a royalty on 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 15 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, pursue their development through a joint venture with a partner that has expertise in mining operations or create a royalty with a third party that continues to advance the property.

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 delay rental payments of \$200,000, \$200,000 and \$100,000, respectively, received during 2009, 2008 and 2007 on our Bongará property; (iii) sale of our investment in Kinross; 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 August 24, 2009, we entered into a definitive arrangement agreement ("Agreement") with Metallic Ventures Gold Inc. ("Metallic Ventures") whereby we would acquire, through a friendly statutory plan of arrangement under Canadian Law, all outstanding shares of Metallic Ventures, subject to certain conditions. On October 13, 2009, we entered into an amendment to the Agreement (the "Amendment"), whereby we increased our bid to acquire all outstanding shares of Metallic Ventures. The Agreement, as amended, provided that we would issue 19.5 million shares of Solitario common stock and would pay cash consideration of \$18 million for all of the outstanding shares of Metallic Ventures. The Agreement, as amended, also provided for a termination deadline of February 28, 2010 and that Metallic Ventures would pay a termination fee of \$2.2 million under certain circumstances, including if Metallic Ventures accepted a superior offer, as defined in the Agreement, as amended. The Agreement, as amended, was subject to shareholder and regulatory approval. In order to offer Metallic Ventures' shareholders the increased number of shares, we entered into agreements with certain of our Officers, Directors and employees to voluntarily cancel 1,935,000 previously granted options concurrently with the signing of the Amendment.

On October 29, 2009, Metallic Ventures announced that they had determined that an offer from International Minerals Corporation constituted a superior offer as defined, in the Agreement, as amended. On November 2, 2009, Metallic Ventures terminated the Agreement, as amended, and paid us a termination fee of \$2.2 million.



## Management's Discussion & Analysis | continued

We have a significant investment in Kinross of \$19,320,000 at December 31, 2009, which consists of 1,050,000 shares of Kinross common stock. Of these shares, 550,000 are not subject to the Kinross Collar, discussed below under Liquidity and Capital Resources - Hedge of the Investment in Kinross. As of February, 10, 2010, Solitario's 550,000 shares have a value of approximately \$9.7 million based upon the market price of \$17.55 per Kinross share. During 2009, 2008 and 2007 Solitario sold 100,000, 192,920, and 400,000 shares, respectively, of Kinross common stock for net proceeds of \$1,852,000, \$4,430,000 and \$5,548,000. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources.

As of December 31, 2009, 500,000 shares of Kinross common stock are subject to the Kinross Collar discussed below as follows: (i) 400,000 shares due on April 13, 2010 for a lower threshold price of no less than \$13.69 per share (the "Floor Price") and an upper threshold price of no more than \$24.34 per share; and (ii) 100,000 shares due on April 12, 2011 for no less than the Floor Price and an upper threshold price of no more than \$27.50 per share. On April 14, 2009, a tranche of the Kinross Collar due on that date expired and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of that tranche of the Kinross Collar. As of February 10, 2010, 500,000 shares of Kinross stock are subject to the Kinross Collar. We also sold several covered calls related to our unhedged shares of Kinross common stock and as of December 31, 2009, we have sold a covered call covering 40,000 shares of Kinross common stock as discussed below under Hedge of the Investment in Kinross.

During the twelve months ended December 31, 2009, we capitalized a total of \$5,000 related to initial staking and lease costs on the Palmira project in Mexico. All exploration costs on our properties, including any additional costs incurred for subsequent lease payments or exploration activities related to our projects are expensed as incurred.

### (c). Results of Operations

#### Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

We had a net loss of \$1,786,000 or \$0.06 per basic and diluted share for the year ended December 31, 2009 compared to a net loss of \$617,000 or \$0.02 per basic and diluted share for the year ended December 31, 2008. As explained in more detail below, the primary reasons for the increase in net loss during 2009 compared to the net loss during 2008 were (i) a reduction in the gain on sale of Kinross common stock to \$1,409,000 during 2009, compared to a gain of \$3,576,000 during 2008; (ii) a reduction in our stock option benefit to \$269,000 during 2009 compared to a stock option benefit of \$3,255,000 during 2008; (iii) a reduction in our gain on derivative instruments to \$694,000 during 2009 compared to a gain on derivative instruments of \$1,177,000 during 2008. Partially offsetting these items were (i) a reduction in exploration expense during 2009 to \$3,579,000 compared to exploration expense of \$4,589,000 during 2008; (ii) the receipt of a break fee of \$2,200,000 on our attempted acquisition of Metallic Ventures; and (iii) a reduction in our income

tax expense to \$996,000 during 2009 compared to an income tax expense of \$2,128,000 during 2008. Each of these items is discussed in greater detail below.

Our most important activity is the exploration on our mineral properties and reconnaissance exploration to locate mineral properties to acquire and to advance or delineate deposits to enable us to sell or joint venture the mineral property. During 2009, we decreased our exploration effort in Peru and reduced our exploration activities in Brazil related to our Pedra Branca project, which is 30% owned by Anglo as of December 31, 2009. Anglo is providing all of the funding for the Pedra Branca project with all payments recorded as deferred noncontrolling shareholder payments until such time as Anglo earns its incremental interest in PBM. As can be seen in the table below, our exploration expense decreased to \$3,579,000 during 2009 compared to \$4,589,000 in 2008. This reduction is primarily the result of our decision to limit our exploration in Brazil to only the Pedra Branca project, and because of delays in being able to begin drilling on two exploration projects in Peru. These delays were a result of increased permitting requirements and ongoing evaluations of exploration results from sampling, geochemistry and geophysical work. In addition although we reduced our reconnaissance work in both Peru and Brazil during 2009, we increased this effort in Mexico, which resulted in the addition of one property during the year, the Palmira project, the drilling of our Purica and La Noria projects and the planned drilling of our Palmira project in Mexico during the first half of 2010.

During 2009 we added the Palmira project with the capitalization of initial acquisition costs of \$5,000. We added significantly less new properties in 2009 than in 2008 when we added several properties as a result of our reconnaissance exploration during 2007 and 2008. These were the Cajatambo, Excelsior, Chonta, Paria Cruz and La Promesa exploration projects in Peru, our La Noria and Purica exploration projects in Mexico and our Espanola exploration project in Bolivia. We capitalized \$111,000 to mineral properties during 2008 for the initial staking or lease payments on these properties during 2008.

Our 2010 exploration expenditure budget is approximately \$4,705,000 which includes approximately \$1,306,000 for drilling of exploration projects. This budget also includes approximately \$1,428,000 for the Pedra Branca project, which is budgeted to be funded by capital contributions from Anglo. The primary factors in our decision to increase exploration expenditures in 2010 relate to an increase in gold commodity prices and an increase in equity prices for mineral exploration companies. However we believe we will be able to modify our planned exploration activities for changes in joint venture funding, commodity prices, and access to capital.



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

Property Name	2009	2008
Pedra Branca	\$ 1,196	\$ 1,422
Chonta	524	435
Cajatambo	413	685
Newmont Alliance	120	79
Pachuca	111	9
La Promesa	74	64
La Noria	71	-
Cerro Azul	65	59
Mercurio	65	452
Bongará	35	4
La Purica	32	390
Palmira	32	-
Espanola	10	4
Paria Cruz	7	44
Excelsior	3	2
Santiago	3	-
Triunfo	5	9
Chambara	-	40
Titicayo	-	25
Reconnaissance	813	866
Total exploration expense	<u>\$ 3,579</u>	<u>\$ 4,589</u>

We recorded a credit (reduction of expense) of \$419,000, \$227,000 and \$17,000, respectively, during 2009, 2008 and 2007, for Anglo's noncontrolling interest in the losses of the consolidated subsidiary, PBM, during the year. On September 30, 2007, Anglo earned its initial 15% interest in PBM and on December 23, 2008, Anglo earned an additional 15% interest in PBM, for a total of 30% pursuant to the Shareholders' Agreement between Solitario and Anglo, as discussed above. During 2009 we recorded management fees of \$65,000, to PBM, which are eliminated in consolidation, net of \$19,000 of noncontrolling interest. During 2008 we recorded management fees of \$75,000, to PBM, which are eliminated in consolidation, net of \$11,000 of noncontrolling interest. We anticipate the noncontrolling interest credit will be similar in 2010 based upon our budgeted expenditures at PBM.

We believe a discussion of our general and administrative costs should be viewed without the non-cash stock option compensation expense or benefit which is discussed below. Excluding these costs, general and administrative costs were \$2,348,000 during 2009 compared to \$2,319,000 in 2008. We incurred salary and benefits expense of \$1,187,000 during 2009 compared to \$1,193,000 in 2008, which decreased due to reduced bonuses paid during 2009 compared to 2008. We recorded no consulting expense during 2009 compared to \$53,000 during 2008 which was related to the Mark Jones consulting contract that expired in 2008 as discussed below under related party transactions. In addition, other general and administrative costs including rent, travel, and insurance decreased to \$332,000 during 2009 compared to \$467,000 in 2008 primarily related to a reduction in non-exploration general administrative cost and activities to reduce expenses, which included lower rent costs, reduced telephone and internet expenses and lower freight office and

postage. Although some of these costs were shifted to our exploration staff and field offices, and a portion were related to reduced exploration activity, a significant portion represented reduced costs which we intend to continue in the future. We also recorded a gain on currency and exchange rates during 2009 of \$35,000, compared to a loss of \$62,000 in 2008. We also recorded a reduction in our shareholder relations costs which decreased to \$223,000 during 2009 compared to \$267,000 during 2008 as a result of lower costs for exchange fees and lower costs to produce our annual report. Offsetting these reductions in costs was an increase in our legal and accounting costs to \$637,000 during 2009 from \$275,000 in 2008, due to the legal and accounting work associated with our attempted acquisition of Metallic Ventures, discussed above and work associated with the restatement of our 2007 financial statements. We anticipate general and administrative costs will decrease in the future as a result of our continued effort to reduce costs and consolidate exploration and administrative duties. We have forecast 2010 general and administrative costs to be approximately \$1,643,000, excluding non-cash stock option compensation.

On January 1, 2006, we adopted ASC 718, Compensation – Stock Compensation, and we have classified our stock options as liabilities as they are priced in Canadian dollars and our functional currency is United States dollars. We record the fair value of the vested portion of our outstanding options as a liability and record changes in the fair value as stock option compensation expense in the statement of operations in the period of the change. Upon exercise, the fair value of the options on the date of exercise, which is equal to the intrinsic value, is credited to additional paid-in capital. We estimate the fair values of the options granted using a Black-Scholes option pricing model. During the year ended December 31, 2009, we recognized \$269,000 of non-cash stock-based compensation benefit as part of general and administrative expense for the decrease in the fair value of our stock option liability during 2009 compared to non-cash stock option compensation benefit of \$3,255,000 during 2008. Our stock option compensation expense changes as a result of changes in the fair value of the vested portion of our outstanding stock options. This fair value is primarily affected by the effect of increases or decreases in the price of our common stock, changes in the Canadian dollar and United States dollar exchange rate and by increases in the vesting of outstanding options from period to period. In addition we cancelled options for 1,935,000 shares under the 2006 Plan as discussed above under Metallic Ventures, which reduced the number of options outstanding in calculating the fair value of outstanding options at December 31, 2009. The price of Solitario's stock as quoted on the TSX increased to Cdn\$2.40 at December 31, 2009 from Cdn\$1.82 at December 31, 2008. Generally as the price of our common stock increases our stock option liability and our stock option compensation expense increases and the converse is true as well. See Employee stock compensation plans in Note 1 to the consolidated financial statements for an analysis of the changes in the fair value of our outstanding stock options and the components that are used to determine the fair value.

The following amounts are included in loss (gain) on derivative instruments in the consolidated statement of operations for the years ended December 31, 2009 and 2008:



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(in thousands)	Year ended December 31, 2009 <sup>(1)</sup>		Year ended December 31, 2008 <sup>(1)</sup>	
	Realized	Unrealized	Realized	Unrealized
<b>Loss (gain) on derivatives not designated as hedging instruments under ASC 815</b>				
Kinross Collar	\$ -	\$ (522)	\$ -	\$ (1,189)
February 09 Kinross Call	(116)	-	-	12
April 09 Kinross Call	(21)	-	-	-
August 09 Kinross Call	80	-	-	-
November 09 Kinross Call	(81)	-	-	-
May 10 Kinross Call	-	(34)	-	-
Total (gain) loss	\$ (138)	\$ (556)	\$ -	\$ (1,177)

<sup>(1)</sup> Gains and losses on derivative instruments are realized upon expiration or repurchase. Cash received for the derivative instrument may occur in a different period.

The business purpose of selling covered calls is to provide additional income on a limited portion of shares of Kinross that Solitario may sell in the near term, which is generally defined as less than one year. In exchange for receiving the additional income from the sale of the covered call option, we have given up the potential upside on the shares covered by the call option sold in excess of the strike price. We intend to continue to sell a limited number of covered calls in the future to provide income on a portion of our Kinross common stock.

We have not designated the Kinross Collar or the Kinross Calls as hedging instruments as described in ASC 815 and any changes in the fair market value of the Kinross Collar and the Kinross Calls are recognized in the statement of operations in the period of the change. The quoted market price of a share of Kinross common stock was \$18.40 on December 31, 2009 compared to \$18.42 on December 31, 2008. The business purpose of the Kinross Collar was to provide price protection against a significant decline in the market value of 900,000 shares of our Kinross stock, which has been reduced to 500,000 shares as a result of the expiration of the portion of the Kinross Collar covering 400,000 shares during 2009, for which we limited the potential price appreciation on the shares covered by the Kinross Collar. We do not actively manage or attempt to anticipate the fair value of the Kinross Collar.

We had \$91,000 of depreciation and amortization expense during 2009 compared to \$98,000 in 2008 primarily as a result of a reduction in the amount of undepreciated furniture and fixtures during 2009 compared to 2008. We amortize these assets over a three-year period. We anticipate our 2010 depreciation and amortization costs will be similar to our 2009 amount.

During 2008, we recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of our TNR stock. The loss was previously included in unrecognized gain on marketable equity securities in other comprehensive income. No similar loss was recognized in 2009 and we do not anticipate recognizing any other-than-temporary declines in 2010.

During 2009, we recorded interest and dividend income of \$106,000 compared to \$157,000 during the same period in 2008. During 2009, we recorded dividend income of \$104,000 compared to \$95,000 during 2008 from dividends on our Kinross stock. The pri-

mary reason for the decrease in interest and dividend income during 2009 related to a reduction in interest income which was reduced as a result of lower interest rates and lower outstanding cash balances during 2009 compared to 2008. The interest income recorded during 2009 and 2008 consisted of payments on cash and cash equivalent deposit accounts. We anticipate our interest and dividend income will decrease in 2010 as a result of our budget for planned sales of approximately 250,000 shares of Kinross and continued low rates of interest earned on our cash balances in 2010.

During 2009, we sold 100,000 shares of Kinross stock for proceeds of \$1,852,000 and recorded a gain on sale of \$1,409,000 compared to the sale of 192,920 shares of Kinross for proceeds of \$4,430,000 and a gain on sale of \$3,576,000 during 2008. We anticipate we will continue to liquidate our holdings of Kinross to fund our exploration activities and our 2010 budget anticipates the sale of 250,000 shares of Kinross for assumed proceeds of \$4,600,000 during 2010. These proceeds are significantly dependent on the quoted market price of Kinross on the date of sale and may be at prices significantly below our projected price.

During 2009, we recorded income tax expense of \$996,000 compared to \$2,128,000 during 2008. Our tax expense decreased during 2009 primarily as a result of the decrease in deferred taxes from the reduction in taxes associated with the reduction in the gain on sale of marketable equity securities to \$1,409,000 during 2009 from the sale of 100,000 shares of Kinross stock compared to a gain of \$3,576,000 from the sale of 192,920 shares of Kinross stock during 2008. In addition our deferred tax expense was reduced related to the reduction in the stock option compensation benefit to \$269,000 during 2009 compared to the stock option compensation benefit of \$3,255,000 during 2008. These reductions in taxable items were partially offset by taxes due on the \$2,200,000 break fee we received in connection with our attempted acquisition of Metallic Ventures discussed above. In addition we provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico, Bolivia and Brazil. We anticipate we will continue to provide a valuation allowance for these net operating losses until we are in a net tax liability position with regards to those countries where we operate or until it is more likely than not that we will be able to realize those net operating losses in the future.



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 2009 we recorded \$51,000 of mineral property impairments related to our Purica and Chonta properties, discussed below, compared to 2008, when we recorded no property impairments.

### Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

We had a net loss of \$617,000 or \$0.02 per basic and diluted share for the year ended December 31, 2008 compared to a net loss of \$5,440,000 or \$0.18 per basic and diluted share for the year ended December 31, 2007. As explained in more detail below, the primary reasons for the decrease in net loss during 2008 compared to the net loss during 2007 were (i) a decrease in our stock option compensation to a benefit of \$3,255,000 during 2008 compared to stock option compensation expense of \$1,991,000 during 2007, and (ii) an unrealized gain on our derivative instruments of \$1,177,000 during 2008 compared to an unrealized loss on derivative instruments of \$1,702,000 during 2007. Partially mitigating these items was an increase in exploration expense, a decrease in the gain on sale on our sale of Kinross stock and an increase in our tax expense in 2008 compared to 2007.

