

# SOLITARIO EXPLORATION & ROYALTY

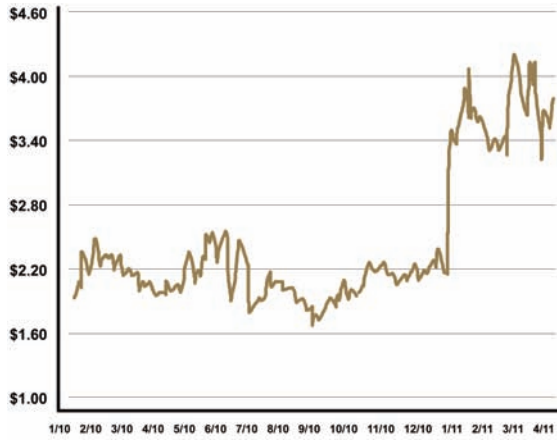
2010 ANNUAL REPORT



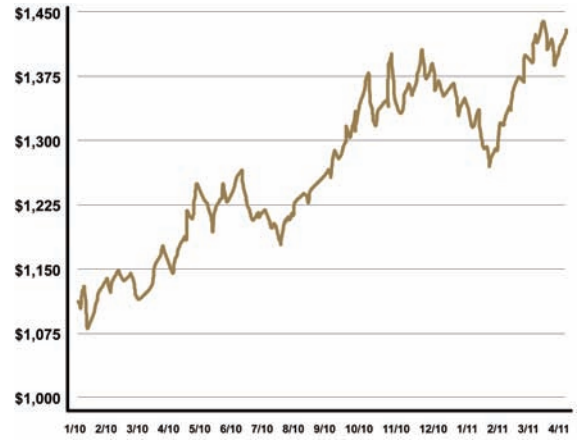
Engaged in the acquisition and exploration of mineral properties located in Peru, Brazil, Mexico and the US, Solitario's main focus is on gold and silver, and has advanced projects with platinum, palladium, zinc, lead, molybdenum, tungsten and indium.

# Solitario Stock and Key Commodity Performance

### 16-Month XPL Stock



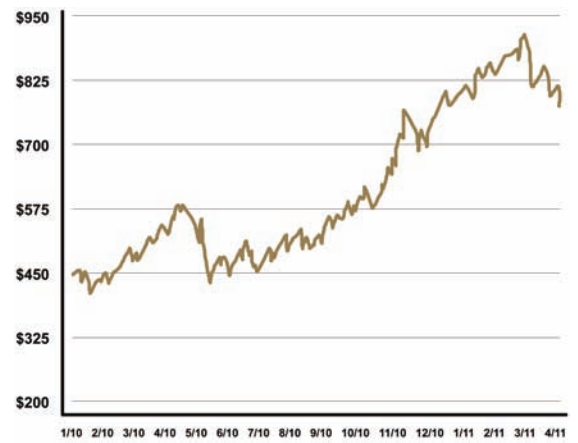
### 16-Month Gold



### 16-Month Silver



### 16-Month Palladium



### 16-Month Zinc



### 16-Month Platinum



# Letter to Shareholders

Christopher E. Herald, President & CEO

We had high expectations for 2010 – and we were not disappointed. Major achievements for the year included:

- Acquiring the right to earn an 80% interest in the advanced Mt. Hamilton Gold Project – Nevada
- Initiating groundbreaking new development activities on our high-grade Bongará Zinc Project – Peru
- Securing the perfect joint venture partner, Buenaventura, for our Pachuca Real Silver-Gold Project – Mexico
- Another year of solid exploration progress on our Pedra Branca Platinum-Palladium Project – Brazil
- Developing new drilling projects for 2011

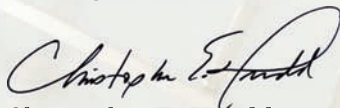
Details of all these exciting new developments are presented below on a project-by-project basis.

With the option to acquire an 80% interest in the Mt. Hamilton project, Solitario will be entering a rather exclusive and prestigious group – U.S. gold producers. We have been asked by a number of shareholders if we are changing our business strategy and now plan on developing all of our projects independently. The simple answer is no. We still believe that we can return more value to shareholders by being successful on the exploration front, and then securing great partners to fund the more advanced exploration, feasibility and development costs of a project. With this business model, we can focus on exploration – something we are very good at.

Then why Mt. Hamilton? Frankly, it was a unique opportunity with exceptional value. The project was on the verge of feasibility, with a simple mining configuration and plan, as well as easy heap-leach processing with good gold and silver recoveries. Mt. Hamilton has a low capital cost to place it into production – \$52 million, low operating costs estimated at \$450 to produce an ounce of gold, and importantly, outstanding upside to add new resources.

We see 2011 as another banner year for the company with the anticipated completion of the Mt. Hamilton Feasibility Study, the addition of detailed pre-feasibility work on our high-grade Bongará zinc project, initial drilling by Buenaventura on our Pachuca Real silver-gold project and drilling on at least two of our 100%-owned projects.

Best regards,



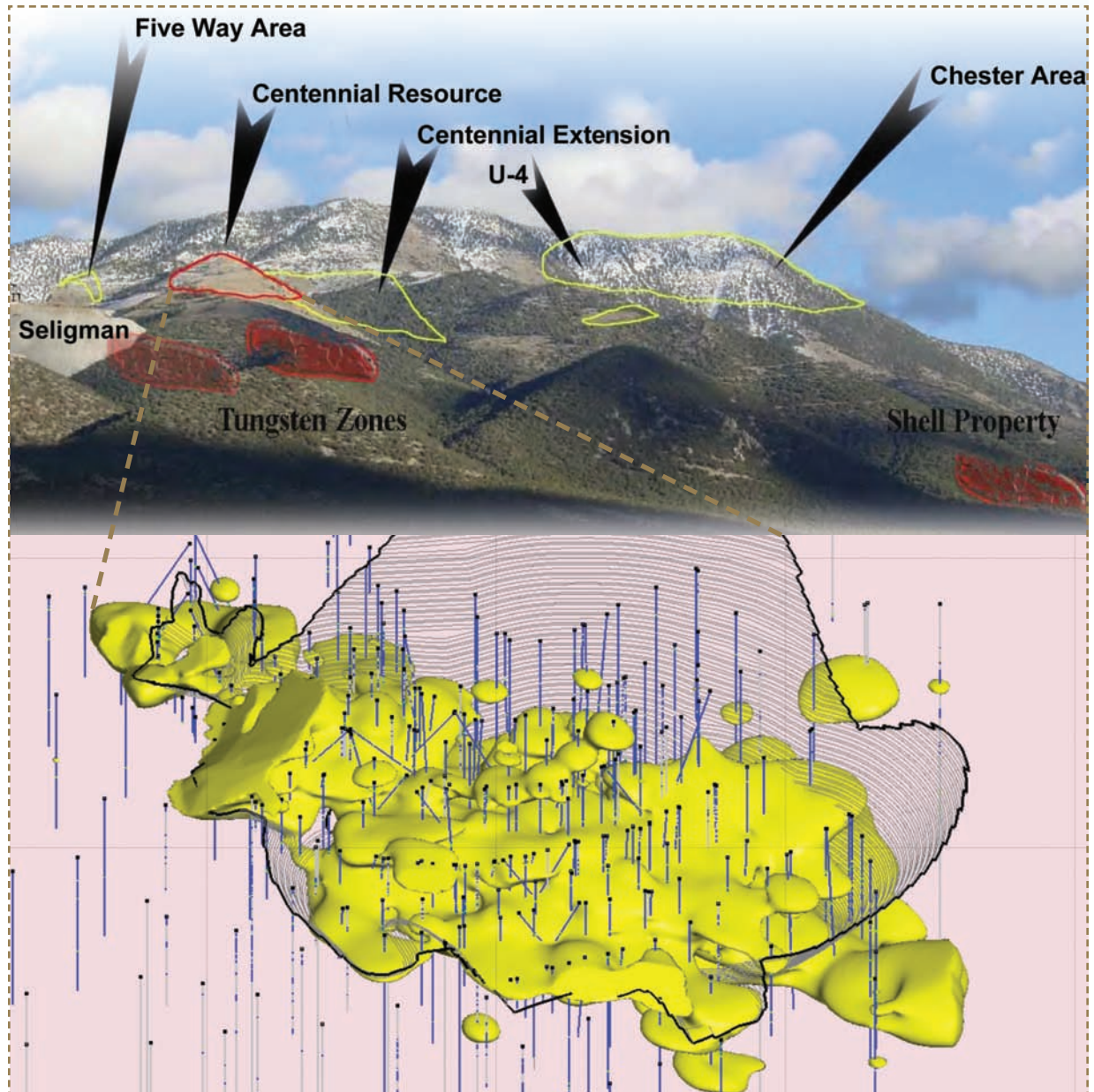
Christopher E. Herald  
President & Chief Executive Officer