During 2008, we increased our exploration effort in Mexico and Peru and reduced our exploration activities during the year in Brazil to primarily our Pedra Branca project, which is 30% owned by Anglo as of December 31, 2008. Anglo is providing all of the funding for the Pedra Branca project. As can be seen in the table below, our exploration expense increased to \$4,589,000 during 2008 compared to \$4,155,000 in 2007. Part of the increase in our net exploration cost relates to the way Anglo is funding the Pedra Branca project. The increase in exploration on our Cajatambo, and Chonta properties in Peru along with our La Purica property in Mexico, all of which were drilled during 2008, more than offset the decrease in exploration at our Pedra Branca project in Brazil in 2008.

We added several properties during 2008 as a result of our reconnaissance exploration during 2007 and 2008. These were the Cajatambo, Excelsior, Chonta, Paria Cruz and La Promesa exploration projects in Peru, our La Noria and Purica exploration projects in Mexico and our Espanola exploration project in Bolivia. We capitalized \$111,000 to mineral properties during 2008 for the initial staking or lease payments on these properties during 2008. We increased our surface sampling and evaluation programs during 2008 compared to 2007 including reconnaissance activities related to our Strategic Alliance projects in Peru and increased our Mexico exploration program during 2008 after establishing a field office in Hermosillo, Mexico in 2007. In addition to the increase in surface exploration activities, we increased our drilling expenditures, including assay and geochemical expenditures, to \$1,223,000 at our Pedra Branca, our Cajatambo and our Purica projects, compared to expenditures of \$1,016,000 during 2007.

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

Property Name	2008	2007
Pedra Branca	\$ 1,422	\$ 1,069
Mercurio	452	667
Cajatambo	685	-
Chonta	435	-
La Purica	390	-
Newmont Alliance	79	647
La Promesa	64	-
Cerro Azul (formerly Twin Lakes)	59	-
Paria Cruz	44	-
Chambara	40	8
Titicayo	25	257
Triunfo	9	197
Pachuca	9	13
Espanola	4	-
Bongará	4	22
Excelsior	2	-
Santiago	-	51
Concepcion del Oro	-	21
Pau d'Arco	-	19
Zinda	-	6
Purisima	-	2
Pozos	-	1
Reconnaissance	866	1,175
Total exploration expense	<u>\$ 4,589</u>	<u>\$ 4,155</u>

We recorded a credit (reduction of expense) of \$227,000 and \$17,000 during 2008 and 2007, for Anglo's 15% noncontrolling interest in the losses of the consolidated subsidiary, PBM, during the year. On September 30, 2007, Anglo earned a 15% interest in PBM and on December 23, 2008, Anglo earned an additional 15% interest in PBM, for a total of a 30% interest, pursuant to the Shareholders' Agreement between Solitario and Anglo, as discussed above. During 2008 we recorded management fees of \$75,000, to PBM, which are eliminated in consolidation, net of \$11,000 of noncontrolling interest. During 2007 we recorded \$52,000 of management fees.

Excluding stock option benefit and expense, general and administrative costs were \$2,319,000 during 2008 compared to \$1,948,000 in 2007. We incurred salary and benefits expense of \$1,193,000 during 2008 compared to \$966,000 in 2007, which increased in 2008 due to additional administrative personnel to support our expanded exploration effort and increased salaries. We recorded consulting expense of \$53,000 during 2008 compared to \$110,000 during 2007, of which \$30,000 related to an executive recruiting fee during 2007. The remaining costs, \$53,000 during 2008 and \$80,000 during 2007, 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 \$530,000 during 2008 compared to \$426,000 in 2007 primarily related to increased administrative costs in support of exploration, such as travel which increased to \$126,000 in 2008 compared to \$93,000 in 2007 and loss on exchange rates which increased to \$62,000 in 2008 com-



pared to a loss of \$8,000 in 2007. Our legal and accounting costs increased to \$275,000 during 2008 from \$225,000 in 2007; these costs increased due to additional legal work associated with expansion of our exploration efforts and additional accounting costs associated with Sarbanes-Oxley compliance and increases in audit fees. We also had increases in our shareholder relations costs to \$267,000 in 2008 compared to \$220,000 in 2007. These shareholder relations costs include corporate and exchange related costs and primarily increased due to increased efforts to promote our company in the mining exploration industry by attending additional trade shows in 2008.

During the year ended December 31, 2008, we recognized \$3,255,000 of non-cash stock-based compensation benefit as part of general and administrative expense for the decrease in the fair value of our stock option liability during 2008 compared to non-cash stock option compensation expense of \$1,991,000 during 2007. Our stock option compensation expense changes as a result of changes in the fair value of the vested portion of our outstanding stock options. This fair value is primarily affected by the effect of increases or decreases in the price of our common stock, changes in the Canadian dollar and United States dollar exchange rate and by increases in the vesting of outstanding options from period to period. The price of Solitario's stock as quoted on the TSX decreased to Cdn\$1.82 at December 31, 2008 from Cdn\$5.30 at December 31, 2007. Generally as the price of our common stock decreases our stock option liability and our stock option compensation expense decreases.

We recorded an unrealized gain on derivative instruments of \$1,177,000 during 2008 of which \$1,189,000 related to a gain on the change in the fair value of the Kinross Collar and \$12,000 related to a loss on the change in the fair value of the Kinross Calls, discussed above under Recent Developments. Our unrealized loss on derivative instruments of \$1,702,000 during 2007 related to a change in the fair value of the Kinross Collar. We do not actively manage or attempt to anticipate the fair value of the Kinross Collar.

We had \$98,000 of depreciation and amortization expense during 2008 compared to \$85,000 in 2007 primarily as a result of the addition of furniture and fixtures of \$46,000 and \$176,000, respectively, which were added during 2008 and 2007. We amortize these assets over a three-year period.

During 2008, we recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of our TNR stock. The loss was previously included in unrecognized gain on marketable equity securities in other comprehensive income.

During 2008, we recorded interest and dividend income of \$157,000 compared to interest income of \$76,000 during the same period in 2007. During 2008, we recorded dividend income of \$95,000 from dividends on our Kinross stock, which accounted for the increase. The interest income recorded during 2008 and 2007 consisted of payments on cash and cash equivalent deposit accounts.

During 2008, we sold 192,920 shares of Kinross stock for proceeds of \$4,430,000 and recorded a gain on sale of \$3,576,000 compared to the sale of 400,000 shares of Kinross for proceeds of \$5,548,000 and a gain on sale of \$4,085,000 during 2007.

During 2008, we recorded income tax expense of \$2,128,000 compared to an income tax benefit of \$184,000 during 2007. Our tax expense increased during 2008 primarily as a result of our stock option compensation benefit during 2008 of \$3,255,000, compared to the stock option compensation expense of \$1,991,000 recorded in 2007, discussed above, as a timing difference in determining tax expense. This increase in net tax expense was partially mitigated by the decrease in deferred taxes from the reduction in taxes associated with the reduction on the gain on sale of marketable equity securities to \$3,576,000 during 2008 from the sale of 192,920 shares of Kinross stock compared to a gain of \$4,085,000 from the sale of 400,000 shares of Kinross stock during 2007. In addition we provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico, Bolivia and Brazil.

During 2008, we recorded no property impairments, compared to \$20,000 of property impairments, related to our Corazon, Purisima and Titicayo projects in Mexico and Bolivia during 2007.

### **(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 \$200,000, \$200,000 and \$100,000, respectively, from joint venture payments during 2009, 2008 and 2007 related to delay rental payments on 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 delay rental 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, 2009 and 2008, we owned 1,050,000 and 1,150,000 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value of \$19,320,000 and \$21,183,000 at December 31, 2009 and December 31, 2008, respectively. Of these, 500,000 Kinross shares are subject to the Kinross Collar and another 40,000 shares are subject to the May 10 Kinross Call, discussed below. In addition we own other marketable equity securities with a fair value of \$286,000 and \$33,000 as of December 31, 2009 and December 31, 2008, respectively. At December 31, 2009, we have classified \$15,006,000 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 shareholders' equity. During the year ended December 31, 2009, we recorded a gain in other comprehensive income on marketable equity securities of \$242,000, less related deferred tax expense of \$90,000.

During the year ended December 31, 2009, we sold 100,000 shares of Kinross stock for proceeds of \$1,852,000 resulting in a gain of \$1,409,000 which was transferred, less related deferred tax expense of \$526,000, from previously unrealized gain on marketable equity securities in other comprehensive income. 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 \$286,000. During 2008, Solitario recognized an asset impairment of \$107,000, net of deferred taxes of \$40,000, representing the difference between the cost basis and the fair value at December 31, 2008, for an other-than-temporary decline in the value of its investment in TNR Gold, which was previously included as an unrealized loss 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 \$23.91 per share to a low of \$3.41 per share during the year ended December 31, 2009.

### Hedge of the Investment in Kinross

#### Kinross Collar

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 with UBS whereby we pledged 900,000 shares of Kinross common shares to be sold (or delivered back to us with any differences settled in cash). On April 14, 2009, 400,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar due on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of that tranche of the Kinross Collar.

The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on approximately 500,000 shares of the total 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 upper threshold price 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. The use of the Kinross Collar meets 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 gen-

eration 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 subject to counterparty risk in the event the price of Kinross stock falls below the Floor Price and UBS, the counterparty to the Kinross Collar, defaults on its obligation. If we liquidate some or all of our 500,000 shares of Kinross currently subject to the Kinross Collar on or after termination of one or more of the Kinross Collar contracts, we may receive a price below the Floor Price.

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. 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 upper threshold 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 upper threshold 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 upper threshold 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 upper threshold 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 ASC 815 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. As of December 31, 2009, we have



recorded a derivative instrument asset of \$20,000 for fair market value of the tranche of the Kinross Collar for 100,000 shares which expires in April 2011. We have recorded liability of \$11,000 for the fair market value of the tranche of the Kinross Collar for 400,000 shares which expires in April 2010. As of December 31, 2008 we have recorded a derivative instrument liability of \$513,000 for the fair market value of the Kinross Collar. As of February 10, 2010, we are restricted from selling the 500,000 shares under the Kinross Collar prior to the Termination dates discussed above.

### Kinross Calls

On December 10, 2008 we sold two covered call options covering 50,000 shares of Kinross each (the "February 09 Kinross Calls"). The first call option had a strike price of \$20.00 per share and expired unexercised on February 21, 2009. We sold the option for \$65,000 cash and had a fair market value of \$76,000 recorded as derivative instrument liability on December 31, 2008. The second call option had a strike price of \$22.50 per share and expired unexercised on February 21, 2009. We sold the option for \$39,000 cash and had a fair market value of \$40,000 recorded as derivative instrument liability on December 31, 2008. We recorded an unrealized loss of \$12,000 related to the February 09 Kinross Calls in unrealized gain (loss) on derivative instrument in the statement of operations during 2008. We recorded a gain in unrealized gain (loss) on derivative instruments of \$116,000 during 2009 upon the expiration of the February 09 Kinross Calls.

On March 31, 2009 we sold a covered call option covering 50,000 shares of Kinross (the "April 09 Kinross Call") for \$21,000. The call option had a strike price of \$20.00 per share and expired unexercised on April 21, 2009. We recorded a gain on derivative instruments of \$21,000 on the April 09 Kinross call during the year ended December 31, 2009.

On April 16, 2009 we sold a covered call option covering 40,000 shares of Kinross (the "August 09 Kinross Call") for net proceeds of \$45,000. The option had a strike price of \$17.50 per share and an expiration date of August 19, 2009. On July 21, 2009, we repurchased the August 09 Kinross Call for cash of \$125,000 and recorded a loss on derivative instrument during the year ended December 31, 2009 of \$80,000. On July 21, 2009, concurrently with the purchase of the August 09 Kinross Call, we sold a covered call option covering 40,000 shares of Kinross with a strike price of \$17.50 expiring on November 21, 2009 (the "November 09 Kinross Call") for \$157,000. On November 13, 2009 we repurchased the November 09 Kinross Call for \$76,000 and recorded a gain on derivative instruments of \$81,000 during the year ended December 31, 2009. On November 13, 2009, concurrently with the purchase of the November 09 Kinross Call, we sold a covered call option covering 40,000 shares of Kinross with a strike price of \$22.00 expiring on May 22, 2010 (the "May 10 Kinross Call") for \$76,000. As of December 31, 2009 we recorded a liability for the May 10 Kinross Call of \$42,000 and have recorded a gain in gain (loss) on derivative instrument of \$34,000 during the year ended December 31, 2009 related to the May 10 Kinross Call.

### **Income Taxes**

We have estimated that we will pay approximately \$385,000 in income taxes during the first quarter of 2010 as a result of the taxes due

on our gain on sale of \$1,409,000 from the sale of Kinross common stock and from the \$2,200,000 break fee associated with our attempted acquisition of Metallic Ventures. See Note 4 to the consolidated financial statements.

### **Working Capital**

We had working capital of \$4,318,000 at December 31, 2009 compared to working capital of \$3,415,000 as of December 31, 2008. Our working capital at December 31, 2009 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 1,050,000 shares of Kinross common stock of \$4,600,000, less related current deferred taxes of \$1,567,000. 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. We have budgeted the anticipated sale of 250,000 shares of Kinross stock for assumed proceeds of \$4,750,000. We intend to use funds received from the sale of Kinross shares and from Metallic Ventures termination fee primarily to fund exploration on our existing properties, for the acquisition and exploration of new properties and general working capital.

Cash and cash equivalents were \$1,946,000 as of December 31, 2009 compared to \$1,942,000 at December 31, 2008. As of December 31, 2009, our cash balances along with our investment in marketable equity securities not subject to the Kinross Collar are considered adequate to fund our expected expenditures over the next year.

The nature of the mining exploration business requires significant sources of capital to fund exploration, development and operation of mining projects. We will need additional resources if we choose to develop on our own any mineral deposits we have. We anticipate that we would finance these activities through the use of joint venture arrangements, the issuance of debt or equity, the sale of interests in our properties or the sale of our shares of Kinross common stock. There can be no assurance that such sources of funds will be available on terms acceptable to us, if at all.

### **Stock-based Compensation Plans**

On June 27, 2006 Solitario's shareholders approved the 2006 Stock Option Incentive Plan (the "2006 Plan"). During 2009, no options were exercised from the 2006 Plan. During 2009, we granted 519,000 options from the 2006 Plan. The options have a five year term, vest 25% on date of grant and 25% on each of the next three anniversary dates and have an exercise price of Cdn\$1.55 per share. In order to offer Metallic Ventures' shareholders the increased number of shares called for by the amendment, certain of our Officers, Directors and employees agreed with us to voluntarily cancel 1,935,000 previously granted options concurrently with the signing of the Amendment.

See Note 1 to the consolidated financial statements for a summary of the activity for stock options outstanding under the 1994 Plan and the 2006 Plan as of December 31, 2009. We do not expect that any of our remaining vested options from the 2006 Plan will be exercised in the next year.



The stock option liabilities of \$262,000 and \$531,000, respectively, as of December 31, 2009 and 2008 do not affect working capital or require the use of cash for settlement. Any increase or decrease in the fair value of our stock option liability is charged or credited to stock option compensation expense, including forfeitures and expirations. Upon exercise of any option, the fair value on the date of exercise is transferred to additional paid-in capital.

### **Deferred Noncontrolling Shareholder Payments**

We record any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary, we record noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds and the noncontrolling interest as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, we record any payments remaining in deferred noncontrolling shareholder payments to the statement of operations. On September 30, 2007, Anglo earned its initial 15% interest in PBM and we recorded \$392,000 of noncontrolling interest for Anglo's 15% interest in PBM and recorded an increase in paid-in-capital of \$1,886,000 for the balance of the payments in deferred noncontrolling shareholder interest on that date. On December 23, 2008, Anglo earned an additional 15% interest in PBM, for a total of a 30% interest, and we transferred \$685,000 to noncontrolling interest to equal 30% of the net book value of PBM on that date and recorded an increase of \$1,105,000 in additional paid-in-capital for the balance of the payments in deferred noncontrolling interest on December 23, 2008. During 2009, Anglo paid \$1,286,000 for capital contributions to PBM to fund 2009 exploration that were recorded to deferred noncontrolling shareholder payments. Any additional funds from Anglo will be recorded as deferred noncontrolling shareholder payments until such time as Anglo earns any additional interest in PBM. See Joint Ventures, Royalty and Strategic Alliance below.

### **Off-balance Sheet Arrangements**

As of December 31, 2009 and 2008, we have no off-balance sheet arrangements.

### **(e). Cash Flows**

Net cash used in operations during the year ended December 31, 2009 decreased to \$3,213,000 compared to \$6,533,000 for 2008 primarily as a result of (i) reduced exploration expenses of \$3,579,000 in 2009 compared to \$4,589,000 in 2008; (ii) the receipt of a \$2,200,000 break fee associated with our attempted acquisition of Metallic Ventures, discussed above; (iii) a decrease in prepaid expenses and other current assets of \$96,000 during 2009 compared to an increase in prepaid expenses and other current assets of \$90,000 during 2008; (iv) a decrease in accounts payable and other current liabilities of \$112,000 during 2009 compared to a decrease in accounts payable and other current liabilities of \$78,000 during 2008. The remaining uses of cash for operations were comparable in 2009 and 2008.

Net cash provided from investing activities decreased to \$1,931,000 during 2009 compared to \$4,377,000 during the year ended December 31, 2008 primarily related to the \$1,852,000 proceeds from the

sale of Kinross stock during 2009 compared with \$4,430,000 proceeds from the sale of Kinross stock in 2008. During 2009 we sold 100,000 shares of Kinross at an average price of \$18.52 compared to the sale of 192,920 shares of Kinross during 2008 at an average price of \$22.96. The remaining uses of cash from investing activities were comparable in 2009 and 2008.