*While exploring in remote areas of South America, Chris takes a break with village children. Developing a strong social relationship with the communities in which we work is a basic commitment of Solitario's.*

*We always take the view that we must be welcomed guests in the communities in which we work.*



## Strong Mineralization in the Centennial-Seligman Area at Mt. Hamilton



Shown above is a photograph of the Mt. Hamilton area with the location of the Centennial gold deposit and other mineralized zones outlined in various colors. The fact that there are multiple zones of strong gold mineralization and high-grade molybdenum-tungsten zones, demonstrates that the Mt. Hamilton mineralizing system was very powerful. With the exception of the Centennial and Seligman deposits, very little exploration drilling has been conducted to expand resources. We believe there is outstanding potential to significantly increase resources on the property. Below the photograph is a three-dimensional view of the Centennial gold deposit shown in yellow, drill holes that define the deposit shown in blue, and the shape of the open pit excavation shown as the closely spaced black lines. The deposit is open to expansion in two directions.

# Mt. Hamilton Gold Project – Nevada

## The Right Property with the Right Deal at the Right Time



During the past several years we have looked at scores of advanced gold projects with the objective of accelerating our path to achieve gold production. The opportunities we evaluated were either economically too marginal, operationally too complicated, simply too expensive for acquisition, or had limited upside potential for future value enhancement. None of these issues burdened the Mt. Hamilton gold project. Mt. Hamilton displays:

- Robust economics at gold prices above \$750
- Simple operating parameters – open pit mining, heap leach gold recovery and favorable Nevada regulatory environment
- A relatively inexpensive acquisition cost
- An outstanding opportunity to increase not only gold and silver resources, but to potentially establish valuable new strategic mineral resources (tungsten + molybdenum)

### Overview

The Mt. Hamilton project offers Solitario a dynamic future. The centerpiece of this property is the Centennial gold deposit. With over 325 drill holes delineating Centennial, we are extremely confident of its size and geometry, and there is certainly upside to expand the deposit. Importantly, the entire deposit can be mined from a single open pit with mineralization exhibiting good continuity.

Moreover, there are at least five areas where limited past drilling intersected potentially economic gold and silver mineralization and a strong three-mile long gold anomaly in soils – where we believe significant new resources could be discovered. Looking further down the road, the property hosts three different deposits of strategic minerals – tungsten and molybdenum. The work defining this mineralization was conducted 30 to 40 years ago, and we are reassembling the old data with a view of putting a plan together to advance the strategic minerals mineralization.

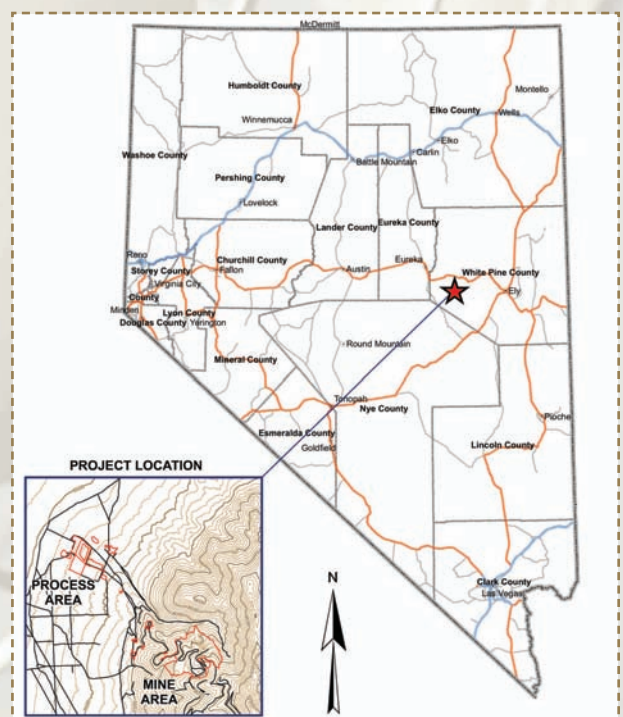
### Our Agreement: A Win-Win Arrangement

In late August of 2010, we signed a Letter of Intent (“LOI”) to joint venture the Mt. Hamilton gold deposit with Ely Gold

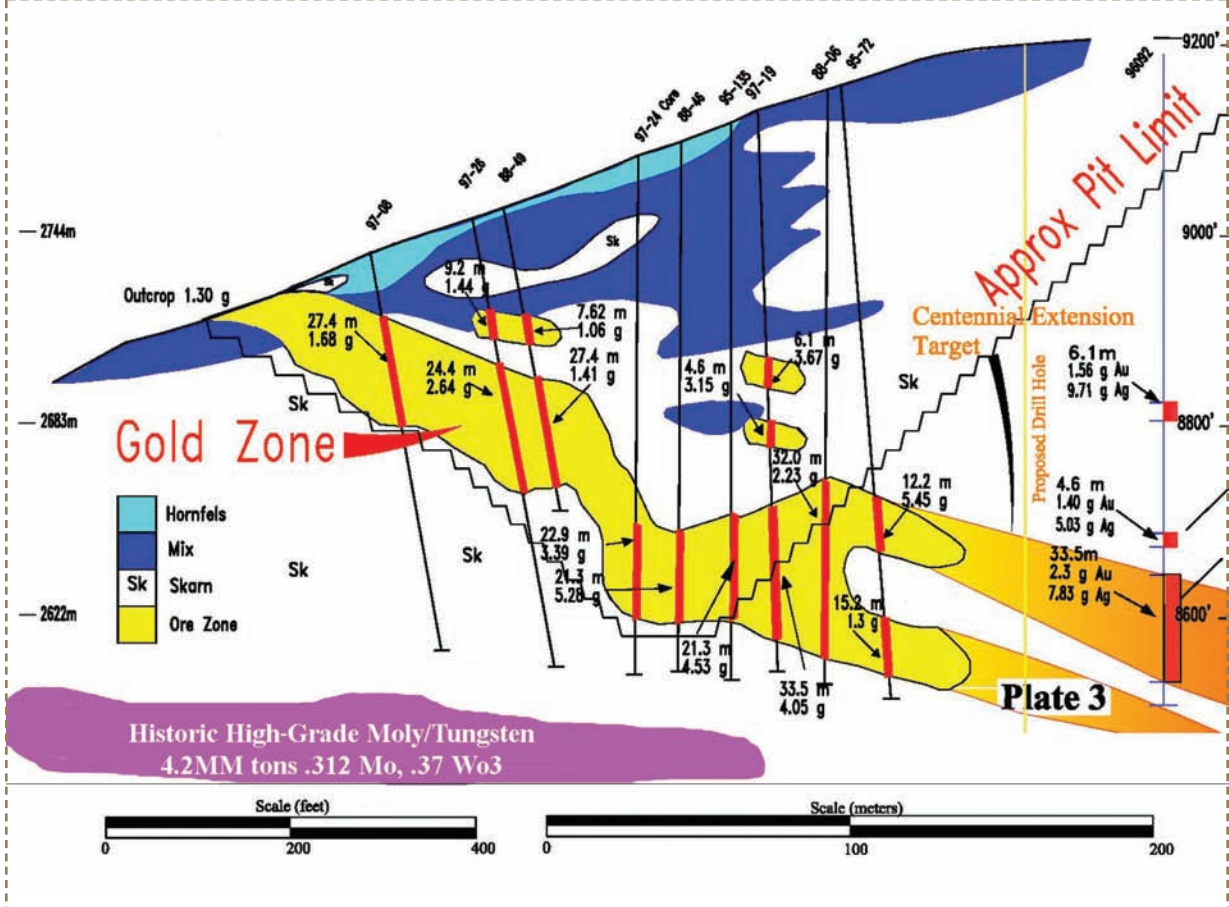
& Minerals Inc. (“Ely”). Ely’s shareholders approved the LOI in October and we signed a definitive joint-venture operating agreement with Ely in December. We are earning a super-majority interest in the property – 80%. For Solitario, our agreement with Ely results in a very low acquisition cost for good quality gold and silver ounces. For Ely, they benefit by being carried to production.