Net cash provided from financing activities was \$1,286,000 during the year ended December 31, 2009 compared to \$1,848,000 during 2008. The primary reason for the decrease in cash provided from financing activities in 2009 consisted of a reduction in the contribution of Anglo to deferred noncontrolling interest related to PBM during the year to \$1,286,000 compared to \$1,700,000 during 2008. In addition, no options were exercised during the year ended December 31, 2009 compared to the exercise of options for 130,750 shares of our common stock for proceeds of \$148,000 during 2008.

### **(f). Exploration Activities, Environmental Compliance and Contractual Obligations**

#### **Exploration Activities**

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 2009 mineral and surface property rental and option payments were approximately \$258,000. In 2010 we estimate property rentals and option payments for properties we own or operate to be approximately \$390,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties. Approximately \$95,000 of these annual payments are reimbursable to us by our joint venture partners. In addition, we may be required to make further payments in the future if we elect to exercise our options under those agreements.

In July of 2009 we completed our expenditure commitment under the Newmont Alliance Agreement of \$3,773,000, discussed below under Joint Ventures, Royalty and the Strategic Alliance properties. As part of the terms of the Alliance Agreement, Newmont has subsequently been granted a 2% Net Smelter Return Royalty on five existing projects within previously established Alliance Project Areas.

#### **Environmental Compliance**

We are subject to various federal, state and local environmental laws and regulations in the countries where we operate. We are required to obtain permits in advance of completing certain of our exploration activities, to monitor and report on certain activities to appropriate authorities, and to perform remediation of environmental disturbance as a result of certain of our activities. However the nature of our ac-



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tivities of review, acquisition and exploration of properties prior to the establishment of reserves, which may include mapping, sampling, geochemistry and geophysical studies, as well as some limited exploration drilling, has not resulted in significant environmental impacts in the past. We have historically carried on our required environmental remediation expenditures and activities, if any, concurrently with our exploration activities and expenditures. The expenditures to comply with our environmental obligations are included in our exploration expenditures in the statement of operations and have not been material to our capital or exploration expenditures, and have not had a material effect on our competitive position. For the years ended December 31, 2009 and 2008, we have not capitalized any costs related to environmental control facilities. We do not anticipate our current or planned exploration activities will result in any material new or additional environmental expenditures or liabilities in the future.

### Contractual Obligations

As of December 31, 2009, with the exception of our office lease in

Wheat Ridge, Colorado, 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.

As of December 31, 2009 we have a current tax liability of \$385,000 primarily related to the taxes due from the \$2,200,000 break fee from our attempted acquisition of Metallic Ventures, discussed above, our \$1,409,000 gain on the sale of Kinross stock, less current United States expenses and the use of available net operating losses. Additionally, deferred tax liabilities of \$7,122,000 have been recorded as of December 31, 2009, which 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.

We have recorded an asset of \$20,000 and a current liability of \$11,000 for the fair value of the Kinross Collar as of December 31, 2009.

(in thousands)

	As of December 31, 2009				
	Payments due by period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Operating Lease Obligations	\$ 107	\$ 38	\$ 69	\$ -	\$ -
Land Holding Costs <sup>(1)</sup>	295	295	-	-	-
Kinross call option	42	42	-	-	-
Fair Value of the Kinross Collar <sup>(2)</sup>	11	11	-	-	-
<b>Total</b>	<b>\$ 455</b>	<b>\$ 386</b>	<b>\$ 69</b>	<b>\$ -</b>	<b>\$ -</b>

<sup>(1)</sup> Our land holding contractual obligations, which are generally cancelable at our option, include all required payments for the next 12 months to maintain our existing mineral properties. As of December 31, 2009 we have no minimum or required land holding contractual obligations beyond one year.

<sup>(2)</sup> The obligations under the Kinross Collar allow, but do not require cash payment upon settlement. See a description of the Kinross Collar under "Derivative Instruments." The total excludes the fair market value of the tranche of the Kinross Collar due in April 2011, which is an asset of \$20,000 as of December 31, 2009.

Our deferred noncontrolling shareholder payments of \$1,286,000 represent payments received from Anglo related to the funding requirement to earn their interest in PBM discussed above. Upon Anglo earning an incremental interest in PBM, the deferred noncontrolling interest will be transferred to noncontrolling interest and additional paid in capital in the equity section of our balance sheet. Under no circumstance will any portion of the payments included in noncontrolling shareholder payments be refunded to Anglo or paid in cash. In the event Anglo does not earn any additional interest in PBM, the amounts included in noncontrolling interest will be credited in the statement of operations.

### (g). Joint Ventures, Royalty and the Strategic Alliance Properties

#### Bongará

The Bongará project is an advanced-stage project in which we are exploring for primarily zinc, with lesser amounts of lead and silver. Our

joint venture partner, Votorantim Metais ("Votorantim"), is funding and managing all work conducted on the project. 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. 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, which Votorantim has met as of December 31, 2009, and \$2.5 million in all subsequent years until a minimum of \$18.0 million has been expended by Votorantim. Votorantim is the project operator. In addition, Votorantim was required to make delay rental payments to Solitario of \$100,000, \$200,000 and \$200,000, by August 15 of 2007, 2008 and 2009, respectively, and all of which were made, and recorded as joint venture property payment revenue, and to make future delay rental 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. 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.

### **Pedra Branca**

The Pedra Branca project is an advanced-stage project in which we are exploring for platinum and palladium in Brazil. Our joint venture partner, Anglo Platinum ("Anglo"), is funding, through PBM, all work conducted on the project. Currently, we manage all exploration activities. On January 28, 2003, we entered into a Letter Agreement with Anglo on our 100%-owned Pedra Branca project. 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 that specified actions we and Anglo 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'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 for the exploration and development of the Pedra Branca Project. Solitario's and Anglo's property interests are held through the ownership of shares in PBM. Anglo has earned a 30% interest in PBM as of December 31, 2009, as a result of funding a total of \$4.0 million on exploration at Pedra Branca. Additionally, the Shareholders' Agreement, as amended, provides that Anglo may incrementally earn up to a 51% interest in PBM by funding a total of \$7 million on exploration at Pedra Branca by December 31, 2010. As of December 31, 2009, Anglo had funded \$5.5 million of the \$7 million required to earn a 51% interest, of which \$1,286,000 of those payments were recorded as deferred noncontrolling shareholder payments. Anglo is not required to make any future funding of exploration expenditures. However future cash payments by Anglo will be recorded as deferred noncontrolling shareholder payments until such time as Anglo earns its next interest in PBM, when any accumulated payments included in deferred noncontrolling shareholder payments will be reclassified as noncontrolling interest for Anglo's share of the net book value of PBM and an increase to

additional paid-in capital for any excess over the noncontrolling interest. Should Anglo earn a controlling interest in PBM, we will deconsolidate our interest in PBM, and record a gain or loss in the statement of operations for any difference between the fair value of PBM on the date Anglo earns its controlling interest in PBM and our recorded interest in PBM, less Anglo's noncontrolling interest. Solitario would account for its noncontrolling interest from that date as an equity-method investment. Anglo 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 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. Should Anglo choose not to earn any additional interest in PBM, any balance in deferred noncontrolling shareholder payments would be credited to the statement of operations.

We recorded a noncontrolling interest in PBM of \$414,000, \$833,000 and \$375,000, respectively, as of December 31, 2009, 2008 and 2007 equal to Anglo's 30% and 15% interest in the book value of PBM. During 2009, 2008 and 2007 we recorded \$414,000, \$227,000, and \$17,000, respectively, for Anglo's noncontrolling interest in the loss of PBM. Anglo contributed \$1,286,000, \$1,700,000 and \$1,133,000, respectively, of deferred noncontrolling interest payments pursuant to the Shareholders' Agreement to fund PBM exploration activities. When Anglo earned its 15% interest on December 23, 2008, for a total of a 30% interest, we reclassified \$685,000 and \$1,105,000, respectively, to noncontrolling interest and additional paid-in-capital from deferred noncontrolling shareholder payments.

During 2010 we have budgeted approximately \$1,500,000 for exploration that will focus on delineation drilling of our most prospective targets and various scoping level studies to help assess the economic viability of the project. Land payments to the government to keep the claims in good standing at Pedra Branca are projected to be approximately \$75,000. Anglo is in the process of evaluating the proposed program and has not yet made a decision on whether or not to fund it. If Anglo decides not to fund the program, we will probably reduce the 2010 expenditures significantly. Anglo would subsequently forfeit its right to earn any more than its currently held 30% interest in PBM.

As part of the Shareholders' Agreement, we also entered into a Services Agreement with Anglo 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 2009 and 2008 we recorded management fees of \$65,000 and \$75,000, respectively, which are eliminated in consolidation, net of \$19,000 and \$11,000, respectively, of noncontrolling interest, as discussed above under Results of Operations.

### **Newmont Alliance**

On January 18, 2005, we signed a Strategic Alliance Agreement (the "Alliance Agreement") with Newmont Overseas Exploration Limited ("Newmont"), 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. Concurrent with the signing of the Alliance Agreement, Newmont Mining Corporation of 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 were committed to spend \$3,773,000 over the four years, which was subsequently extended by mutual agreement to five years, from the date of the Alliance Agreement on gold exploration in regions ("Alliance Projects Areas") that were mutually agreed upon by Newmont and us. In late July 2009 we completed the required expenditure commitment and informed Newmont. In December 2009 we granted Newmont a 2% net smelter royalty on five properties ("Strategic Alliance Properties") that fall within Strategic Alliance areas. If we meet certain minimum exploration expenditures on Strategic Alliance Properties, Newmont 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 may elect to earn a lesser interest or no interest at all, in which case it would retain a 2% net smelter return royalty. As of December 31, 2009, Newmont also has a right of first offer on our Santiago and Espanola properties, which are non-alliance Solitario properties in South America, acquired after the signing of the Alliance Agreement, and prior to our completion of the expenditure requirement completed this year that we may elect to sell an interest in, or joint venture with a third party.

As of December 31, 2009 we have established five property positions that fall within the currently defined Strategic Alliance areas and are subject to the provisions of the Newmont Alliance as discussed above. These include the La Promesa, Paria Cruz, Cajatambo, Excelsior and Cerro Azul (formerly Twin Lakes) properties. The Cerro Azul property was staked in 2007; the La Promesa, Paria Cruz, Cajatambo and Excelsior properties were staked in early 2008. All five properties are 100%-owned by Solitario, subject to the Alliance Agreement, and are situated within the central Peru mineral belt that is proximal to the giant Cerro de Pasco silver-base metal district. During 2010, additional surface work is planned on the Cerro Azul, Paria Cruz and Excelsior properties to potentially define drill targets, while drilling is planned on the Cajatambo and La Promesa properties.

### 1. La Promesa

We are exploring for high-grade silver-zinc-lead-indium veins on the early-stage La Promesa project in Peru. The La Promesa property, acquired in 2008, consists of three concessions totaling 2,600 hectares. No payments are due to third parties so the only holding costs for the mineral rights are annual payments of three dollars per hectare to the Peruvian government during the first six years that the claims are held. A priority for 2010 is to secure a land agreement with the local community to allow for exploration drilling. Additional surface work to further define drill targets followed by an initial 10-hole, 1,200 meter drilling program are scheduled for the second and third quarters of 2010, pending regulatory permit approvals.

### 2. Cajatambo

The Cajatambo property in Peru, acquired in 2008 and 2009, consists of 11 concessions totaling 10,500 hectares. No payments are due to third parties so the only holding costs for the mineral rights are

annual payments of three dollars per hectare to the Peruvian government during the first six years that the claims are held. Solitario currently has a land agreement with the local community that allows us to conduct exploration activities, including drilling.

In 2009 our exploration work defined a very large area, a 3.5 by 1.5 kilometer zone, of significant gold and silver mineralization in rocks and soils. Based upon this work, Solitario has filed for drilling permits with the appropriate Peruvian regulatory agency. Drilling is expected to commence sometime towards the end of the second quarter of 2010. The initial plan is for an eight-hole reverse circulation drilling campaign totaling approximately 1,500 meters.

### 3. Paria Cruz, Excelsior and Cerro Azul

The Paria Cruz property in Peru consists of three concessions totaling 3,000 hectares staked in the first half of 2008. We capitalized \$10,000 in mineral property payments for initial acquisition costs during the second quarter of 2008. The Excelsior property, also in Peru, consists of two concessions totaling 2,000 hectares. The Cerro Azul property (formerly named Twin Lakes) consists of one concession totaling 1,000 hectares. During 2007, Solitario capitalized \$3,000 in lease acquisition costs related to this concession. We are planning to conduct additional surface work on the Excelsior and Cerro Azul properties in 2010 to determine if drilling is warranted for 2011. We plan to keep the Paria Cruz property in good standing for 2010, but no work is currently planned.

### **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. Newmont continues to conduct annual exploration work on our royalty property, and we see this work continuing for the foreseeable future.

### **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. CSR 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.

### **Chambara**

The Chambara project is an early-stage project in which we are exploring for primarily zinc, with lesser amounts of lead and silver. Our joint venture partner, Votorantim, is funding and managing all work conducted on the project. 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 formerly 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. At December 31, 2007, the Chambara project consisted of six widely spaced areas where previous sampling had identified high-grade zinc mineralization at surface similar to that found at Florida Canyon, discussed above under our Bongará zinc property. The land holdings consisted of 13 concessions totaling 9,600 hectares,

On April 4, 2008 we signed the Minera Chambara shareholders' agreement with a wholly owned subsidiary of Votorantim Metais ("Votorantim") for the exploration of a large area of interest in northern Peru measuring approximately 200 by 85 kilometers. Votorantim contributed titled mineral properties within the area of interest totaling approximately 52,000 hectares for a 15% interest in Minera Chambara. We contributed 9,600 hectares of mineral claims and certain exploration data in our possession for an 85% interest in Minera Chambara. Existing and future properties subject to the terms of the joint venture will be held by Minera Chambara. As of December 31, 2009, Minera Chambara's only assets are the properties and Minera Chambara has no debt. Votorantim has increased its land holding within the Area of Interest of the joint venture and will transfer the claims subject to the agreement to Minera Chambara, increasing the total holdings to approximately 175,000 hectares subject to their decision to hold all of the claims acquired. Votorantim may increase its shareholding interest to 49% by expending \$6,250,000 over seven years and may increase its interest to 70% by funding a feasibility study and providing for construction financing for our interest. If Votorantim provides such construction financing, we would repay such financing, including interest from 80% of Solitario's portion of the project cash flow. We determined Votorantim controls Minera Chambara, and accordingly, we record our investment in Minera Chambara using the equity-method of accounting. During the second quarter of 2008, we transferred our interest in the claims of \$30,000 from mineral properties, net to equity method investment. During 2008, we reduced our equity method investment in Minera Chambara to zero, through a non-cash charge to exploration expense. Solitario does not anticipate it will record an increase in the book value of its 85% equity-method investment in the shares of Minera Chambara in the foreseeable future, if at all.

Votorantim is planning to conduct additional surface exploration work, as well as drilling, for 2010. The timing of any drilling is dependent upon the receipt or permit approvals.

### **(h). Wholly-owned Exploration Properties**

#### **Pachuca Real**

We are exploring for silver and gold on the early-staged Pachuca Real project in central Mexico. The approximately 31,000 hectare Pachuca Real property was acquired by staking in late 2005 and early 2006. Part of the property, the approximately 6,200 hectare El Cura claim, is held under an option agreement with a private Mexican party. The option agreement completed in October 2005, originally provided for payments of \$500,000 over four years. Payments totaling \$90,000 have been made through December 31, 2009. In May 2009 we amended the option agreement. Under the revised terms, Solitario is required to pay \$15,000 every six months, starting in May of 2009 (of which May and November 2009 payments have been paid), to the underlying owner to keep the option in good standing. By May of 2012, Solitario must either exercise the option to acquire 100% interest in the concession by paying the underlying owner \$500,000, or the option will terminate. Claims fees to be paid to the government of Mexico for all of the Pachuca Real claims total approximately \$77,000 in 2010.

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. The Venture Agreement called for a work commitment by Newmont of \$12.0 million over 54 months to earn a 51% interest in the property. Newmont had the right to earn an additional 19% interest (70% total) by completing a feasibility study and by financing Solitario's 30% interest in construction costs. In December 2008 Newmont terminated its right to earn an interest in the Pachuca Real property. Solitario retains a 100% interest in the Pachuca Real property. Newmont transferred its extensive technical data base to Solitario in the first quarter of 2009, including the assay results from 19 drill holes. Several companies have expressed an interest in possibly joint venturing the Pachuca Real property. After reviewing all Newmont data in detail, we may elect to seek a joint venture partner.

We are currently negotiating with two third party mining companies to joint venture the property. If negotiations are successful and an agreement is reached, our new joint venture partner would be responsible for developing an exploration plan and managing operations on the property. If we are unable to reach an agreement, we are considering a limited drilling program in the second half of 2010.

#### **La Noria**

The early-staged La Noria copper property was staked in the second quarter of 2008 and is located in the state of Sonora in northern Mexico. It consists of one exploration concession totaling approximately 10,000 hectares. It is 100% owned by Solitario with no underlying property owners. We completed a surface access agreement with the surface owner in early 2009 that allowed for access to the property and the approval to conduct exploration. Claim fees payable to the government in 2010 are approximately \$12,000.