Solitario now holds 3,333,333 shares of Ely and warrants (two-year) to purchase 1,666,666 additional shares at CDN\$0.25 per share. Solitario can earn an 80% interest by completing a feasibility study and making future property and advanced royalty payments. All project costs incurred after completion of a feasibility study will be shared pro-rata. However, Ely may elect to have Solitario fund Ely’s 20% share of all such costs, with Solitario to be repaid by Ely, with interest. Solitario is the operator, and with a few limited exceptions that require unanimous consent, Solitario is in control of all decisions to develop and operate the project.

Subsequent to signing the Mt. Hamilton agreement, the joint venture acquired additional property covering areas that have demonstrable potential for gold, tungsten and molybdenum.



## Outstanding Potential to Increase Resources



Most of the drilling on the Centennial deposit was conducted in the late 1980's and early 1990's, when gold prices averaged \$350 to \$450 per ounce. Consequently, virtually no drilling was conducted greater than about 600 feet (200 meters) as these depths were considered too deep to be economic. However, with gold prices well above \$1,000 per ounce, mining to greater depths can definitely be economic. Shown on the right-hand side of the cross section above are three well mineralized drill holes (32 meters @ 2.23 gpt gold, 12.2 m @ 5.45 gpt gold + 15.2 m @ 1.3 gpt gold, and 33.5 m @ 2.3 gpt gold) that were not included in the past open pit resource estimates. Consequently, there is obvious potential for the Centennial deposit to grow significantly with further drilling.

# Mt. Hamilton Gold Project – Nevada

continued

## Robust Economics

Ely engaged SRK engineers and scientists, a highly respected international independent mine engineering company, to conduct a Preliminary Economic Analysis (“PEA”) on the Centennial gold-silver deposit. The study was completed in May 2009 and updated in July 2010. The updated report estimated total mineralized material<sup>1</sup> at 17.7 million tons grading 0.025 ounces of gold per ton (“opt”) and 0.37 opt silver, all of which could be mined within a single open pit.

<sup>1</sup> **Cautionary Note:** *The economic significance of mineralized material differs substantially from Proven and Probable Reserves. The economic feasibility of mineralized material has not been demonstrated by a feasibility report and a PEA does not have sufficient detail or certainty to be equivalent to a feasibility report.*

Capital costs to bring the Centennial gold deposit into production were estimated at \$52 million with total cash operating costs of approximately \$450 per ounce of gold produced. The stripping ratio is a favorable 2.4:1, waste to mineable mineralized material. The PEA further assumed a 10-year mine life that averaged about 33,000 ounces of gold and 230,000 ounces of silver production per year. With our recent drilling and using higher gold/silver price assumptions (and a correspondingly lower cutoff grade), we are targeting a seven-year mine life that averages about 47,500 ounces of gold and 370,000 ounces of silver production per year.

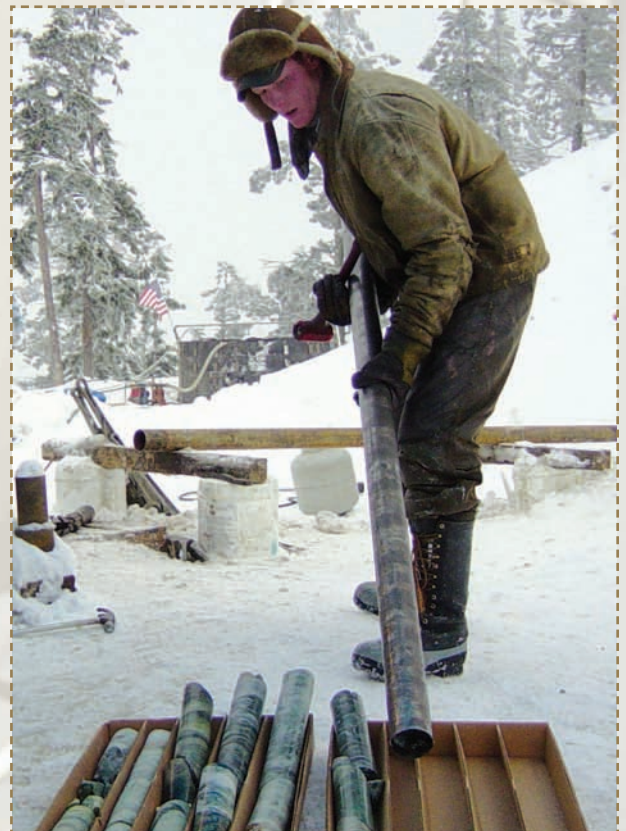
The mine and processing plans at Mt. Hamilton are very simple. Ore is mined from a single open pit and trucked about one mile, where it is dropped 350 feet down an ore slide. At the bottom of the slide there is a two-stage crushing plant that reduces the size of the ore to a minus ¾-inch product. The crushed ore is then delivered to the heap leach pad via a 1.5-mile conveyor belt system. Because the conveyor moves material downhill, it will also be utilized to generate a portion of the electricity necessary to operate the mine. The ore is stockpiled adjacent to and systematically stacked on the leach pad where it will undergo a 210-day leach cycle to recover an estimated 75% of the reported gold and 36% of the silver. The leach solutions are then recovered at the bottom of the leach pad and cycled through a standard ADR plant to recover gold and silver in doré form.