A mineralized bedrock zone has been delineated over an area that is at least 700 meters long and 100 to 200 meters wide at surface. The grade of this zone based upon 100 rock chip channel sample averaged 0.32 copper. The mineralized zone is covered by a thin veneer of outwash gravels on three sides. The depth of oxidation is currently unknown.

An Induced Polarization/resistivity geophysical survey consisting of seven lines totaling 8.9 kilometers was completed in late 2009. The interpretive results of this survey suggest that mineralization could be approximately one-kilometer square in size and at least 200 meters deep. We expect to complete a six-hole, 1,500 meter reverse circulation drilling program before the end of the first quarter of 2010. In addition, we are planning to conduct acid leach metallurgical testing to see if the copper mineralization is amenable to SX/EW processing techniques, if drill results indicate significant oxide copper concentrations down-hole. If results warrant, a second round of drilling is anticipated for 2010.

### **Palmira**

We optioned the Palmira property in the state of Zacatecas in November 2009 from a private Mexican individual. The Palmira property is 2,600 hectares in size and situated 20 kilometers south of the historic state capital city of Zacatecas. We can acquire 100% interest in the property by making scheduled payments over a five year term totaling \$1.0 million to the underlying owner. The initial option payment of \$5,000 has been made. The next payment of \$10,000 is due on May 20, 2010. To date, Solitario has conducted reconnaissance-stage geologic mapping and geochemical sampling. We are planning to conduct more detailed mapping and geochemical sampling, followed by geophysical surveys over prioritized areas. Based upon this work we anticipate an initial drilling program could commence early in the third quarter of 2010.

### **Mercurio**

We are exploring for gold on the early-staged Mercurio property in the state of Para, Brazil. The property consists of three exploration concessions totaling 8,476 hectares. An agreement dated March 14, 2005 with the underlying claim and surface rights holder provides for transfer of a 100% interest of the mineral estate to Solitario and payment by Solitario of approximately \$350,000 over a period of 60 months. The owner retains a 1.5% net smelter return that is subject to purchase by Solitario for approximately \$1,200,000. All payments are made in local currency and the amounts in U.S. currency will fluctuate with exchange rates. On completion of all payments we will receive title to 1,500 hectares of surface rights. In 2009 we amended the terms of the contract that provided for a one-year suspension of the annual land payments. During 2009, 2008, 2007 and 2006, \$19,000, \$82,000, \$55,000 and \$25,000, respectively, were paid under the terms of the contract. 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 four years and three rounds of core drilling of 36 holes. The third round of core drilling was completed in the first quarter of 2008. We are currently seeking a joint venture partner to advance this project. However, there can be no assurance that a joint venture partner can be se-

cured. A payment of approximately \$7,000 to the government of Brazil during 2010 will be required to keep the Mercurio claims in good standing.

### **Triunfo**

We are exploring for gold-silver-zinc-lead on the 256-hectare Triunfo polymetallic early-stage exploration property in Bolivia. In June of 2008 we amended the contract with the option holder for the Triunfo property that suspends the payments agreed to under the contract. For the right to suspend payments we are required to pay \$5,000 per year until such time as we decide to continue exploration drilling. The first payment of the "stand-by" period was made on signing of the amendment and such suspension shall continue for so long as we pay \$5,000 on the anniversary of the signing of the amendment. Three holes were drilled in the first half of 2007. The results of these three holes were encouraging, but we are monitoring the political situation in Bolivia before committing to a second round of drilling. Claim fees of approximately \$400 to the Bolivian government are due in 2010.

### **Espanola**

We optioned the Espanola gold-copper property in western Bolivia in July 2008. The initial option payment was \$5,000, with annual payments of \$10,000 until drilling commences, at which time another \$10,000 payment is due followed by a \$55,000 payment on the anniversary date of drilling. We have the right to earn an 85% interest in the property from a private Bolivian party with completion of payments totaling \$1.0 million over a period of four years beginning 10 months after the initiation of drilling. For 2010, we are evaluating the possibility of drilling several holes. Our decision on whether or not to drill is mainly dependent upon geopolitical considerations, prioritization with other projects and personnel, and the availability of a drill rig. Claim fees payable to the government in 2010 are approximately \$5,000.

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

During the fourth quarter of 2009 we abandoned the Chonta property and recorded a mineral property write down of \$42,000. The Chonta property was optioned in 2008 from a private Peruvian party. Surface work was conducted throughout the remainder of 2008 and drilling was conducted in mid-2009. Drilling results were not considered to be of economic interest and the decision was made to terminate our option to earn an interest in the property.

During the first quarter of 2009 we terminated any additional work on the Purica copper property and recorded a mineral property write down of \$9,000. The property was originally acquired in 2008 through an option agreement with an underlying private Mexican party and through our own staking. We conducted geologic mapping, geochemical sampling and a geophysical survey. Based upon the results of this work, a six-hole reverse circulation drilling program totaling 1,255 meters was completed in the third quarter of 2008. Low grade copper was intersected in three of six holes with the other three holes essentially barren. After reviewing the drilling results, in conjunction with the previously generated surface exploration work, we elected to abandon the property.

During 2008 we did not abandon any properties.



### (j). Critical Accounting Estimates

#### Mineral Properties, net

We classify our interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to ASC 930. Prior to adoption of ASC 930 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 ASC 930, 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 ASC 930.

#### 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 \$51,000 of mineral property impairments during 2009 related to our Chonta and Purica properties discussed above under Discontinued Projects. We recorded no impairments related to our mineral properties during 2008. 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.

#### Fair Value

Effective January 1, 2008, we adopted ASC 820, "Fair Value Measurements." ASC 820, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

**Level 1:** Quoted prices in active markets for identical assets or liabilities;

**Level 2:** Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

**Level 3:** Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

#### 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 shareholders' 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, 2009 and December 31, 2008, we have recorded unrealized holding gains of \$18,571,000 and \$19,738,000, respectively, net of deferred taxes of \$6,849,000 and \$7,284,000, respectively, related to our marketable equity securities.

During 2008, we recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of our TNR stock. The loss was previously included in unrecognized gain on marketable equity securities in other comprehensive income.

#### Derivative Instruments

We account for our derivative instruments in accordance with ASC 815, "Accounting for Derivative Instruments and Hedging Activities." Pursuant to ASC 815, we have not designated the Kinross Collar or the Kinross Calls as hedging instruments and any changes in the fair market value of the Kinross Collar or the Kinross Calls are recognized in the statement of operations in the period of the change. See results of operations above for the gain (loss) on derivative instrument related to the Kinross Collar and the Kinross Calls during 2009, 2008 and 2007.

#### Revenue Recognition

We record any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary, we record noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the recorded deferred noncontrolling shareholder payments as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, we record any payments included in noncontrolling shareholder payments to the statement of operations. We recorded deferred noncontrolling shareholder payments from Anglo of \$1,286,000 as of December 31, 2009. We record delay rental payments as revenue in the period received. We recorded \$200,000, \$200,000 and \$100,000, respectively, of joint venture and property payments for delay rental payments on our Bongará joint venture agreement during 2009, 2008 and 2007. Any payments received for the sale of property interests are recorded as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue.

#### Stock-based Compensation

We account for our stock options under the provisions of ASC 718 Compensation – Stock Compensation. Pursuant to ASC 718 we clas-

sify our stock options as liabilities as they are priced in Canadian dollars and our functional currency is United States dollars. We record a liability for the fair value of the vested portion of outstanding options based on a Black-Scholes option pricing model. This model requires the input of subjective assumptions, including a risk free interest rate, the contractual term, the exchange rate between the US Dollar and the Canadian Dollar, a zero dividend yield, a zero forfeiture rate, and an expected volatility equal to the historical volatility based upon the daily quoted price of our common stock on the Toronto Stock Exchange (the "TSX") over the period corresponding to the expected life of the options. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, our recorded and stock-based compensation expense could have been materially different from that reported.

### **Income Taxes**

We account for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under ASC 740, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. Currently we believe our deferred tax assets, exclusive of our 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 ASC 740, "Accounting for Uncertainty in Income Taxes," as of January 1, 2007. ASC 740-10 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. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. ASC 740-10 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 ASC 740-10 had no effect on our financial position or results of operations.

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

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

On September 1, 2006, we entered into a two-year consulting agreement with Mark E. Jones, III, a director and vice-chairman of our Board of Directors. The consulting agreement terminated on August 31, 2008. Under the agreement, Mr. Jones advised us on matters of strategic direction, planning, and identification of corporate oppor-

tunities, when and as requested by us. In consideration for the services to be performed, Mr. Jones was paid a one time lump sum payment of \$160,000, plus he was entitled to receive pre-approved, documented expenses incurred in performance of the consulting services. We incurred \$53,000 and \$80,000, respectively, for consulting expense related to the agreement in general and administrative expense, for the years ended December 31, 2008 and 2007.

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

As of December 31, 2009, we own 1,000,000 shares of TNR that are classified as marketable equity securities available-for-sale and are recorded at their fair market value of \$286,000 and \$33,000 at December 31, 2009 and 2008, respectively. During 2008, we recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of our TNR stock. The loss was previously included in unrecognized gain on marketable equity securities in other comprehensive income. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

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

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Codification ("ASC") 105, "Generally Accepted Accounting Principles," which establishes the FASB ASC as the sole source of authoritative generally accepted accounting principles ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The ASC supersedes all non-SEC accounting and reporting standards. Pursuant to the provisions of FASB ASC 105, we have updated the references to GAAP in our financial statements issued for the period ended December 31, 2009. The adoption of FASB ASC 105 did not impact our financial position or results of operations.

In December 2007, the Financial Accounting Standards Board ("FASB") issued ASC 810-10-65. ASC 810-10-65 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 ASC 810-10-10 for consistency with the requirements of ASC 810. ASC 810-10-65 is effective for fiscal years beginning on or after December 15, 2008 and early adoption was prohibited. We adopted ASC 810-10-65 on January 1, 2009 and as a result have retrospectively reported the equity related to our shareholders and the noncontrolling interest held by Anglo Gold in our Pedra Branca Mineracao, Ltda. subsidiary in the equity section of the consolidated balance sheet, as well as reporting the noncontrolling interest in the consolidated statement of operations included with this report.

In December 2007, the FASB issued ASC 805-10-65, "Business Combinations (revised 2007)." ASC 805-10-65 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. ASC 805-10-65 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 adopted ASC 805-10-65 on January 1, 2009 and it did not have any impact on our financial position, results of operations or cash flows.

In February 2008, the FASB issued ASC 820-10-15, "Effective Date of ASC 820-10-05." ASC 820-10-15 delayed the effective date of ASC 820-10-05 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Solitario adopted the provisions of ASC 820-10-15 on January 1, 2009 and it did not have any impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued ASC 815-10-65, "Disclosures about Derivative Instruments and Hedging Activities," an amendment of ASC 815-10-05. ASC 815-10-65 requires enhanced disclosures about derivative instruments and hedged items that are accounted for under 815-10-05 and related interpretations. ASC 815-10-65 will be effective for all interim and annual financial statements for periods beginning after November 15, 2008, with early adoption permitted. We adopted ASC 815-10-65 on January 1, 2009 and have included the required disclosures in our consolidated financial statements.

In May 2009, the FASB issued ASC 855-10-05, "Subsequent Events." ASC 855-10-05 establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. We adopted the provisions of ASC 855-10-05 on June 30, 2009. We have evaluated events subsequent to December 31, 2009 through February 12, 2010 which is the issuance date of this report. This report reflects all material events noted in the subsequent period that would have impacted the results reported herein or in our results going forward. The adoption of ASC 855-10-05 had no impact on our consolidated financial position, results of operations or cash flows.

### Quantitative and Qualitative Disclosures About Market Risk

#### (a.) Equity Price Risks

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

As of December 31, 2009, a hypothetical increase of ten percent in the price of Kinross common stock would increase the value of our holdings of Kinross by \$1,932,000 and increase other comprehensive income and total shareholders' equity by the same amount, net of deferred taxes of \$720,000. Additionally our working capital would also be increased by \$460,000 from a hypothetical increase of ten percent in the price of Kinross common stock, net of deferred taxes

of \$172,000. This increase is based upon all of our 1,050,000 Kinross common shares as of December 31, 2009, 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 1,050,000 Kinross common shares as of December 31, 2009, 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, 2009 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 \$152,000, net of deferred taxes of \$57,000 and increase our net loss in the statement of operations by \$95,000. We have also estimated that as of December 31, 2009 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 \$135,000, net of deferred taxes of \$50,000 and would decrease our net loss in the statement of operations by \$85,000.

(3) Solitario's stock option liability is subject to equity market risk for changes in the price of our own stock.

We have estimated, using a Black-Scholes option pricing model that as of December 31, 2009 a hypothetical increase of ten percent in the price of our common stock as traded on the TSX would increase our stock option liability by \$38,000, net of deferred taxes of \$14,000 and increase our net loss in the statement of operations by \$24,000. We have also estimated that as of December 31, 2009 a hypothetical decrease of ten percent in the price of our common stock as traded on the TSX would decrease our stock option liability by \$38,000, net of deferred taxes of \$14,000 and would decrease our net loss in the statement of operations by \$24,000.

#### (b.) Interest Rate Risks

We have no material interest rate risks at December 31, 2009 as we have no interest bearing debt and our interest bearing cash deposits do not generate a material amount of interest income. Additionally, a change in the risk free interest rate would not materially change the determination of our Kinross Collar or our stock option liability at December 31, 2009.

#### (c.) Exchange Rate Risks

Our stock option liability is subject to exchange rate risk.

We have estimated, using a Black-Scholes option pricing model that as of December 31, 2009 a hypothetical increase of ten percent in the relative value of the Canadian dollar compared to the United States dollar would increase our stock option liability by \$26,000, net of deferred taxes of \$10,000 and increase our net loss in the statement of operations by \$16,000. We have also estimated that as of December 31, 2009 a hypothetical decrease of ten percent in the relative value of the Canadian dollar compared to the United States dollar would decrease our stock option liability and our net loss in the statement of operations by the opposite amount.

The portion of our cash that is denominated in foreign currency is subject to exchange rate risk.

## Management's Discussion & Analysis | continued

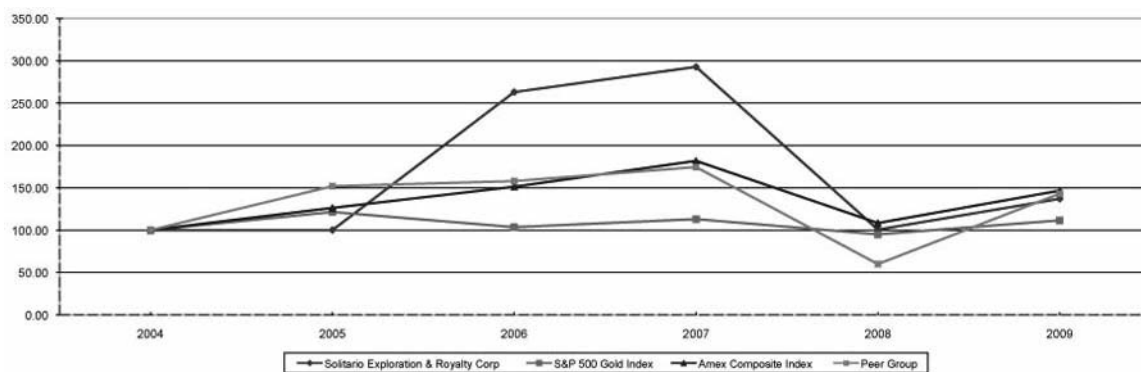
Solitario's cash accounts in foreign subsidiaries not denominated in United States dollars represent the only significant foreign currency denominated assets. Foreign currency denominated cash accounts totaled \$280,000 and \$326,000, respectively, at December 31, 2009 and 2008. We have estimated that as of December 31, 2009 an increase in the value of the Brazilian Real to the United States Dollar of 10% would decrease our cash on hand by \$25,000, net of deferred taxes of \$9,000 and increase our net loss in the statement of opera-

tions by \$16,000. A decrease in the value of the Brazilian Real to the United States Dollar of 10% would increase the value of our cash and reduce our loss in the statement of operations by the opposite amount. We have no other material exchange rate risks as of December 31, 2009, as our other foreign denominated cash accounts are not significant to our total assets, liabilities or operating results.

Our other operating assets and liabilities are generally dominated in United States Dollars and do not have material exchange rate risks.

### Comparison of Five-Year Cumulative Total Return

(Assumes initial investment of \$100 to December 2009)



	2004	2005	2006	2007	2008	2009
Solitario	100.00	262.98	292.82	292.82	100.55	137.02
S&P 500 Gold Index	100.00	121.38	103.48	112.96	95.02	111.47
Amex Composite Index	100.00	126.19	151.27	181.82	108.32	146.69
Peer Group	100.00	151.87	157.93	174.50	59.94	143.11

Our peer group consists of the following Companies: International Royalty Corporation, Great Basin Gold Corporation, New Gold Inc., Atna Resources Ltd. and Pacific Rim Corporation.



### To the Board of Directors and Shareholders of Solitario Exploration & Royalty Corp. Wheat Ridge, Colorado

We have audited the accompanying consolidated balance sheets of Solitario Exploration & Royalty Corp. (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, 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 Exploration & Royalty Corp. as of December 31, 2009 and 2008 (restated), and the results of its operations and its cash flows for the years ended December 31, 2009, December 31, 2008 (restated) and December 31, 2007 (restated) in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 of the consolidated financial statements, the Company has restated its consolidated financial statements as of December 31, 2008 and for each of the years in the two-year period ended December 31, 2008 to classify and record payments received by its subsidiary from a non-controlling shareholder as deferred non-controlling shareholder payments instead of as a reimbursement for exploration expenditures incurred on behalf of the Company.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in its internal control over its interpretation of generally accepted accounting principles related to the restatements discussed above and in Note 11 of the consolidated financial statements. This material weakness was considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 2009 financial statements.


In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Solitario Exploration & Royalty Corp. has not maintained effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

  
Ehrhardt Keefe Steiner & Hottman PC  
February 12, 2010  
Denver, Colorado

## Consolidated Balance Sheets | in thousands except share & per share amounts

	December 31, 2009	December 31, 2008 (as restated)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,946	\$ 1,942
Investments in marketable equity securities, at fair value	4,600	2,763
Prepaid expenses and other	196	292
Total current assets	6,742	4,997
Mineral properties, net	2,739	2,785
Investments in marketable equity securities, at fair value	15,006	18,453
Other assets	154	228
Total assets	\$ 24,641	\$ 26,463
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 269	\$ 291
Derivative instruments fair value	53	393
Current taxes payable	385	-
Deferred income taxes	1,567	884
Other	150	14
Total current liabilities	2,424	1,582
Derivative instrument fair value	-	236
Deferred income taxes	5,555	6,063
Stock option liability	262	531
Deferred noncontrolling shareholder payments	1,286	-
<b>Commitments and contingencies (Notes 2 and 7)</b>		
<b>Equity:</b>		
Solitario shareholders' equity		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2009 and 2008)	-	-
Common stock, \$0.01 par value, authorized, 50,000,000 shares (29,750,242 shares issued and outstanding at December 31, 2009 and 2008)	297	297
Additional paid-in capital	35,611	35,611
Accumulated deficit	(32,930)	(31,144)
Accumulated other comprehensive income	11,722	12,454
Total Solitario shareholders' equity	14,700	17,218
Noncontrolling interest	414	833
Total shareholders' equity	15,114	18,051
Total liabilities and shareholders' equity	\$ 24,641	\$ 26,463

On behalf of the Board:

  
 Christopher E. Herald  
 Director

  
 John Hainey  
 Director

See Notes to Consolidated Financial Statements.



## Consolidated Statements of Operations | in thousands except per share amounts

	For the year ended December 31,		
	2009	2008	2007 (as restated)
<b>Property and joint venture revenue</b>			
Joint venture property payments	\$ 200	\$ 200	\$ 100
<b>Costs, expenses and other:</b>			
Exploration expense	3,579	4,589	4,155
Depreciation and amortization	91	98	85
General and administrative (benefit)	2,079	(936)	3,939
Loss (gain) on derivative instruments	(694)	(1,177)	1,702
Property abandonment and impairment	51	107	20
(Gain) loss on sale of assets	18	(32)	1
Interest and dividend income	(106)	(157)	(76)
<b>Total costs, expenses and other</b>	<b>5,018</b>	<b>2,492</b>	<b>9,826</b>
Other income - break fee on attempted acquisition	2,200	-	-
Other income - gain on sale of marketable equity securities	1,409	3,576	4,085
<b>Income (loss) before income tax</b>	<b>(1,209)</b>	<b>1,284</b>	<b>(5,641)</b>
Income tax (expense) benefit	(996)	(2,128)	184
<b>Net loss</b>	<b>(2,205)</b>	<b>(844)</b>	<b>(5,457)</b>
Less net loss attributable to noncontrolling interest	419	227	17
<b>Net loss attributable to Solitario shareholders</b>	<b>\$ (1,786)</b>	<b>\$ (617)</b>	<b>\$ (5,440)</b>
<b>Loss per common share attributable to Solitario shareholders:</b>			
Basic and diluted	\$ (0.06)	\$ (0.02)	\$ (0.18)
<b>Weighted average shares outstanding:</b>			
Basic and diluted	29,750	29,691	29,467

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity | in thousands except share amounts

For the years ended December 31, 2009, 2008 and 2007

	Solitario Shareholders'							
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Solitario Shareholders' Equity	Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount						
<b>Balance at 12/31/2006 (as restated)</b>	<b>28,689,992</b>	<b>\$ 287</b>	<b>\$ 28,470</b>	<b>\$ (25,087)</b>	<b>\$ 10,451</b>	<b>\$ 14,121</b>	<b>\$ -</b>	<b>\$ 14,121</b>
Shares issued:								
Option exercise	929,500	9	3,526	-	-	3,535	-	3,535
Noncontrolling interest equity contribution	-	-	1,886	-	-	1,886	392	2,278
Comprehensive income:								
Net loss	-	-	-	(5,440)	-	(5,440)	(17)	(5,457)
Net unrealized gain on marketable equity securities (net of tax of \$1,794)	-	-	-	-	3,790	3,790	-	3,790
Comprehensive loss	-	-	-	-	-	-	-	(1,667)
<b>Balance at 12/31/2007 (as restated)</b>	<b>29,619,492</b>	<b>296</b>	<b>33,882</b>	<b>(30,527)</b>	<b>14,241</b>	<b>17,892</b>	<b>375</b>	<b>18,267</b>
Shares issued:								
Option exercise	130,750	1	624	-	-	625	-	625
Noncontrolling interest equity contribution	-	-	1,105	-	-	1,105	685	1,790
Comprehensive income:								
Net loss	-	-	-	(617)	-	(617)	(227)	(844)
Net unrealized loss on marketable equity securities (net of tax of \$1,063)	-	-	-	-	(1,787)	(1,787)	-	(1,787)
Comprehensive loss	-	-	-	-	-	-	-	(2,631)
<b>Balance at 12/31/2008 (as restated)</b>	<b>29,750,242</b>	<b>297</b>	<b>35,611</b>	<b>(31,144)</b>	<b>12,454</b>	<b>17,218</b>	<b>833</b>	<b>18,051</b>
Comprehensive income:								
Net loss	-	-	-	(1,786)	-	(1,786)	(419)	(2,205)
Net unrealized loss on marketable equity securities (net of tax of \$435)	-	-	-	-	(732)	(732)	-	(732)
Comprehensive loss	-	-	-	-	-	-	-	(2,937)
<b>Balance at 12/31/2009</b>	<b>29,750,242</b>	<b>\$ 297</b>	<b>\$ 35,611</b>	<b>\$ (32,930)</b>	<b>\$ 11,722</b>	<b>\$ 14,700</b>	<b>\$ 414</b>	<b>\$ 15,114</b>

See Notes to Consolidated Financial Statements.



## Consolidated Statements of Cash Flows | in thousands

	For the year ended December 31,		
	2009	2008	2007 (as restated)
<b>Operating activities:</b>			
Net loss	\$ (1,786)	\$ (617)	\$ (5,440)
Adjustments to reconcile net loss to net cash used in operating activities:			
(Gain) loss on derivative instruments	(694)	(1,177)	1,702
Depreciation and amortization	91	98	85
Loss on equity method investment	-	30	-
Asset write down	51	107	20
Employee stock option expense (benefit)	(269)	(3,255)	1,991
Deferred income taxes	611	2,128	(184)
Gain on asset and equity security sales	(1,391)	(3,608)	(4,085)
Noncontrolling interest in loss of consolidated subsidiary	(419)	(227)	(17)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	96	(90)	158
Accounts payable and other current liabilities	112	78	15
Current income taxes payable	385	-	-
Net cash used in operating activities	(3,213)	(6,533)	(5,755)
<b>Investing activities:</b>			
Additions to mineral properties	(5)	(111)	(37)
Additions to other assets	(15)	(46)	(150)
Sale of derivative instrument, net	99	104	-
Proceeds from sale of marketable equity securities	1,852	4,430	5,548
Net cash provided by investing activities	1,931	4,377	5,361
<b>Financing activities:</b>			
Deferred noncontrolling shareholder payments	1,286	1,700	1,133
Issuance of common stock	-	148	607
Net cash provided by financing activities	1,286	1,848	1,740
<b>Net increase (decrease) in cash and cash equivalents</b>	4	(308)	1,346
<b>Cash and cash equivalents, beginning of year</b>	1,942	2,250	904
<b>Cash and cash equivalents, end of year</b>	\$ 1,946	\$ 1,942	\$ 2,250
<b>Supplemental disclosure of cash flow information:</b>			
Reclassification of stock option liability to additional paid-in capital upon exercise of stock options	\$ -	\$ 477	\$ 2,928
Reclassification of deferred noncontrolling shareholder payments to additional paid-in-capital	\$ -	\$ 1,105	\$ 1,886
Reclassification of deferred noncontrolling shareholder payments to noncontrolling interest	\$ -	\$ 685	\$ 392

See Notes to Consolidated Financial Statements.

### For the years ended December 31, 2009, 2008 and 2007

#### 1. Business and Summary of Significant Accounting Policies:

##### Business and company formation

Solitario Exploration & Royalty Corp. (“Solitario”) is an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. Solitario acquires and holds a portfolio of exploration properties for future sale, joint venture or to create a royalty 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 delay rental payments of \$200,000, \$200,000 and \$100,000, respectively, related to its Bongará project during 2009, 2008 and 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, 2009 Solitario had 15 mineral exploration properties in Peru, Bolivia, Mexico and Brazil and its Yanacocha and La Tola royalty properties in Peru. 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”). In July 1994, Solitario became a publicly traded company on the Toronto Stock Exchange (the “TSX”) through its Initial Public Offering. On June 12, 2008, the shareholders of Solitario approved an amendment to the Articles of Incorporation of Solitario to change the name of the corporation to Solitario Exploration & Royalty Corp. from Solitario Resources Corporation.

##### Investment in Kinross

Solitario has a significant investment in Kinross at December 31, 2009, which consists of 1,050,000 shares of Kinross common stock. During 2009, Solitario sold 100,000 shares of Kinross common stock for proceeds of \$1,852,000 and during 2008 Solitario sold 192,920 Kinross common shares for net proceeds of \$4,430,000. As of February 10, 2010, Solitario owns 1,050,000 shares of Kinross common stock. Solitario’s investment in Kinross common stock represents a significant concentration of risk and 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 2007, Solitario entered into a collar that limited the proceeds on 900,000 shares of Solitario’s investment in Kinross common shares. On April 14, 2009, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of that tranche of the Kinross Collar. In December 2008 Solitario sold two call options covering 100,000 shares of Kinross, which expired in February 2009. In March 2009, Solitario sold a covered call option covering 50,000 shares of Kinross, which expired in April 2009. In April 2009, Solitario sold a covered call option covering 40,000 shares on Kinross, which was repurchased in August 2009 concurrently with the sale of a covered call option covering 40,000 shares of Kinross, which was repurchased in November 2009 concurrently with the sale of a covered call option that expires in May 2010. Both the Kinross Collar and the call options are 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.

Certain headings and descriptions from prior years have been changed to conform to current year presentation.

##### Revenue recognition

Solitario records any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary by the other party, Solitario records noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds recorded in deferred noncontrolling interest is recorded as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, Solitario records any payments included in deferred noncontrolling shareholder payments to the statement of operations. Solitario recorded deferred noncontrolling shareholder payments from Anglo of \$1,286,000 as of December 31, 2009. Solitario records delay rental payments as revenue in the period received. Solitario recorded \$200,000, \$200,000 and \$100,000, respectively, of delay rental payments on its Bongará joint venture agreement during 2009, 2008 and 2007. Any payments received for the sale of property interests are recorded as a reduction of the related property’s capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue.

##### Noncontrolling interest

Solitario records noncontrolling interest for the portion of its assets and net loss in any subsidiaries which are less than 100% owned. During 2008, Solitario’s share of its investment in its subsidiary Pedra Branca Mineracao, Ltda. (“PBM”) was reduced to 70% from 85% as a result of Anglo earning an additional 15% interest in PBM on December 23, 2008, in accordance with the terms of PBM’s Shareholder Agreement. Solitario recorded a noncontrolling interest in the equity section of its balance sheet of \$414,000 and \$833,000, respectively, as of December 31, 2009 and 2008 and recorded a credit of \$419,000, \$227,000 and \$17,000, respectively, in its statements of operations for the noncontrolling interest in the loss of PBM during 2009, 2008 and 2007.

##### 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 Solitario’s stock option liability and related changes recorded as 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, the fair value of the call options on Kinross stock as of December 31, 2009 and the fair value of Solitario’s Zero Premium Equity Collar with respect to 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, 2009 and 2008, 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 prior to the establishment of proven and probable reserves. Initial acquisition costs of its mineral properties are capitalized. 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 year ended December 31, 2009 Solitario recorded an impairment of \$51,000 on its mineral properties. During the year ended December 31, 2008 Solitario did not impair any of its mineral properties. During the year ended December 31, 2007, Solitario recorded an impairment of \$20,000 on its mineral properties.

Solitario's net capitalized mineral properties of \$2,739,000 and \$2,785,000 at December 31, 2009 and 2008, respectively, related to gross land, leasehold and acquisition costs of \$3,762,000 and \$3,808,000 at December 31, 2009 and 2008, respectively, less accumulated amortization of \$1,023,000 at December 31, 2009 and 2008. 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 in accordance with ASC 815, "Accounting for Derivative Instruments and Hedging Activities." 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 with UBS whereby Solitario pledged 900,000 shares of Kinross common shares to be sold (or delivered back to us with any differences settled in cash).

Beginning in December 2008, Solitario has sold covered calls covering its shares of Kinross common stock. Solitario sold three covered calls covering 130,000 shares of Kinross common stock during 2009. Fifty thousand of these call options expired unexercised in April 2009, 40,000 were repurchased in July 2009 and 40,000 were repurchased in November 2009. As of December 31, 2009, Solitario has sold the May 10 Kinross Call, covering 40,000 shares of Kinross common stock, with a strike price of \$22.00. During 2008 Solitario sold two covered calls covering 50,000 shares for cash proceeds of \$104,000, which expired in February 2009.

Solitario has not designated its Kinross Collar or its covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of the Kinross Collar or the Kinross covered calls are recognized in the statement of operations in the period of the change. See Note 5, Derivative instruments below.

**Metallic Ventures**

On August 24, 2009 Solitario and Metallic Ventures Gold Inc. ("Metallic Ventures") entered into a definitive arrangement agreement ("Agreement") whereby Solitario would acquire, through a friendly statutory plan of arrangement under Canadian Law, all outstanding shares of Metallic Ventures, subject to certain conditions. On October 13, 2009, Solitario and Metallic Ventures entered into an amendment to the Agreement (the "Amendment"), whereby Solitario increased its bid to acquire all outstanding shares of Metallic Ventures. The Agreement, as amended, provided that Solitario would issue 19.5 million shares of Solitario common stock and would pay cash consideration of \$18 million for all of the outstanding shares of Metallic Ventures. The Agreement, as amended, also provided for a termination deadline of February 28, 2010 and that Metallic Ventures would pay a termination fee of \$2.2 million under certain circumstances, including if Metallic Ventures accepted a superior offer, as defined in the Agreement, as amended. The Agreement, as amended, was subject to shareholder and regulatory approval. In order to offer Metallic Ventures' shareholders the in-

creased number of shares, Solitario and certain of its Officers, Directors and employees agreed to voluntarily cancel 1,935,000 previously granted options concurrently with the signing of the Amendment.

On October 29, 2009 Metallic Ventures announced that they had determined that an offer from International Minerals Corporation constituted a superior offer as defined in the Agreement, as amended. On November 2, 2009, Metallic Ventures terminated the Agreement, as amended, and paid Solitario a termination fee of \$2.2 million, which is included in other income in the statement of operations for the year ended December 31, 2009.

**Fair Value**

Effective January 1, 2008, Solitario adopted ASC 820, "Fair Value Measurements." ASC 820 establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For certain of Solitario's financial instruments, including cash and cash equivalents, and accounts payable, the carrying amounts approximate fair value due to their short-term maturities. Solitario's marketable equity securities and the Kinross Calls are carried at their estimated fair value based on quoted market prices. See Note 6 to the consolidated financial statements.

**Marketable equity securities**

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within shareholders' 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 \$19,606,000 and \$21,216,000, respectively, and cost of \$1,035,000 and \$1,478,000, respectively, at December 31, 2009 and 2008. Solitario has accumulated other comprehensive income for unrealized holding gains of \$18,571,000 and \$19,738,000, respectively, net of deferred taxes of \$6,849,000 and \$7,284,000, respectively, at December 31, 2009 and 2008 related to our marketable equity securities. Solitario sold 100,000 and 192,920 shares, respectively, of its Kinross common stock during 2009 and 2008 for gross proceeds of \$1,852,000 and \$4,430,000, respectively. Solitario has classified \$4,600,000 and \$2,763,000, respectively, of marketable equity securities as current, as of December 31, 2009 and December 31, 2008, which represents Solitario's estimate of what portion of marketable equity securities will be liquidated within one year. During 2008, Solitario recognized an asset impairment of \$107,000, net of deferred taxes of \$40,000, representing the difference between the cost basis and the fair value at December 31, 2008, for an other-than-temporary decline in the value of its investment in TNR Gold, which was previously included as an unrealized loss on marketable equity securities in other comprehensive income.