## Heading Towards Production

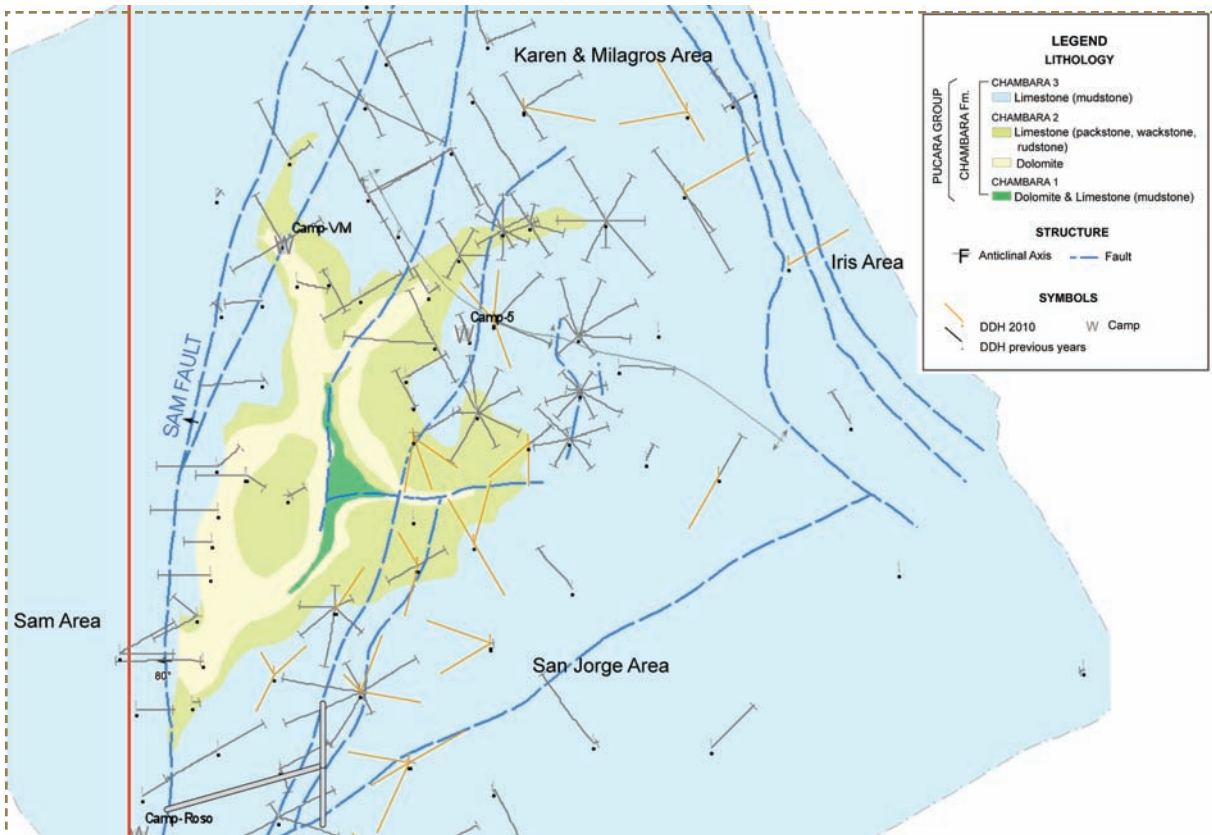
We started feasibility work the day after Ely’s shareholders approved our agreement. Several important tasks, including geotechnical drilling for pit wall stability evaluation, core drilling for metallurgical samples, groundwater monitoring wells, infill drilling in areas lacking sufficient drill hole density, and preliminary metallurgical test work, have already been completed. Currently we are conducting metallurgical studies, waste rock geochemistry testing and leach pad geotechnical drilling to aid in design, and expect these tasks to be completed shortly. We remain on target to complete a bankable feasibility study by the end of the third quarter 2011.

On the permitting front, we are developing a Plan of Operations concurrent with our feasibility design work and also anticipate its completion and submission to the U.S. Forest Service before the end of the third quarter 2011.

Assuming we complete the feasibility study and submit the Plan of Operations as planned, we currently estimate another 12-18 months of permitting before construction could begin followed by a construction period of approximately 9-12 months.



## 2010 Bongará Drilling: Completed 42 Core Holes Totaling 12,242 Meters



A total of 72,814 meters (or 45 miles!) of core drilling has been completed in 247 core holes during the past 15 years. But the big news for 2010 and 2011 is that road access is well advanced, as well as underground tunneling. Drilling from underground will begin in the second half of 2011. This aggressive work program is leading to the completion of a Feasibility Study in the second half of 2012.



# Bongará Zinc Project – Peru

## 2010 Will Be Remembered as a Milestone Year for the Project

Since discovering Bongará in 1995, we always knew that Bongará was a special project; but, because of its difficult access due to steep terrain, progress would always be limited until a road was built to the deposit. In 2010, that issue was resolved when our partner, Votorantim Metais (“Votorantim”), decided it was time to build an access road and accelerate development activities.

With our partner’s decision, the project is now advancing to feasibility and pre-production development. Project milestones for 2010 included:

- Initiation of an access road to the deposit
- Initiation of underground development
- Completion of 42 core holes totaling 12,242 meters
- Advanced metallurgical testing completed

### Overview

The Bongará project is one of the largest and highest-grade undeveloped zinc deposits in the world. To date 247 core holes have been drilled totaling 72,814 meters. All of this drilling has been conducted within the Florida Canyon mineralized area, which currently measures about two-by-two kilometers in size. There are several zones of mineralization delineated, the two largest being the San Jorge and the nearby Karen-Milagros zone. Importantly, the deposit is open to expansion in all directions.

Votorantim recently completed a detailed scoping study that considered an initial production rate of 5,000 tonnes per day and a mine life in excess of 10 years – with excellent potential to significantly extend the mine life through further exploration.

### Combining a Great Property with a Favorable Agreement

As we move into feasibility, development and production, it is becoming unquestionably clear that our underlying agreement with Votorantim makes this great project even better for Solitario and its shareholders. The cornerstone of this agreement is that we are 100% funded through commencement of commercial production.

Votorantim has the option to earn up to a 70% interest by committing to place the project into production based upon a feasibility study. Solitario does not have to pay back Votorantim for any of its expenditures prior to completion of a feasibility study and a production decision. After a

production decision is made, Votorantim is required to finance Solitario's 30% participating interest for construction. Solitario will repay the loan facility through 50% of its net cash flow distributions. Solitario is currently entitled to cash payments of \$200,000 per year.

### Moving Through Feasibility - Towards Construction and Production

Feasibility-level work has begun in earnest at Bongará. This year construction of the access road and tunneling to the deposit will continue. The tunneling will allow for underground drilling to further define mineralization at a faster pace and much lower cost than a helicopter assisted surface drilling program with much longer drill holes. However, another major round of surface core drilling of at least 10,000 meters is scheduled to begin in the second quarter of 2011. Part of this program is designed to test completely new target areas within the Florida Canyon area.

Engineering work to further refine resource modeling, infrastructure design, economic parameters and permitting requirements will be advanced throughout the year. Although the timeline to production still has significant uncertainty, Votorantim is currently projecting the completion of feasibility in the second half of 2012. Mine preparation and construction are forecast to last about two years, stretching from 2013 through the end of 2014. Commercial production would begin in early 2015. Permitting and social work, critical components to mine development, are ongoing and will continue throughout the pre-construction, construction and production phases.



## Initial Drill Hole at Pachuca Real



Shown above is Buenaventura's first drill hole on our exciting Pachuca Real silver-gold project. Buenaventura is planning a 16,000-meter drilling program to test the northern extension of the world's greatest silver district – the Pachuca Real del Monte Mining District – where over 1.4 billion ounces of silver and 7 million ounces of gold were produced.

# Pachuca Real Silver-Gold Project – Mexico

## Finding the Perfect Partner

One of Solitario's traditional strengths has been our ability to secure the right partner for a joint venture project. A good project with the wrong partner can greatly diminish the value of that project. We believe we found the perfect partner to joint venture our 100%-owned Pachuca Real silver-gold project when we signed a definitive Venture Agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura") in late April 2010.

Buenaventura is not only the largest Latin American based precious metal company with approximately 1.3 million ounces of gold and 17.0 million ounces of silver produced in 2010, but it is one of the most respected mining companies in the Western Hemisphere. Its operations are centered in Peru, where it operates seven underground and one open-pit mine. It is also a 43.65% owner in the Minera Yanacocha gold operation, the largest gold mine in South America, and is a 19.26% owner in the Cerro Verde copper mine, both in Peru. With Buenaventura's extensive experience in precious metal vein exploration and underground mining, we believe we have the ideal partner to move this project forward.

### Overview

Our vast 31,300-hectare (77,000 acres) Pachuca Real silver-gold project in central Mexico is clearly an exceptional early-stage exploration project. The historic Pachuca Real del Monte silver-gold district produced over 1.4 billion ounces of silver with a credit of 7.0 million ounces of gold, making it the largest silver district ever discovered in the world. We believe outstanding potential exists to make significant new discoveries, particularly in the North District, where most of our work has focused to date.

Prior to Solitario's acquisition of the mineral rights, the entire land package had been held by the Mexican government from 1947 to 1990, and then sold to a private Mexican company that controlled the claims until recently. During this 58-year period only a limited amount of exploration was conducted. Solitario acquired the majority of its land position in 2006 and previously formed a joint venture with Newmont Mining from 2006 to 2009. Newmont identified 38 high-quality prospects that had never been drill tested.

The targets at Pachuca Real consist of high-grade silver-gold veins that are distributed over a geographic area measuring 20 kilometers long and 10 kilometers wide. Most of the productive veins mined in the historic district display surface expressions very similar to the surface targets that have been developed in the North District. Even though the

surface outcrops of the major veins in the historic district were modest, mined underground veins were very continuous over long horizontal and vertical distances.