The following table represents changes in marketable equity securities:

<b>(in thousands)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Gross cash proceeds	\$ 1,852	\$ 4,430	\$ 5,548
Cost	443	854	1,463
Gross gain on sale			
included in earnings			
during the period	1,409	3,576	4,085
Unrealized holding gain			
arising during the			
period included in			
other comprehensive			
income, net of tax of			
\$90, \$231 and and \$3,317	152	389	6,352
Reclassification adjustment			
for net losses (gains)			
included in earnings			
during the period, net			
of tax of \$526, \$1,334			
and \$1,523	(884)	(2,242)	(2,562)

### 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. During 2009, 2008 and 2007, Solitario recorded foreign exchange gain (loss) of \$35,000, (\$62,000) and (\$8,000), respectively. Solitario's cash accounts in foreign subsidiaries not denominated in United States dollars represent the only significant foreign currency denominated assets. Foreign currency denominated cash accounts totaled \$280,000 and \$326,000, respectively, at December 31, 2009 and 2008.

### Income taxes

Solitario accounts for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under ASC 740, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus 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 ASC 740, "Accounting for Uncertainty in Income Taxes," as of January 1, 2007. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 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. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. ASC 740 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 ASC 740 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, 2009, 2008 and 2007. Potentially dilutive shares related to outstanding common stock options of 519,000, 2,135,000, and 2,294,500 for the years ended December 31, 2009, 2008 and 2007, respectively, were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

### Employee stock compensation plans

Solitario accounts for its stock options under the provisions of ASC 718 Compensation – Stock Compensation. Pursuant to ASC 718 Solitario classifies its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars. Solitario records a liability for the fair value of the vested portion of outstanding options based upon a Black-Scholes option pricing model. This model requires the input of subjective assumptions, including a risk free interest rate, the contractual term, the exchange rate between the United States dollar and the Canadian dollar, a zero dividend yield, a zero forfeiture rate, and an expected volatility based upon the historical volatility of Solitario's common stock on the Toronto Stock Exchange (the

"TSX") over the period corresponding to the expected life of the options. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded and stock-based compensation expense could have been materially different from that reported.

Solitario's outstanding options on the date of grant have a five year term, and vest 25% on date of grant and 25% on each anniversary date. Solitario recognizes stock option compensation expense (benefit) for the change in fair value of vested options. Solitario records stock option liability for the vested fair value of each option grant on the measurement date by multiplying the estimated fair value determined using the Black-Scholes model by a vesting percentage, with 25% recognized immediately, and the remaining 75% recognized over three years on a straight line basis.

### Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2009, 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, 2009 and 2008 are total assets of \$3,310,000 and \$3,751,000, 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, 2009 and 2008 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 June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Codification ("ASC") 105, "Generally Accepted Accounting Principles," which establishes the FASB ASC as the sole source of authoritative generally accepted accounting principles ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The ASC supersedes all non-SEC accounting and reporting standards. Pursuant to the provisions of FASB ASC 105, Solitario has updated the references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of FASB ASC 105 did not impact Solitario's financial position or results of operations.

In December 2007, the Financial Accounting Standards Board ("FASB") issued ASC 810-10-65, "Noncontrolling Interests in Consolidated Financial Statements," an Amendment of ASC 810-10-10. ASC 810-10-65 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 ASC 810-10-10 for consistency with the requirements of ASC 810. ASC 810-10-65 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. Solitario adopted 810-10-65 on January 1, 2009 and as a result has retrospectively reported its equity related to Solitario shareholders and the noncontrolling interest held by Anglo Gold of Solitario's Pedra Branca Mineracao, Ltda. subsidiary in the equity section of the consolidated balance sheet, as well as reporting the noncontrolling interest in the consolidated statement of operations included with this report.

In December 2007, the FASB issued ASC 805-10-65, "Business Combinations (revised 2007)." ASC 805-10-65 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. ASC 805-10-65 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 adopted ASC 805-10-65 on January 1, 2009 and it did not have any impact on its financial position, results of operations or cash flows.

In February 2008, the FASB issued ASC 820-10-15, "Effective Date of ASC 820-10-05." ASC 820-10-15 delayed the effective date of ASC 820-10-05 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Solitario adopted the provisions of ASC 820-10-15 on January 1, 2009 and it did not have any impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued ASC 815-10-65, "Disclosures about Derivative Instruments and Hedging Activities," an amendment of ASC 815-10-05. ASC 815-10-65 requires enhanced disclosures about derivative instruments and hedged items that are accounted for under 815-10-05 and related interpretations. ASC 815-10-65 was effective for all interim and annual financial statements for periods beginning after November 15, 2008, with early adoption permitted. Solitario adopted ASC 815-10-65 on January 1, 2009 and has included the required disclosures in its consolidated financial statements.

In May 2009, the FASB issued ASC 855-10-05, "Subsequent Events." ASC 855-10-05 establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. Solitario adopted the provisions of ASC 855-10-05 for the interim period ended June 30, 2009. Solitario's management has evaluated events subsequent to December 31, 2009 through February 12, 2010 which is the issuance date of this report. This report reflects all material events noted in the subsequent period that would have impacted the results reported herein or in Solitario's results going forward. The adoption of ASC 855-10-05 had no impact on Solitario's consolidated 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,	
	2009	2008
Mineral interests	\$ 3,762	\$ 3,808
Accumulated amortization	(1,023)	(1,023)
Net mineral interests	\$ 2,739	\$ 2,785

Solitario classifies its interest in mineral properties as Mineral Properties, net pursuant to authoritative literature. Prior to 2004, Solitario classified

its interests in mineral properties as intangible assets, Mineral Interests, net and recorded amortization of the intangible asset. Solitario no longer amortizes its interest in Mineral Properties, net.

### Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 28,000 hectares in Peru excluding properties held under joint ventures and operated by other parties. Applications to acquire mineral concessions in Peru are subject to formalized administrative review and approval. According to Peruvian law, concessions may be held indefinitely, subject only to payment of annual fees to the government. Each year a payment of \$3.00 per hectare (approximately 2.477 acres per hectare) must be made by the last day of June to keep the claims in good standing. For concessions that are more than six years old, there is a \$6.00 surcharge per hectare, if less than \$100 per hectare is invested in exploration and development of the claim. Approximately 2,200 hectares of Solitario's concessions are subject to the \$6.00 per hectare surcharge. Peru also imposes a sliding scale net smelter return royalty (NSR) on all precious and base metal production. This NSR assesses a tax of 1% on all gross proceeds from production up to \$60,000,000, a 2% NSR on proceeds between \$60,000,000 and \$120,000,000 and a 3% NSR on proceeds in excess of \$120,000,000.

#### (a) Bongará

Solitario acquired the initial Bongará exploration concessions in 1993. Bongará mineral concessions now total 16 concessions covering approximately 12,600 hectares in northern Peru. 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 property interests are held through the ownership of shares in Minera Bongará, a joint operating company that holds a 100% interest in the mineral rights and other project assets. At December 31, 2009, Solitario owns 100% of the shares in this company (Minera Bongará S.A.).

Votorantim can earn up to a 70% shareholder interest in the joint operating company by funding an initial \$1.0 million exploration program (completed), by completing future annual exploration and development expenditures 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. The agreement calls for Votorantim to have minimum annual exploration and development expenditures of \$1.5 million in each of years two and three, which commitments have been met as of December 31, 2009, 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. Votorantim, in its sole discretion, may elect to terminate the option to earn the 70% interest at any time after the first year commitment. In addition Votorantim is required to make annual delay rental payments of \$100,000 by August 15, 2007 (completed), \$200,000 by August 15, 2008 and 2009 (completed), and by making further delay rental payments to Solitario of \$200,000 on all subsequent anniversaries until a production decision is made. 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.

Votorantim signed a new surface rights agreement with the local community in 2009, which controls the surface of the primary area of interest of our Bongará joint venture. This agreement provides for an annual

## Notes | to Consolidated Financial Statements continued

payment of \$31,250 and funding for mutually agreed social development programs in return for the right to perform exploration work including road building and drilling. From time to time Solitario enters into surface rights agreements with individual landowners or communities to provide access for exploration work. Generally, these are short term agreements. Votorantim is responsible for all joint venture costs as part of the Framework Agreement. Votorantim has conducted annual drilling programs at Bongará for the years 2006-2009.

### (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% in the aggregate to the government of Peru and Solitario when the gold price is greater than \$500 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 three percent, depending on the mine's annual revenues. 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 retains 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. CSR has the right to purchase the 2% NSR for \$1.5 million anytime before commercial production is reached.

### (d) Chambara

In September of 2006, Solitario acquired 3,700 hectares of 100%-owned mineral rights through concessions for its Chambara property in northern Peru. Solitario formerly held 300 hectares in the project since 1997. 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 Chambara project. At December 31, 2007, the Chambara project consisted of six widely spaced areas consisting of 13 concessions totaling 9,600 hectares.

On April 4, 2008 Solitario signed the Minera Chambara shareholders' agreement with Votorantim Metais Cajamarquilla, S.A., a wholly owned subsidiary of Votorantim Metais (both companies referred to as "Votorantim") for the exploration of a large area of interest in northern Peru measuring approximately 200 by 85 kilometers. Votorantim is the project manager, funds and conducts all exploration on the project. Votorantim contributed 52 mineral concessions within the area of interest totaling 52,000 hectares to Minera Chambara for a 15% interest in Minera Chambara. Solitario contributed 9,600 hectares of mineral claims and certain exploration data in its possession for an 85% interest in Minera Chambara. Existing and future acquired properties subject to the terms of the shareholders' agreement will be held by Minera Chambara. As of December 31, 2009, Minera Chambara's only assets are the properties and Minera Chambara has no debt. In 2008 and

2009, Votorantim added and dropped various concessions. Minera Chambara now controls 195 concessions totaling approximately 175,000 hectares of mineral rights. Votorantim may increase its shareholding interest to 49% by expending \$6,250,000 over seven years and may increase its interest to 70% by funding a feasibility study and providing for construction financing for Solitario's interest. If Votorantim provides such construction financing, Solitario would repay that financing, including interest, from 80% of Solitario's portion of the project cash flow.

Solitario determined that Votorantim controls Minera Chambara pursuant to the terms of the shareholders' agreement and accordingly, Solitario has recorded its investment in Minera Chambara using the equity-method of accounting. During the second quarter of 2008, Solitario transferred its interest in the claims of \$30,000 from mineral properties, net to equity method investment. During 2008, Solitario reduced its equity method investment in Minera Chambara to zero, through a non-cash charge to exploration expense. Solitario does not anticipate it will record an increase in the book value of our 85% equity-method investment in the shares of Minera Chambara in the foreseeable future, if at all.

### (e) Newmont Strategic Alliance

On January 18, 2005, Solitario signed a Strategic Alliance Agreement (the "Alliance Agreement") with Newmont Overseas Exploration Limited ("Newmont"), 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. Concurrent with the signing of the Alliance Agreement, Newmont Mining Corporation of Canada purchased 2.7 million shares of Solitario (approximately 9.9% equity interest) for Cdn\$4,590,000. Solitario was required to spend \$3,773,000 over the four years, which was subsequently extended by mutual agreement to five years, from the date of the Alliance Agreement on gold exploration in regions ("Alliance Projects Areas") that were mutually agreed upon by Newmont and Solitario. In late July 2009 Solitario completed the required expenditure commitment and informed Newmont. In December 2009 Solitario granted Newmont a 2% net smelter royalty on five properties ("Strategic Alliance Properties") that fall within Strategic Alliance areas. If Solitario meets certain minimum exploration expenditures on Strategic Alliance Properties, Newmont 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 may elect to earn a lesser interest or no interest at all, in which case it would retain a 2% net smelter return royalty. As of December 31, 2009, Newmont also has a right of first offer on Solitario's Santiago and Espanola properties, which are non-alliance Solitario properties 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, 2009, Solitario has established five property positions that fall within the currently defined Strategic Alliance areas and are subject to the provisions of the Newmont Alliance as discussed above. These include the La Promesa, Paria Cruz, Cajatambo, Excelsior and Cerro Azul (formerly Twin Lakes) properties. The Cerro Azul property was staked in 2007; the La Promesa, Paria Cruz, Cajatambo and Excelsior properties were staked in early 2008. All five properties are 100%-owned by Solitario, subject to the Alliance Agreement, and are situated within the central Peru mineral belt that is proximal to the giant Cerro de Pasco silver-base metal district.

The La Promesa property, acquired in 2008, consists of three concessions totaling 2,600 hectares. No payments are due to third parties so the only holding costs for the mineral rights are annual payments of three dollars per hectare to the Peruvian government during the first six years that the claims are held. The Cajatambo property in Peru, acquired in 2008 and 2009, consists of eleven concessions totaling 10,500 hectares. No payments are due to third parties so the only holding costs for the mineral rights are annual payments of three dollars per hectare to the Peruvian government during the first six years that the claims are held.



**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, 2009, the Pedra Branca project consisted of 57 exploration concessions totaling approximately 70,000 hectares in Ceará State, Brazil. Solitario has 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., a 70%-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”) whereby Anglo 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 to establish and govern PBM, which holds 100% title to all the assets of the Pedra Branca project, and the mechanics for Anglo’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 for the exploration and development of the Pedra Branca Project. The Shareholders’ Agreement provides for Solitario and Anglo property interests to be held through the ownership of shares of PBM. As part of the agreement, Anglo earned a 15% interest in PBM as of December 31, 2007 and an additional 15% interest during 2008 for a total of a 30% interest in PBM as of December 31, 2008, as a result of spending a total of \$4.0 million on exploration at Pedra Branca. Additionally, the Shareholders’ Agreement provides that Anglo may incrementally earn up to a 51% interest in PBM by spending a total of \$7 million on exploration (\$3.0 million in addition to the \$4.0 million spent as of December 31, 2008) at Pedra Branca by June 30, 2010. However, Anglo is not required to fund any future exploration expenditures. Anglo 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 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 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 2009 Solitario recorded management fees of \$65,000, to PBM, which are eliminated in consolidation, net of \$20,000 of noncontrolling interest. During 2008 Solitario recorded \$75,000 of management fees included as joint venture reimbursements. Land payments to the government to keep the claims in good standing at Pedra Branca are projected to be approximately \$75,000 for 2010.

**(b) Mercurio**

In September 2005, Solitario completed an option agreement for the purchase of 100% of the mineral rights over the 8,476-hectare Mercurio property in the state of Para, Brazil. An initial payment of 20,000 Brazilian Reals (approximately \$7,000) was paid on signing of the agreement and the next payment of 36,000 Reals (approximately \$12,000) was made in 2005 on signing of a definitive agreement upon conversion of the existing washing claims to exploration claims. Further payments are required upon the conversion of garimpeiro licenses to exploration claims

which occurred in the third quarter of 2006. During 2008 and 2007 payments totaled approximately \$60,000 and \$55,000, respectively. In 2009 Solitario amended the terms of the underlying agreement to suspend payments for one year. To purchase the property, an escalating scale of payments totaling 780,000 Reals (approximately \$325,000) is required over a sixty month period. A net smelter return of 1.5% is retained by the owner. This NSR can be extinguished with a payment of 2,300,000 Reals (approximately \$1,958,000). All payments are indexed to inflation as of the signing of the agreement. The owner of the mineral rights also owns the surface rights, the use of which is included in the exploration of the property. On completion of all payments Solitario will receive title to 1,500 hectares of surface rights. Solitario may terminate the agreement at any time at its sole discretion. During the past four years, Solitario has conducted three rounds of core drilling totaling 36 holes. The third round of core drilling was completed in the first quarter of 2008. A payment of approximately \$7,000 to the government of Brazil during 2010 will be required to keep the Mercurio claims in good standing.

**Bolivia****(a) 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, and a payment of \$35,000, which was paid in June 2007. In June of 2008 Solitario amended the contract with the option holder for the Triunfo property that suspends the payments schedule agreed to under the contract. For the right to suspend payments Solitario is required to pay \$5,000 per year until such time as Solitario decides to continue exploration drilling. The first payment of the “stand-by” period was made on signing of the amendment and such suspension shall continue for so long as Solitario pays \$5,000 on the anniversary of the signing of the amendment. An option to purchase the property for \$1,000,000 would be due upon completion of the currently suspended payment schedule. Solitario may terminate the contract at any time at its sole discretion.

**(b) Espanola**

Solitario optioned the Espanola gold-copper property in western Bolivia in July 2008. The initial option payment was \$5,000, with annual payments of \$10,000 until drilling commences. Solitario must pay the mineral rights owner \$65,000 prior to the end of the first year after which drilling has commenced. Total payments of \$1.0 million must be made during a period of four years and 10 months after initiation of drilling to purchase an 85% interest in the property.

**Mexico****(a) Pachuca**

The 30,700 hectare Pachuca Real silver-gold property in central Mexico was acquired by staking in late 2005 and early 2006. Part of the property, the approximately 6,200 hectare El Cura claim, is held under an option agreement with a private Mexican party. The option agreement was completed in October 2005 and provides for payments of \$500,000 over four years, of which Solitario has made payments totaling \$90,000 as of December 31, 2009. In May 2009 the option agreement was amended. Under the revised terms, Solitario is required to pay \$15,000 every six months, starting in May of 2009 (of which the payments due in May 2009 and November 2009 have been paid), to the underlying owner to keep the option in good standing. By May of 2012, Solitario must either exercise the option to acquire 100% interest in the concession by paying the underlying owner \$500,000, or the option will terminate. Claims fees to be paid to the government of Mexico totaling approximately \$77,000 are due in 2010. 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 called for a work commitment by Newmont of \$12.0 million over 54 months to earn a 51% interest in the

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property. Newmont had the right to earn an additional 19% interest (70% total) by completing a feasibility study and by financing Solitario's 30% interest in construction costs. In December 2008 Newmont terminated its right to earn an interest in the Pachuca Real property. Solitario retains 100% interest in the Pachuca Real property. Newmont transferred its extensive technical data base to Solitario in the first quarter of 2009, including the assay results from 19 drill holes.

### (b) La Noria

During the second quarter of 2008 Solitario staked 10,000 hectares in Sonora State of Mexico comprising the La Noria project. It is 100% owned by Solitario with no underlying property owners. Solitario completed a surface access agreement with the surface owner in early 2009 that allowed for access to the property and the approval to conduct exploration. Drilling is planned in the first quarter of 2010.

### (c) Palmira

Solitario optioned the Palmira property in the state of Zacatecas in November 2010 from a private Mexican individual. The Palmira property is 2,600 hectares in size and situated 20 kilometers south of the historic state capital city of Zacatecas. Solitario can acquire 100% interest in the property by making scheduled payments over a five year term totaling \$1.0 million to the underlying owner. The initial option payment of \$5,000 has been made. The next payment of \$10,000 is due on May 20, 2010. To date, Solitario has conducted reconnaissance-stage geologic mapping and geochemical sampling.

### Discontinued projects

During the fourth quarter of 2009 Solitario abandoned the Chonta property in Peru and recorded a mineral property write-down of \$42,000. The Chonta property was optioned in 2008 from a private Peruvian party. Surface work was conducted in 2008 and drilling was conducted in 2009. Drilling results were not considered to be of economic interest and the decision was made to terminate Solitario's option to earn an interest in the property.

During the first quarter of 2009 Solitario terminated work on the Purica copper property in Mexico and recorded a mineral property write-down of \$9,000. The property was acquired in 2008 through an option agreement with an underlying private Mexican party and through our own staking. Solitario conducted geologic mapping, geochemical sampling, geophysical surveying and a six-hole reverse circulation drilling program totaling 1,255 meters in 2008. Low grade copper was intersected in three holes with the other three holes being barren. After reviewing all the exploration results, Solitario elected to abandon the property.

### Exploration expense

The following items comprised exploration expense:

(in thousands)	2009	2008	2007
Geologic, drilling and assay	\$ 1,503	\$ 1,669	\$ 1,569
Field expenses	836	1,394	1,369
Administrative	1,240	1,526	1,217
Total exploration expense	\$ 3,579	\$ 4,589	\$ 4,155

## 3. Related Party Transactions:

### Mark Jones Consulting Agreement

On September 1, 2006, Solitario entered into a two-year consulting agreement with Mark E. Jones, III, a director and vice-chairman of our Board of Directors. The consulting agreement terminated on August 31, 2008. Under the agreement, Mr. Jones advised Solitario 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 was paid a one time lump sum payment of \$160,000, plus he was entitled to receive pre-approved, documented expenses incurred in performance of the consulting services. Solitario incurred \$53,000 and \$80,000, respectively, for consulting expense related to the

agreement, included in general and administrative expense for the years ended December 31, 2008 and 2007.

### TNR Gold Corp.

Solitario owns 1,000,000 shares of TNR that are classified as marketable equity securities available-for-sale and are recorded at their fair market value of \$286,000 and \$33,000 at December 31, 2009 and 2008, respectively. During 2008, Solitario recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of its TNR stock, less deferred taxes of \$40,000. The loss was previously included as a loss in other comprehensive income. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

## 4. Income Taxes:

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

(in thousands)	2009	2008	2007
Current:			
United States	\$ 385	\$ -	\$ -
Foreign	-	-	-
Deferred:			
United States	\$ 162	\$ 1,362	\$ (721)
Foreign	-	-	86
Operating loss and credit carryovers:			
United States	449	766	537
Foreign	-	-	(86)
Income tax expense (benefit)	\$ 996	\$ 2,128	\$ (184)

Consolidated income (loss) before income taxes includes losses from foreign operations of \$3,894,000, \$4,987,000 and \$3,872,000, in 2009, 2008 and 2007, respectively.

During 2009, 2008 and 2007, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of \$242,000, \$620,000, and \$9,669,000, respectively. Other comprehensive income has been charged \$90,000, \$231,000, and \$3,317,000, respectively, for the income tax expense associated with these gains. During 2009, 2008 and 2007, Solitario transferred unrealized gain of \$1,409,000, \$3,576,000 and \$4,085,000, respectively, from other comprehensive income upon the sale of 100,000, 192,920 and 400,000 shares, respectively, of Kinross common stock, less income tax of \$526,000, \$1,334,000 and \$1,524,000, respectively, associated with these unrealized gains. In addition, during 2008, Solitario recognized an asset impairment of \$107,000 for an other-than-temporary decline in the value of its TNR stock, less deferred taxes of \$40,000. The loss was previously included as a loss in other comprehensive income.

The net deferred tax assets/liabilities in the December 31, 2009 and 2008 consolidated balance sheets include the following components:

(in thousands)	2009	2008
Deferred tax assets:		
Loss carryovers	\$ 8,480	\$ 7,770
Stock option compensation expense	98	188
Royalty	1,492	1,492
Derivative instruments	-	235
Severance	47	-
Other	25	25
Valuation allowance	(9,173)	(7,968)
Total deferred tax assets	969	1,742
Deferred tax liabilities:		
Unrealized gain on derivative securities	311	477
Exploration costs	845	845
Unrealized gains on marketable equity securities	6,927	7,362
Other	8	5
Total deferred tax liabilities	8,091	8,689
Net deferred tax liabilities	\$ 7,122	\$ 6,947



At December 31, 2009 and 2008, Solitario has classified \$1,567,000 and \$884,000, respectively, of its deferred tax liability as current, primarily 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)	2009	2008	2007
Expected income tax expense (benefit)	\$ (411)	\$ 436	\$ (1,947)
Non-deductible foreign expenses	13	75	(12)
Non-deductible foreign stock compensation expense	(9)	(60)	66
Foreign tax rate differences	107	100	53
State income tax	88	188	(2)
Change in enacted tax rates	-	-	191
Change in valuation allowance	1,205	1,532	1,505
Permanent differences and other	3	(143)	(38)
Income tax expense (benefit)	<u>\$ 996</u>	<u>\$ 2,128</u>	<u>\$ (184)</u>

During 2009, 2008 and 2007, the valuation allowance was increased primarily as a result of increases in Solitario foreign net operating loss carryforwards, for which it was more likely than not that the deferred tax benefit would not be realized.

At December 31, 2009, Solitario has no unused US Net Operating Loss ("NOL") carryovers. Solitario has foreign loss carryforwards for which Solitario has provided a full valuation allowance and which expire over various periods from five years to no expiration depending on the foreign jurisdiction.

On January 1, 2007, Solitario adopted the provisions ASC 740-10, 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. ASC 740-10 requires that Solitario recognize in its 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 ASC 740-10, Solitario performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards established by ASC 740-10. The provisions of ASC 740-10 had no effect on Solitario's financial position, cash flows or results of operations at January 1, 2007, December 31, 2007, December 31, 2008, or December 31, 2009 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 2006 through 2009. The tax years that remain open to examination by the State of Colorado are years 2005 through 2009. The tax years that remain open to examination by Mexico are years 2006 through 2009. 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, December 31, 2007, December 31, 2008, or December 31, 2009.

## 5. Derivative Instruments:

Solitario accounts for its derivative instruments as in accordance with ASC 815, "Accounting for Derivative Instruments and Hedging Activities." 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 with UBS whereby Solitario pledged 900,000 shares of Kinross common shares to be sold (or delivered back to us with any differences settled in cash). On April 14, 2009, 400,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar that expired on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of that tranche of the Kinross Collar. In accordance with the terms of the Kinross Collar, as the result of dividends that Kinross paid on each of March 31, 2008 and September 30, 2008 of \$0.04 per share, the prices under the Kinross Collar have been reduced, by the \$0.08 per share from the price originally set on October 12, 2007. As of December 31, 2009 the Kinross Collar pricing has been adjusted to (i) 400,000 shares due on April 13, 2010 for a lower threshold price of \$13.69 per share (the "Floor Price") and an upper threshold price of \$24.34 per share; and (ii) 100,000 shares due on April 12, 2011 for the Floor Price and an upper threshold price of \$27.50 per share. 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 500,000 shares of the total shares Solitario owns as of December 31, 2009, 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 upper threshold prices discussed above during the term of the respective tranches.

Solitario has not designated the Kinross Collar as a hedging instrument as described in ASC 815 Derivatives and Hedging 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. As of December 31, 2009, Solitario recorded \$9,000 for the fair market value of the Kinross Collar, of which \$20,000 is recorded as other assets and \$11,000 is recorded as a derivative instrument in current liabilities. Solitario recorded the fair market value of the Kinross Collar as a liability of \$513,000 as of December 31, 2008 of which \$393,000 is included in derivative instruments in current liabilities. Solitario recorded an unrealized gain of \$522,000 during 2009, an unrealized gain of \$1,189,000 during 2008 and an unrealized loss \$1,702,000 during 2007 in gain (loss) on derivative instrument for the change in the fair value of the Kinross Collar.

On December 10, 2008, Solitario sold two covered call options covering 50,000 shares of Kinross each (the "February 09 Kinross Calls"). The first call option had a strike price of \$20.00 per share and expired unexercised on February 21, 2009. Solitario sold the option for \$65,000 cash and had a fair market value of \$76,000 recorded as derivative instrument liability on December 31, 2008. The second call option had a strike price of \$22.50 per share and expired unexercised on February 21, 2009. Solitario sold the option for \$39,000 cash and had a fair market value of \$40,000 recorded as derivative instrument liability on December 31, 2008. Solitario recorded an unrealized loss of \$12,000 related to the February 09 Kinross Calls in gain (loss) on derivative instrument in statement of operations during 2008. Solitario recorded a gain in gain (loss) on derivative instruments of \$116,000 during 2009 upon the expiration of the February 09 Kinross Calls.

On March 31, 2009, Solitario sold a covered call option covering 50,000 shares of Kinross (the "April 09 Kinross Call") for \$21,000. The call option had a strike price of \$20.00 per share and expired unexercised on April 21, 2009. Solitario recorded a gain on derivative instruments of \$21,000 on the April 09 Kinross call during the year ended December 31, 2009.

On April 16, 2009, Solitario sold a covered call option covering 40,000 shares of Kinross (the "August 09 Kinross Call") for net proceeds of \$45,000. The option had a strike price of \$17.50 per share and an expiration date of August 19, 2009. On July 21, 2009, Solitario repurchased the August 09 Kinross Call for cash of \$125,000 and recorded a

## Notes | to Consolidated Financial Statements continued

loss on derivative instrument during the year ended December 31, 2009 of \$80,000. On July 21, 2009, concurrently with the purchase of the August 09 Kinross Call, Solitario sold a covered call option covering 40,000 shares of Kinross with a strike price of \$17.50 expiring on November 21, 2009 (the "November 09 Kinross Call") for \$157,000. On November 13, 2009 Solitario repurchased the November 09 Kinross Call for \$76,000 and recorded a gain on derivative instruments of \$81,000 during the year ended December 31, 2009. On November 13, 2009, concurrently with the purchase of the November 09 Kinross Call, Solitario sold a covered call option covering 40,000 shares of Kinross with a strike price of \$22.00 expiring on May 22, 2010 (the "May 10 Kinross Call") for \$76,000. As of December 31, 2009 Solitario recorded a liability for the May 10 Kinross Call of \$42,000 and has recorded a gain (loss) on derivative instrument of \$34,000 during the year ended December 31, 2009 related to the May 10 Kinross Call.

The business purpose of selling covered calls is to provide additional in-

come on a limited portion of shares of Kinross that Solitario may sell in the near term, which is generally defined as less than one year. In exchange for receiving the additional income from the sale of the covered call option, Solitario has given up the potential upside on the shares covered by the call option sold in excess of the strike price. Solitario has not designated its covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of its covered calls are recognized in the statement of operations in the period of the change.

Solitario does not use its Kinross Collar or its covered call derivative instruments as trading instruments and any cash received or paid related to its derivative instruments are shown as investing activities in the consolidated statement of cash flows.

The following table provides a detail of the location and amount of the fair values of Solitario's derivative instruments presented in the consolidated balance sheet as of December 31, 2009 and December 31, 2008:

(in thousands)

	Derivatives		
	Balance Sheet Location	December 31, 2009	December 31, 2008
<b>Derivatives not designated as hedging instruments under ASC 815</b>			
Kinross Collar	Current liabilities	\$ 11	\$ 277
Kinross Collar	Long-term other assets	20	-
Kinross Collar	Long-term liabilities	-	236
May 10 Kinross Call	Current liabilities	42	-
February 09 Kinross Call	Current liabilities	-	116

The following amounts are included in loss (gain) on derivative instruments in the consolidated statement of operations for the years ended December 31, 2009 and 2008:

(in thousands)

	Year ended		Year ended	
	December 31, 2009 <sup>(1)</sup>		December 31, 2008 <sup>(1)</sup>	
	Realized	Unrealized	Realized	Unrealized
<b>Loss (gain) on derivatives not designated as hedging instruments under ASC 815</b>				
Kinross Collar	\$ -	\$ (522)	\$ -	\$ (1,189)
February 09 Kinross Call	(116)	-	-	12
April 09 Kinross Call	(21)	-	-	-
August 09 Kinross Call	80	-	-	-
November 09 Kinross Call	(81)	-	-	-
May 10 Kinross Call	-	(34)	-	-
Total (gain) loss	\$ (138)	\$ (556)	\$ -	\$ (1,177)

<sup>(1)</sup> Gains and losses on derivative instruments are realized upon expiration or repurchase. Cash received for the derivative instrument may occur in a different period.

Solitario is required to maintain its holdings of Kinross common stock associated with the Kinross Collar in a separate account at UBS, which is held as collateral for the Kinross Collar. Solitario is not required to maintain any other collateral for its derivative instruments.

### 6. Fair Value of Financial Instruments:

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

Effective January 1, 2008, Solitario adopted ASC 820, "Fair Value Measurements." ASC 820 establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an or-

derly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

**Level 1:** Quoted prices in active markets for identical assets or liabilities;

**Level 2:** Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

**Level 3:** Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2009:



## Notes | to Consolidated Financial Statements continued

(in thousands)	Level 1	Level 2	Level 3	Level 4
<b>Assets</b>				
Marketable equity securities	\$ 19,606	\$ -	\$ -	\$ 19,606
Kinross Collar derivative instrument	-	20	-	20
<b>Liabilities</b>				
Kinross Collar derivative instrument	-	11	-	11
Kinross Calls derivative instrument	42	-	-	42

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2008:

(in thousands)	Level 1	Level 2	Level 3	Level 4
<b>Assets</b>				
Marketable equity securities	\$ 21,216	\$ -	\$ -	\$ 21,216
<b>Liabilities</b>				
Kinross Calls derivative instrument	116	-	-	116
Kinross Collar derivative instrument	-	513	-	513

**Marketable equity securities:** At December 31, 2009 and 2008, the fair value of Solitario's marketable equity securities is based upon quoted market prices.

**Covered call options:** The May 10 Kinross Calls at December 31, 2009 and the April 09 Kinross Call at December 31, 2008 are exchange traded options and fair values are based upon quoted market prices. See Derivative Instruments above.

**Kinross Collar:** The Kinross Collar between Solitario and UBS is a contractual hedge that is not traded on any public exchange. Solitario determines the fair value of the Kinross Collar using a Black-Scholes model using inputs, including the price of a share of Kinross common stock and volatility of Kinross common stock price that are readily available from public markets, and discount rates that include an assessment of performance risk; therefore, they are classified as Level 2 inputs. See Derivative Instruments above.

### 7. 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 2010 mineral property rental and option payments to be approximately \$390,000. If Solitario's current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2010, the joint venture partners will pay or Solitario will be reimbursed for approximately \$95,000 of those costs.

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 2009, 2008 and 2007 was approximately \$60,000, \$36,000, and \$42,000, 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 through October of 2012 of \$38,000.

### 8. Stock Option Plans:

#### a.) 2006 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 at the date of grant. However, under the terms of the 2006 Plan, the total number of outstanding options from all plans may not exceed 2,800,000.

Solitario granted 519,000 options during 2009. The options were granted on May 19, 2009, with a grant date fair value of \$339,000, based upon

a Black-Scholes pricing model resulting in a weighted average grant date fair value of \$0.65 per share. There were no options granted in 2008. The grant date fair value of the 2006 Plan options granted on September 7, 2007, June 14, 2007 and February 8, 2007, respectively, was \$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.

On October 13, 2009, concurrent with the signing of the Amendment to the Agreement with Metallic Ventures, discussed above, certain holders of 1,935,000 options agreed to voluntarily cancel the options listed below. None of the cancelled options had any intrinsic value on the date of cancellation. The cancellations of the options were effected to allow Solitario to have enough authorized and unissued shares of its common stock to increase the share consideration offered to Metallic Ventures pursuant to the Amendment. No consideration was paid or received for the cancellation of the options.

Option Price	Cdn \$ 2.77	Cdn \$ 4.38	Cdn \$ 4.53	Cdn \$ 5.12
Option expiration date	6/27/2011	2/08/2012	9/07/2012	6/14/2012
Cancelled options	1,388,000	5,000	442,000	100,000

There were no options exercised during 2009. Solitario options from the 2006 Plan for 20,750 and 12,500 shares, respectively, were exercised during 2008 and 2007 for proceeds of \$61,000 and \$35,000, respectively. The intrinsic value of the shares issued on the date of exercise from the 2006 Plan during 2008 and 2007 was \$48,000 and \$27,000, respectively. Options for 200,000, 28,750 and 52,500 shares, respectively, were forfeited during 2009, 2008 and 2007.