### Our Pachuca Real Venture Agreement: Funded to Production

Overall, the Venture Agreement ("Agreement") is structured similarly to a Net Profit Interest ("NPI") royalty, in that Solitario is essentially financed to production and cash flow, if Buenaventura elects to earn its ultimate potential interest of 70%. The Agreement calls for the following work commitments:

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

Buenaventura will earn a 51% interest in the project upon the completion of \$12.0 million in expenditures and will have the right to earn an additional 14% (total 65%) by completing a positive feasibility study for the project. During the feasibility stage, Buenaventura is required to spend a minimum of \$5.0 million annually until such time as the positive feasibility study is completed. Upon completion of the feasibility study, Solitario will have the option to self-finance its 35% participating interest in the project, or require Buenaventura to fund its portion of construction costs at LIBOR + 3%. If Solitario elects to have Buenaventura fund its portion of construction costs, then Solitario's participating interest will be 30% and Buenaventura's interest will be 70%.

### 2011: An Aggressive Exploration Program Moves to the Forefront

Buenaventura is taking project exploration to a new level in 2011 with over 16,000 meters of planned drilling utilizing up to four core rigs. Core drilling began in February 2011 on a number of well-defined vein targets that have good surface grades of silver and gold over narrow widths. Besides plans to drill test 16 prospects from surface utilizing multiple core drilling rigs, Buenaventura is rehabilitating tunnels to conduct underground drilling. In addition, based upon surface and underground drilling results, drifting to explore and define mineralization is planned for the second half of the year. We are looking forward to announcing drilling results throughout 2011.

## 2011 - Drilling, Drilling and More Drilling



Without a doubt, 2011 will be our most active drilling year in the history of the company. Over 33,000 meters (108,000 feet) of drilling is planned on five projects – creating a continuous flow of drilling news for our shareholders. Significantly, about 90% of this drilling will be funded by three of our partners – truly unparalleled leverage resulting from our exploration successes that generated favorable joint-venture agreements with exceptional partners.

# Pedra Branca PGM Project – Brazil

## Steady Progress in a Buoyant Platinum-Palladium Market

We believe that our Pedra Branca project represents one of the best undeveloped platinum-palladium (“PGM”) projects in the Western Hemisphere. 2010 marked the eighth year in a row that Anglo Platinum funded exploration on the project – committing \$1.5 million in funding.

Contributing to our enthusiasm for the project is the performance of the PGM market during 2010. Platinum started 2010 at about \$1,500 per ounce and is currently up about 17% to approximately \$1,750 per ounce (March 31, 2011). Palladium’s performance has been even more spectacular, rising from approximately \$420 per ounce at the start of 2010 to its current price of about \$775 per ounce (March 31, 2011), over an 80% increase.

### Overview

The Pedra Branca PGM project consists of 57 exploration concessions totaling approximately 70,000 hectares (173,000 acres) in Ceará State, northeastern Brazil. Not including 2010-2011 drilling, 318 holes totaling 23,811 meters of core drilling have been completed on 25 prospects located throughout the project area. Drilling has intersected significant mineralization on 13 of the prospects.

The geology of the Pedra Branca project is similar to the Bushveld complex of South Africa where the vast majority of the world’s PGM production originates. PGM mineralization occurs in stratigraphic layering of an ultramafic (iron-magnesium-rich) body. In many cases the PGM grade is associated with the mineral chromite. In other areas the PGM is more closely related with minor sulfide concentrations.

### Our Pedra Branca Agreement: Anglo Platinum – World’s Largest Platinum Producer

The property is owned through our jointly held Brazilian subsidiary, Pedra Branca do Mineração (“PBM”). Anglo Platinum, the largest platinum producer in the world, has funded approximately \$7.0 million for exploration since signing the initial Letter Agreement in January 2003 and has now earned a 51% interest in PBM. Although Anglo Platinum funds the entire exploration program, Solitario manages the project.

Anglo Platinum has the option to earn an additional 9% interest in PBM (for a total of 60%) by funding a further

\$10.0 million on exploration and development. However, Anglo Platinum is not required to fund any future exploration expenditures. 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 after completion of a feasibility study.

### 2010-2011 Exploration

Our 2010 drilling program got started later than planned due to the scarcity of available drill rigs in Brazil. In fact, drilling did not begin until November 2010, with most of the 25-hole, 2,100 meter core drilling program completed during the first quarter of 2011. This program tested four new targets and also expanded the drilling patterns at the Curiu, Cedro and Trapia prospects. As of the printing of our 2010 Annual Report, most of the drill hole assay results are still pending from the laboratory.

Details of the 2011 exploration program are still being developed. Additional drilling and scoping level studies that include resource estimation, metallurgy and preliminary infrastructure engineering are currently being considered. We are still awaiting Anglo Platinum’s decision on whether or not it will fund an expanded 2011-2012 exploration program.



## Cerro Azul Gold-Silver Project – Peru

The Cerro Azul project represents another Solitario grass roots discovery. It is situated in central Peru and consists of three concessions totaling 2,400 hectares (5,928 acres). Significant progress was made on the project in 2010 with the collection and analysis of 2,300 rock chip and soil samples.

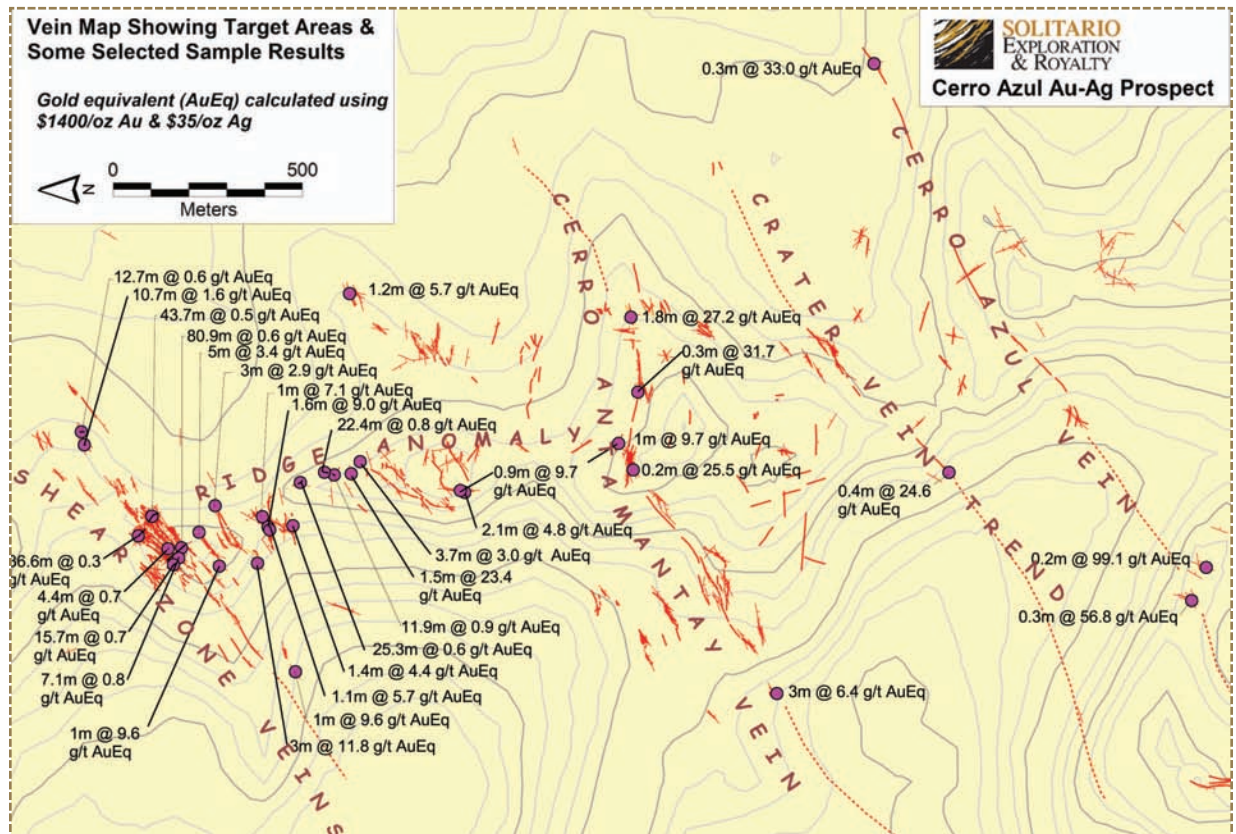
The geology of the property consists of Tertiary volcanics cut by a system of parallel quartz veins exposed along a ridge crest of over one kilometer. Individual veins attain widths of up to three meters and can be traced along strike for up to one kilometer where their extremities are hidden by younger gravel deposits. Some of the veins are silver rich and polymetallic in character and others are more gold rich.