At December 31, 2009 and 2008, the fair value of outstanding options granted under the 2006 Plan was determined utilizing the following assumptions and a Canadian dollar to United States dollar exchange rate of 0.9529 and 0.8183, respectively.

#### Fair Value at December 31, 2009

Grant Date Plan	5/19/09 2006 Plan
Option price (Cdn\$)	\$ 1.55
Options outstanding	519,000
Expected life	4.4 yrs
Expected volatility	57%
Risk free interest rate	2.2%
Weighted average fair value	\$ 1.27
Portion of vesting at measurement date	39.5%
Fair value of outstanding vested options	\$ 262,000

## Notes | to Consolidated Financial Statements continued

### Fair Value at December 31, 2008

Grant Date Plan	6/27/06 2006 Plan	2/08/07 2006 Plan	6/14/07 2006 Plan	9/07/07 2006 Plan
Option price (Cdn\$)	\$ 2.77	\$ 4.38	\$ 5.12	\$ 4.53
Options outstanding	1,548,000	5,000	100,000	482,000
Expected life	2.5 yrs	3.1 yrs	3.5 yrs	3.7 yrs
Expected volatility	57%	54%	54%	53%
Risk free interest rate	0.8%	1.0%	1.0%	1.3%
Weighted average fair value	\$ 0.33	\$ 0.20	\$ 0.19	\$ 0.24
Portion of vesting at measurement date	87.5%	72.9%	63.5%	58.3%
Fair value of outstanding vested options	\$ 450,000	\$ 1,000	\$ 12,000	\$ 68,000

During 2009 and 2008, Solitario recognized stock option benefit of \$269,000 and \$3,255,000, respectively, net of deferred taxes of \$100,000 and \$1,149,000, respectively. During 2007 Solitario recognized stock option compensation expense of \$1,991,000, net of deferred taxes of \$670,000.

#### b.) 1994 Plan

As of December 31, 2009 and 2008 there are no outstanding options from the 1994 Stock Option Plan (the "1994 Plan") and the 1994 Plan has been terminated and no additional options may be granted under the 1994 Plan. As of December 31, 2007, Solitario had 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 TSX on the date of grant.

There were no options exercised during 2009. Options from the 1994 Plan for 110,000 and 917,000 shares, respectively, were exercised during the years ended December 31, 2008 and 2007 for proceeds of \$87,000 and \$574,000, respectively. The intrinsic value of the shares issued on the date of exercise from the 1994 Plan during 2008 and 2007 was \$429,000 and \$2,901,000. No options from the 1994 Plan were forfeited during 2008 and 2007.

#### c.) Summary of stock-based compensation plans

The activity in the 1994 Plan and the 2006 Plan for the three years ended December 31, 2009 is as follows:

	2009		2008		2007	
	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	-	n/a	110,000	\$ 0.81	1,027,000	\$ 0.74
Exercised	-	n/a	(110,000)	\$ 0.81	(917,000)	\$ 0.73
Outstanding, end of year	-	n/a	-	n/a	110,000	\$ 0.81
Exercisable, end of year	-	n/a	-	n/a	110,000	\$ 0.81
<b>2006 Plan</b>						
Outstanding, beginning of year	2,135,000	\$ 3.28	2,184,500	\$ 3.29	1,637,500	\$ 2.77
Granted	519,000	\$ 1.55	-	-	612,000	\$ 4.62
Forfeited	(200,000)	\$ 3.12	(28,750)	\$ 4.13	(52,500)	\$ 2.77
Cancelled	(1,935,000)	\$ 3.30	-	-	-	-
Exercised	-	-	(20,750)	\$ 2.96	(12,500)	\$ 2.77
Outstanding, end of year	519,000	\$ 1.55	2,135,000	\$ 3.28	2,184,500	\$ 3.29
Exercisable, end of year	129,750	\$ 1.55	1,451,000	\$ 3.15	933,000	\$ 3.07

The following table summarizes Solitario's stock options as of December 31, 2009:

	Options Outstanding			Options Exercisable			
	Number	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price (Cdn\$)	Aggregate Intrinsic Value <sup>(1)</sup>	Number Exercisable	Weighted Average Exercise Price (Cdn\$)	Aggregate Intrinsic Value <sup>(1)</sup>
<b>2006 Plan</b>	519,000	4.4	\$ 1.55	\$ 420,000	129,750	\$ 1.55	\$ 105,000

<sup>(1)</sup> The intrinsic value at December 31, 2009 based upon the quoted market price of Cdn\$2.40 per share for our common stock on the TSX and an exchange ratio of 0.9529 Canadian dollars per United States dollar.



## 9. Shareholders' Equity and Noncontrolling Interest:

On December 23, 2008 Anglo earned a 30% interest in PBM, discussed above under Pedra Branca. Anglo had previously earned a 15% interest in PBM as of September 30, 2007. Prior to earning its interest in PBM, all payments from Anglo were recorded as deferred noncontrolling shareholder payments. Upon Anglo earning its initial 15% interest in PBM, Solitario recorded \$392,000 of noncontrolling interest in the equity section of its balance sheet for Anglo's noncontrolling interest in PBM and recorded \$1,886,000 as additional paid in capital for the excess of Anglo's payments over Anglo's noncontrolling interest in PBM from the inception of the Shareholder Agreement to the date of Anglo earning its 15% interest in PBM. Upon Anglo earning its sub-

sequent 15% interest in PBM, Solitario recorded \$685,000 of noncontrolling interest in the equity section of its balance sheet for Anglo's noncontrolling interest in PBM and recorded \$1,105,000 as additional paid in capital for the excess of Anglo's payments over Anglo's noncontrolling interest from September 30, 2007 to December 23, 2008, the date Anglo earned its next 15% interest, for a total of a 30% interest in PBM. As of December 31, 2009, Anglo had made payments of \$1,286,000 under the Shareholder Agreement which have been recorded as deferred noncontrolling shareholder payments. All deferred noncontrolling shareholder payments had been transferred to noncontrolling interest and additional paid-in-capital as of December 31, 2008, as described above.

## 10. Selected Quarterly Financial Data (Unaudited): (in thousands)

	March 31, 2009 (1)(4)(5)	June 30, 2009 (1)(4)(5)	Sept. 30, 2009 (3)(4)(5)	Dec. 31, 2009 (1)(2)(4)(5)(6)
Revenue	\$ -	\$ -	\$ 200	\$ -
Net income (loss)	\$ (671)	\$ (1,388)	\$ (377)	\$ 650
Earnings (loss) per share: Basic and diluted	\$ (0.02)	\$ (0.05)	\$ (0.01)	\$ 0.02
Weighted shares outstanding: Basic and diluted	29,750	29,750	29,750	29,750

	March 31, 2008 (7)(8)(10)(11)(12)	June 30, 2008 (7)(8)(10)(11)(12)	Sept. 30, 2008 (7)(8)(9)(10)(11)(12)	Dec. 31, 2008 (8)(10)(11)(12)
Revenue	\$ -	\$ -	\$ 200	\$ -
Net income (loss)	\$ (1,513)	\$ (1,409)	\$ 3,193	\$ (888)
Earnings (loss) per share: Basic and diluted	\$ (0.05)	\$ (0.05)	\$ 0.11	\$ (0.03)
Weighted shares outstanding:				
Basic	29,628	29,642	29,744	29,750
Diluted	29,628	29,642	30,049	29,750

<sup>(1)</sup> Solitario sold 40,000 shares of Kinross common stock in the second quarter for proceeds of \$667,000 and a gain of \$490,000 and sold 60,000 shares of Kinross stock in the third quarter for proceeds of \$1,185,000 and a gain of \$919,000. Solitario did not sell any Kinross shares in the first or fourth quarters of 2009, which contributed to the larger loss in the second quarter and the smaller loss in the third quarter.

<sup>(2)</sup> In the fourth quarter Solitario received a break fee of \$2,200,000 from Metallic Ventures related to the Agreement. This contributed to the net income in the fourth quarter of 2009.

<sup>(3)</sup> In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru, which reduced the loss in the third quarter.

<sup>(4)</sup> Exploration expense was \$681,000, \$797,000, \$1,118,000 and \$983,000, respectively, in the first, second, third and fourth quarters of 2009, which contributed to the fluctuation in the losses in the quarters.

<sup>(5)</sup> Solitario recorded general and administrative costs (benefit), \$514,000, \$1,410,000, (\$472,000) and \$627,000, respectively, in the first second, third and fourth quarters of 2009. The fluctuation in general and administrative costs were primarily caused by fluctuations in stock option compensation costs (benefit) in each quarter of (\$121,000), \$868,000, (\$1,082,000), and \$214,000, respectively during the first, second, third and fourth quarters of 2009.

<sup>(6)</sup> Fully diluted earnings per share during the fourth quarter is the same as basic earnings per share.

<sup>(7)</sup> Solitario sold 100,000 shares of Kinross common stock in the first quarter for proceeds of \$2,229,000 and a gain of \$1,787,000, sold

42,920 shares of Kinross common stock in the second quarter for proceeds of \$986,000 and a gain of \$796,000, and sold 50,000 shares of Kinross common stock in the third quarter for proceeds of \$1,214,000 and a gain of \$993,000. The large gain in the first quarter contributed to the net income in that quarter compared to the other three. Solitario did not sell any Kinross shares in the fourth quarter, which contributed to the loss in the fourth quarter.

<sup>(8)</sup> Exploration expense increased from \$1,021,000 in the first quarter to \$1,026,000 in the second quarter to \$1,265,000 in the third quarter to \$1,277,000 in the fourth quarter, contributing to the increasing loss by quarter after consideration of the Kinross stock sales in the first, second, and third quarters, discussed above.

<sup>(9)</sup> In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru.

<sup>(10)</sup> In the first, second and fourth quarters, Solitario recognized \$1,867,000, \$864,000 and \$789,000 derivative loss on the Kinross Collar; however in the third quarter Solitario recognized a \$4,697,000 derivative gain which contributed to the lower loss in the quarter.

<sup>(11)</sup> Solitario recognized stock option compensation expense of \$102,000 in the first quarter, and recognized stock option compensation benefit of \$85,000, \$1,377,000 and \$1,896,000 in the second, third and fourth quarters.

<sup>(12)</sup> Solitario recognized income tax benefit of \$213,000 and \$130,000 during the first and second quarter, compared to an income tax expense of \$2,347,000 and \$124,000 during the third and fourth quarters of 2008, which contributed to the variation in the quarter net income and (loss).

### 11. Restatement:

In connection with the preparation of its consolidated financial statements for the year ended December 31, 2009, Solitario identified an error in its previously reported consolidated financial statements. Solitario determined that it should credit payments received from Anglo by its PBM subsidiary to deferred noncontrolling shareholder payments, a deferred capital account, in the liability section of its consolidated balance sheet. Previously, Solitario recorded the payments received from Anglo after September 2007 as noncontrolling interest and additional paid-in-capital in the equity section of its consolidated balance sheet. Upon Anglo earning any additional interest in PBM, Solitario is required to credit noncontrolling interest for the earned percentage of the net book value of PBM on that date and credit additional paid-in-capital for the difference between the payments accumulated to that date in deferred noncontrolling shareholder payments. The restatement included in the consolidated financial statements reflects the recording of payments received from Anglo as deferred noncontrolling shareholder payments until such time as Anglo earned its percentage interest in PBM by increasing accumulated deficit and additional paid-in-capital by \$2,276,000 at December 31, 2008 as further described below.

The restatement of the consolidated financial statements contained herein records payments of \$2,276,000 received from Anglo from 2003 through September 30, 2007 as deferred noncontrolling shareholder payments that were previously recorded as reductions (credits) to exploration expense. Of these, payments of \$1,043,000 were credited to exploration expense during 2007. The restatement of the consolidated financial statements contained herein records those payments from 2003 through September 30, 2007 as deferred noncontrolling shareholder payments, with \$1,043,000 of those payments being recorded as an increase in exploration expense during 2007 and \$1,233,000 as an increase in accumulated deficit as of January 1, 2007. The restatement also reflects the transfer of the balance of that adjustment of \$2,276,000 to additional paid in capital from deferred noncontrolling shareholder payments as of the date Anglo's earned its percentage of the net book value of PBM on

September 30, 2007. Because Solitario had correctly recorded Anglo's noncontrolling interest as of that date, the restatement of the consolidated financial statements contained herein had no effect on previously reported noncontrolling interest.

Solitario has recorded an allowance for all tax benefits related to the increase in foreign exploration expense related to the Anglo payments from 2003 through September 2007 in accordance with Solitario's tax policies described in Note 4 above. Accordingly the gross and net of tax effect of the increase to exploration expense from the restatement included in the consolidated financial statements for the year ended September 30, 2007 is \$1,043,000.

The accompanying consolidated financial statements as of December 31, 2008 and for the year ended December 31, 2007 have been restated from the amounts previously reported. A summary of the significant effects of the restatement is as follows:

Balance Sheet Information (in thousands)	As of 12/31/2008	
	As Previously Reported	As Restated <sup>(1)</sup>
	Shareholders' equity:	
Additional paid-in-capital	33,335	35,611
Accumulated deficit	(28,868)	(31,144)

<sup>(1)</sup> Beginning accumulated deficit on January 1, 2008 was previously reported as \$28,251 and was restated to \$30,527 as a result of the correction of the error discussed above. Beginning accumulated deficit on January 1, 2007 was previously reported as \$23,854 and was restated to \$25,087 as a result of the correction of the error discussed above.

Statement of Operations Information (in thousands, except per share amounts)	Year ended 12/31/2007	
	As Previously Reported	As Restated
Cost expenses and other:		
Exploration expenses	\$ 3,112	\$ 4,155
Net loss	\$ 4,397	\$ 5,440
Basic and diluted loss per share	\$ 0.15	\$ 0.18

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.



### Corporate Offices

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Denver, Colorado

### Transfer Agent

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800-564-6253

### Notice of Annual Meeting of Shareholders

The Annual Meeting will be at 10 a.m. MDT on Tuesday,  
June 15, 2010 at the Company's corporate offices.

### Stock Exchange Listings

NYSE 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 NYSE Amex (formerly the American Stock Exchange) since August 11, 2006 under the symbol XPL.

### 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 [dwmينو@slrxpl.com](mailto:dwmينو@slrxpl.com)

### Officers

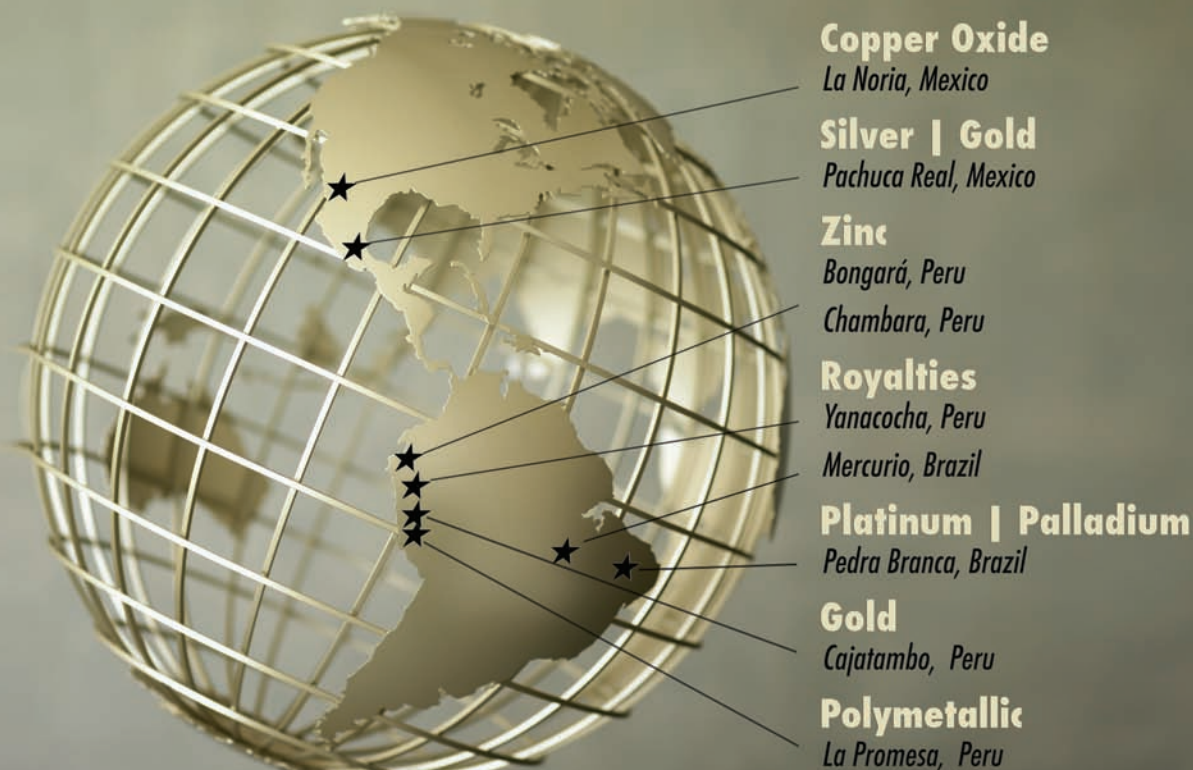
Christopher E. Herald | *President & CEO*  
James R. Maronick | *Chief Financial Officer*  
Walter H. Hunt | *Chief Operating Officer*

### Directors

Brian Labadie | *Chairman of the Board*  
Mark E. Jones, III | *Vice Chairman of the Board*  
John Hainey | *Director*  
Leonard Harris | *Director*  
Christopher E. Herald | *Director*

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