Based upon the extensive sampling and careful geologic mapping conducted in 2010, a number of high-grade vein targets were identified, as well as a sheeted, gold-dominant vein system. The map below shows a number of these important trends that represent prospective targets.

Mineralogical studies of the wall rock alteration and of the veins themselves suggest that the current land surface



may be above the most favorable level of mineralization in the structures. A planned 2011 core drilling program is being designed to intersect the veins at depth in order to test for greater widths and coalescing zones. Vein grades on the surface are very encouraging and drill testing is programmed to substantiate continuity of these high-grade structures in the subsurface. The significant width of the gold-rich Shear Zone area represents an important bulk mineable target if drilling shows only a modest increase in grade over surface values.



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

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

### (a). Business Overview and Summary

We are an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. We acquire and hold 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 our mineral properties may be developed in the future by us or through a joint venture, and we currently intend to develop the Mt. Hamilton project, we have never developed a mineral property. 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 Resources Corporation. We have been actively involved in this business since 1993. We recorded revenues from joint venture delay rental payments of \$200,000, each year, respectively, related to our Bongará Project during 2010 and 2009. 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, 2010 we had 12 exploration properties in Peru, Bolivia, Mexico and Brazil, and two royalty properties in Peru and one royalty property in Brazil. We are conducting exploration activities in all of those countries. In August 2010 and December 2010, respectively, we signed the LOI and the MH Agreement to earn up to an 80% interest in the Mt. Hamilton project located in Nevada, discussed below under "Recent Developments."

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. During 2010 we entered into the Limited Liability Company Operating Agreement for Mt. Hamilton, LLC. We are currently working on feasibility related activities related to Mt. Hamilton and intend to develop the Mt. Hamilton project, but we have never developed a property in our history. In addition to our activities at Mt. Hamilton, one of our primary goals 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 for 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 either on our own or 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 and potential development 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. We anticipate the success of our activities on our Mt. Hamilton property will become increasingly important in the future.

The potential sale, joint venture or development of our mineral properties will occur, if at all, on an infrequent basis. Accordingly, while we conduct exploration activities and develop the Mt. Hamilton project, 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, each year, respectively, received during 2010 and 2009 on our Bongará property; (iii) sale of our investment in Kinross; (iv) short-term margin borrowing secured by our investment in Kinross; and (v) issuance of common stock, including exercise of options. We have reduced our exposure to the costs of our exploration activities in the past through the use of joint ventures. We anticipate these practices will continue for the foreseeable future.

### (b). Recent Developments

#### Ely Gold Investment and the Mt. Hamilton Joint Venture

On August 26, 2010, we signed the LOI with Ely to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project, which was wholly-owned by DHI-US. The formation of the joint venture terms and certain equity investments, described below were subject to the approval (the "Approval") of the LOI by Ely shareholders and regulatory approval from the TSX Venture Exchange ("TSXV"), which was received on October 18, 2010.

On August 26, 2010 and October 19, 2010, we made private placement investments of Cdn\$250,000 each in Ely. We received a total of 3,333,333 shares of Ely common stock and warrants to purchase a total of 1,666,667 shares of Ely stock (the "Ely Warrants") for an exercise price of Cdn\$0.25 per share, which expire two years from the date of purchase. The placements were part of the LOI to joint venture Ely's Mt. Hamilton gold project. On November 12, 2010, we made an initial contribution of \$300,000 for a 10% interest in MH-LLC, which was formed in December 2010. The terms of the joint venture are set forth in the MH Agreement. Pursuant to the MH Agreement, we may earn up to an 80% interest in the Mt. Hamilton project by completing various staged commitments. Pursuant to the terms of the MH Agreement, we have determined that MH-LLC is a variable interest entity (a "VIE") and we control MH-LLC and are the primary beneficiary of MH-LLC in accordance with ASC 810. As a result of our controlling interest in MH-LLC, we have consolidated MH-LLC and its debt with an initial fair value of \$3,066,000 related to MH-LLC. See a more complete discussion in Note 12 to the consolidated financial statements, "Ely Gold Investment and the Mt. Hamilton Joint Venture."

## Management's Discussion & Analysis | continued

### **Pedra Branca do Mineração, Ltd.**

On July 21, 2010, Anglo Platinum Limited ("Anglo") made a payment of \$746,000 to Pedra Branca do Mineração, Ltd. ("PBM") required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. Accordingly, we have deconsolidated our interest in Pedra Branca and have recorded its 49% interest in the fair market value of PBM as an equity investment in our consolidated balance sheet as of December 31, 2010. We recorded a gain on deconsolidation as of July 21, 2010 of \$724,000 and have recorded our equity in the net loss of PBM from that date as other income in the consolidated statement of operations. Please see Note 11 to the consolidated financial statements, "Deconsolidation of PBM."

### **Short-term Debt**

During the year ended December 31, 2010, we borrowed \$2,800,000 in short-term margin loans using our investment in Kinross as collateral for the short-term margin loan and at December 31, 2010 have recorded \$2,823,000 of short-term debt including \$23,000 of accrued interest. See Note 3 to the consolidated financial statements "Short-term Debt."

### **Investment in Kinross**

We have a significant investment in Kinross at December 31, 2010, which consists of 980,000 shares of Kinross common stock. During 2010 we sold 70,000 shares of Kinross common stock for proceeds of \$1,301,000 and during 2009 we sold 100,000 Kinross common shares for net proceeds of \$1,852,000. As of March 8, 2011, we own 960,000 shares of Kinross common stock. Our 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 our liquidity and capital resources. In October 2007, we entered into a collar that limited the proceeds on 900,000 shares of Solitario's investment in Kinross common shares. On April 13, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. 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 either tranche of the Kinross Collar. As of December 31, 2010, 100,000 shares remain subject to the Kinross Collar which expires in April 2011. The Kinross Collar is discussed below under "Derivative Instruments."

### **Mineral Property**

During the year ended December 31, 2010, we capitalized a total of \$6,066,000 related to the acquisition of the Mt. Hamilton project, owned by MH-LLC. In addition we capitalized \$11,000 related to initial staking and lease costs on our Atico project in Peru and our Norcan 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, 2010 to the Year Ended December 31, 2009**

We had a net loss of \$4,066,000 or \$0.14 per basic and diluted share for the year ended December 31, 2010 compared to a net loss of \$1,786,000 or \$0.06 per basic and diluted share for the year ended December 31, 2009. As explained in more detail below, the primary reasons for the increase in net loss during 2010 compared to the net loss during 2009 were (i) \$1,214,000 of exploration costs on our Mt. Hamilton project; (ii) a reduction in the gain on sale of Kinross common stock to \$995,000 during 2010, compared to a gain of \$1,409,000 during 2009; (iii) an increase in our stock option expense of \$2,513,000 during 2010 compared to a stock option benefit of \$269,000 during 2009; (iv) a reduction in our gain on derivative instruments to \$152,000 during 2010 compared to a gain on derivative instruments of \$694,000 during 2009. Partially offsetting these items were (i) a gain on deconsolidation of PBM of \$724,000 during 2010; (ii) a reduction in non-Mt. Hamilton exploration expense during 2010 to \$2,819,000 compared to exploration expense of \$3,579,000 during 2009 and (iii) an income tax benefit of \$1,159,000 during 2010 compared to an income tax expense of \$996,000 during 2009. Each of these items is discussed in greater detail below.

Our most important activities are the exploration on our mineral properties to delineate deposits to enable us to sell or joint venture the mineral property; reconnaissance exploration to locate mineral properties to acquire and to advance and develop the Mt. Hamilton property by completing a feasibility study. During 2010 we increased our exploration efforts related to our newly acquired Mt. Hamilton project and spent \$1,214,000 including a \$300,000 advance royalty payment and \$914,000 in direct exploration expenditures related to Mt. Hamilton. We recorded a credit of \$1,110,000 during 2010 for DHI-US noncontrolling interest in the expenditures of MH-LLC, primarily related to these exploration expenditures. We decreased our exploration expenditures at our South American properties to \$2,819,000, partially due to the deconsolidation of PBM, as a result of which we did not include any exploration expenditures for PBM after July 21, 2010 and partially as a result of a shift in our focus to the Mt. Hamilton project. During 2010 we capitalized \$5,000 related to the addition of our Atico project in Peru and \$6,000 related to our Norcan project in Mexico. During 2009 we capitalized \$5,000 related to the addition of our Palmira Project.

Our 2011 exploration expenditure budget is approximately \$4,676,000 which includes approximately \$1,581,000 for exploration costs related to Mt. Hamilton. The primary factor in our decision to increase exploration expenditures in 2011 relates to our intention to work toward the completion of a bankable feasibility study on the Mt. Hamilton property. 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.



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

Property Name	2010	2009
Mt. Hamilton	\$ 1,214	\$ -
Pedra Branca	402	1,196
Cajatambo	361	413
Cerro Azul	185	65
Palmira	146	32
La Noria	139	71
Pachuca	91	111
La Promesa	40	74
Excelsior	40	3
Mercurio	36	65
Paria Cruz	26	7
Espanola	21	10
Atico	20	-
El Sello	19	-
Norcan	6	-
Bongará	6	35
Triunfo	6	5
Chonta	3	524
Newmont Alliance	1	120
La Purica	-	32
Santiago	-	3
Reconnaissance	1,271	813
Total exploration expense	\$ 4,033	\$ 3,579

During 2010, we recorded a credit (reduction of expense) of \$1,110,000 for DHI-US's noncontrolling interest in the losses of MH-LLC. In addition, we recorded a credit of \$164,000 and \$419,000, respectively, during 2010 and 2009, for Anglo's noncontrolling interest in the losses of the consolidated subsidiary, PBM, during the year. On July 21, 2010, Anglo made a payment of \$746,000 to PBM required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. Accordingly, we have deconsolidated our interest in Pedra Branca and have recorded its 49% interest in the fair value of PBM on the date of deconsolidation as an equity investment. During 2010 we recorded management fees of \$47,000 to PBM of which \$36,000, net of \$11,000 of noncontrolling interest, were eliminated for those fees charged prior to deconsolidation of PBM on July 21, 2010. During 2009 we recorded management fees of \$65,000 to PBM, which were eliminated in consolidation, net of \$19,000 of noncontrolling interest.

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 \$1,767,000 during 2010 compared to \$2,348,000 in 2009. We incurred salary and benefits expense of \$985,000 during 2010 compared to \$1,187,000 in 2009, which decreased due to a lower number of employees in our South American operations and reduced bonuses in 2010 compared to 2009. We also recorded a reduction in our legal and accounting costs to \$279,000 during 2010 from \$637,000 in 2009, due to the legal and accounting work associated with our attempted acquisition of Metallic Ventures Gold Inc. ("Metallic Ventures") during 2009. In addition, other general and administrative costs including rent, travel,

and insurance decreased to \$247,000 during 2010 compared to \$332,000 in 2009, primarily related to reduced exploration activity and continuing efforts to reduce overhead. These decreases were mitigated by a loss on currency exchange rates during 2010 of \$1,000, compared to a gain of \$35,000 in 2009 and an increase in our shareholder relations costs to \$254,000 during 2010 compared to \$223,000 during 2009. We anticipate general and administrative costs will increase in the future as a result of our new activities in the United States associated with the Mt. Hamilton project and additional regulatory burdens. We have forecast 2011 general and administrative costs to be approximately \$1,822,000, excluding non-cash stock option compensation expense or benefit.

We account for our employee stock options under the provisions of 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 or benefit 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, 2010, we recognized \$2,513,000 of non-cash stock-based compensation expense as part of general and administrative expense for the increase in the fair value of our stock option liability during 2010 compared to non-cash stock option compensation benefit of \$269,000 during 2009. Our stock option compensation expense changes as a result of an increase in the market price of our common stock and additional options outstanding at the end of 2010 compared to 2009. The price of our stock as quoted on the TSX increased to Cdn\$3.69 at December 31, 2010 from Cdn\$2.40 at December 31, 2009. Generally as the price of our common stock increases our stock option liability and our stock option compensation expense increase 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.

During 2010 we recorded a gain on derivative instruments of \$152,000 compared to a gain on derivative instruments of \$694,000 during 2009. The decrease in the gain was primarily related to a reduction to an unrealized loss on our Kinross Collar to \$7,000 during 2010 compared to an unrealized gain of \$522,000 during 2010. In addition during 2009, we recorded net realized gains of \$138,000 on call options on our Kinross stock compared to a realized gain of \$42,000 on Kinross call options during 2010. Mitigating this decline in gain on derivative instruments was a gain of \$117,000 on our Ely warrants, discussed below, during 2010 and there were no similar items in 2009. We have not designated the Kinross Collar or the Kinross call options as hedging instruments as described in ASC 815 and any changes in the fair market value of the Kinross Collar and the Kinross call options are recognized in the statement of operations in the period of the change. We have sold covered calls on a limited portion of our Kinross common stock that we intend to sell within one year, to enhance our return on Kinross common stock in exchange for some potential upside in those covered Kinross shares. We do not

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have any Kinross call options outstanding at December 31, 2010 and do not anticipate selling a material number of covered Kinross call options during 2011. The business purpose of the Kinross Collar was to provide price protection against a significant decline in the market value of our shares of our Kinross stock. At December 31, 2010 our Kinross Collar has been reduced to covering only 100,000 shares as a result of the expiration of the other portions of the Kinross Collar, and this portion of the Kinross Collar will expire in April 2011.

We had \$67,000 of depreciation and amortization expense during 2010 compared to \$91,000 in 2009 primarily as a result of an increase in the amount of fully depreciated furniture and fixtures during 2010 compared to 2009. We amortize these assets over a three-year period. We anticipate our 2011 depreciation and amortization costs will be similar to our 2010 amount.

During 2010 we recorded interest and dividend income, net, of \$63,000 compared to \$106,000 during the same period in 2009. During 2010, we recorded dividend income of \$103,000 compared to \$104,000 during 2009 from dividends on our Kinross stock. The primary reason for the decrease in interest and dividend income, net, resulted from interest expense of \$24,000 and \$19,000, respectively, from our short and long-term borrowing during 2010. The interest income recorded during 2010 and 2009 consisted of payments on cash and cash equivalent deposit accounts. We anticipate our interest and dividend income, net, will decrease in 2011 as a result of our planned increase in short-term borrowing, to supplement our planned sales of our Kinross stock, which will reduce our dividend income.

During 2010 we sold 70,000 shares of Kinross stock for proceeds of \$1,301,000 and recorded a gain on sale of \$995,000 compared to 2009, when we sold 100,000 shares of Kinross stock for proceeds of \$1,852,000 and recorded a gain on sale of \$1,409,000. We anticipate we will continue to liquidate our holdings of Kinross stock to fund our exploration activities and our 2011 budget anticipates the sale of 275,000 shares of Kinross stock for assumed proceeds of \$5,214,000 during 2011. These proceeds are significantly dependent on the quoted market price of Kinross stock on the date of sale and may be at prices significantly below our projected price.

During 2010 we recorded an income tax benefit of \$1,159,000 compared to income tax expense of \$996,000 during 2009. Our tax benefit during 2010 primarily related to the increase in United States exploration expense at our Mt. Hamilton project and our stock option expense of \$2,513,000 compared to a stock option benefit during 2009 of \$269,000. In addition we recorded one-time break fee income of \$2,200,000 related to our attempt to acquire Metallic Ventures during 2009, which increased our taxable income in 2009. Furthermore our gain on the sale of Kinross stock decreased to \$995,000 in 2010 compared to a gain on sale of \$1,409,000 during 2009. These were partially offset by the gain on deconsolidation of our PBM subsidiary of \$724,000 recorded during 2010. 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 2010 we recorded \$55,000 of mineral property impairments related to our Santiago, La Noria and Palmira projects, discussed below, compared to 2009 when we recorded \$51,000 of mineral property impairments related to our Purica and Chonta properties.

### (d). Liquidity and Capital Resources

#### Short-term Debt

We borrowed \$900,000, net, from RBC Capital Markets, LLC ("RBC") during 2010, in short-term margin loans, using our investment in Kinross stock held at RBC as collateral for the short-term margin loans. The loans carried interest at a margin loan rate of 4.25% per annum. The margin loan rate can be modified by RBC at any time. The margin loans are callable by RBC at any time. Per the terms of the margin loans, we are required to maintain a minimum equity value in the account of 35%, based upon the value of our Kinross shares and any other assets held at RBC, less any short-term margin loan balance and any other balances owed to RBC. The equity value percentage may be modified by RBC at any time. If the equity value in our account at RBC falls below the minimum, RBC may call the loan, or may sell enough Kinross shares held in our brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2010 the equity balance in our account at RBC was 81%. We recorded \$5,000 of interest expense related to the RBC short-term margin loans for the year ended December 31, 2010.

We borrowed \$1,900,000 during 2010 from UBS Bank, USA ("UBS Bank") pursuant to a secured credit line agreement between us and UBS Bank. The UBS Bank credit line carries an interest rate of 2.51% per annum as of December 31, 2010, which floats, based upon a base rate of 2.25% plus the one-month London Interbank Offered Rate ("LIBOR"), which is 0.26% as of December 31, 2010. UBS Bank may change the base rate at any time. The UBS Bank credit line provides that we may borrow up to \$2 million and that we maintain a minimum equity value percentage in our UBS brokerage account above 40%, based upon the value of our Kinross shares and any other assets held in our UBS brokerage account, less the value of its UBS Bank credit line and any other balances owed to UBS Bank. UBS Bank may modify the minimum equity value percentage of the loan at any time. In addition, if the equity value in our UBS brokerage account falls below the minimum equity value, UBS Bank may sell enough Kinross shares held in our UBS brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2010, the equity value in our UBS brokerage account was 80%. We recorded \$18,000 of interest expense related to the UBS credit line for the year ended December 31, 2010.

We are using this short-term debt as an alternative source of capital to selling our Kinross stock. We intend to continue to borrow money for the next year or longer using our Kinross common stock as collateral to defer potential current United States income taxes if

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we were to sell our Kinross common stock in excess of our anticipated United States tax deductible expenses for the entire year of 2011, which consist primarily of United States general and administrative costs and a portion of our costs to develop the Mt. Hamilton project in Nevada. We anticipate the proceeds from the sale of Kinross common stock sold during 2011 will not exceed our anticipated United States tax deductible expenses, and accordingly, we do not anticipate having any currently payable United States income taxes for 2011. We anticipate proceeds from the sale of shares of Kinross common stock and proceeds from any loans against our investment in Kinross stock will provide adequate funds for our operations through the end of 2011. Our use of short-term borrowing is not considered critical to our liquidity, capital resources or credit risk strategies. We consider the use of short-term borrowing as a component of our overall strategy to potentially maximize our after-tax returns on the sale of our investment in Kinross stock. We currently intend to repay the short-term debt with proceeds from the sale of Kinross stock in the future. Our maximum amount of short-term borrowing was \$2,823,000, including accrued interest, during the year ended December 31, 2010. Our average short-term borrowing during the year ended December 31, 2010 was \$860,000. Subsequent to December 31, 2010 we borrowed an additional \$1,075,000 and as of March 8, 2011, we have a total of \$3,875,000 outstanding under short-term margin loans.

### Long-term Debt

In connection with the formation of MH-LLC, the Mt. Hamilton properties contributed by DHI-US to MH-LLC are subject to a security interest granted to Augusta to secure a debt obligation related to Ely's acquisition of the Mt. Hamilton project. Pursuant to the MH Agreement, as part of our earn-in, we agreed to make payments totaling \$3,750,000, of which \$1,250,000 are to be paid in cash to DHI-US and of which \$2,500,000 are to be made as private placement investments in Ely common stock, detailed below, all to provide Ely with the funds necessary for Ely to make the loan payments due to Augusta, which loan payment obligations are secured by the mining claims currently owned by MH-LLC. Failure to make any of the payments or investments necessary to provide Ely with the funds necessary for Ely to make the required payments due to Augusta may result in the loss of all of our interest in the Mt. Hamilton project. The payments due to Augusta are non-interest bearing. Accordingly, upon the contribution of the mineral properties by DHI-US to MH-LLC, MH-LLC recorded \$3,066,000 for the discounted fair value of the payments due to Augusta, discounted at 7.5%, which was based on our estimated cost of similar credit as of the formation of MH-LLC. Pursuant to the terms of the MH Agreement, we have the right to opt-out of these payments in the event we determine the Mt. Hamilton property is not economic, in which case we would record mineral property impairment for the capitalized costs of the Mt. Hamilton property and reduce any recorded liability for this associated long-term debt.

Schedule of debt payments due to Augusta as of December 31, 2010:

Date	Amount
June 1, 2011	\$ 500,000
June 1, 2012	750,000
June 1, 2013	750,000
June 1, 2014	750,000
June 1, 2015	1,000,000
Discount	(665,000)
Net due	<u>\$ 3,085,000</u>

During 2010, Solitario recorded \$19,000 for accretion of interest expense related to MH-LLC long-term debt due to Augusta.

### Joint Venture and Delay Rental Payments

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, each year respectively, from joint venture payments during 2010 and 2009 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.

### 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, 2010 and 2009, we owned 980,000 and 1,050,000 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value of \$18,581,000 and \$19,320,000 at December 31, 2010 and December 31, 2009, respectively. Of these, 100,000 Kinross shares are subject to the Kinross Collar. In addition we own other marketable equity securities with a fair value of \$1,190,000 and \$286,000 as of December 31, 2010 and December 31, 2009, respectively. Our investment in Ely of \$1,000,000 was based upon market quote on the TSXV. At December 31, 2010, we have classified \$5,214,000 of our marketable equity securities as a short-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, 2010, we recorded a gain in other comprehensive income on marketable equity securities of \$1,223,000, less related deferred tax expense of \$534,000.

During the year ended December 31, 2010, we sold 70,000 shares of Kinross stock for proceeds of \$1,301,000 resulting in a gain of \$995,000 which was transferred, less related deferred tax expense of \$371,000, 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 available for sale and are recorded at their fair market value of \$190,000. During 2010 we acquired 3,333,333 shares of Ely that are classified as

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marketable equity securities available for sale and are recorded at their fair market value at December 31, 2010 of \$1,000,000. We also acquired Ely warrants for 1,666,666 shares that have an exercise price of Cdn\$0.25 per share and are recorded at their fair value of \$366,000, as determined using a Black-Scholes option pricing model. Of these, warrants for 833,333 shares are classified as derivative instruments in other assets and expire August 30, 2012 and we recorded an unrealized gain on derivative instruments of \$117,000 in the statement of operations and warrants for 833,333 shares of Ely are classified as other assets, and we recorded an unrealized gain of \$114,000, which is included in our recorded gain on marketable equity securities in other comprehensive income during 2010.

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 \$19.90 per share to a low of \$14.84 per share during the year ended December 31, 2010.

### 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 both April 13, 2010 and April 14, 2009, 400,000 shares (800,000 shares total) under the Kinross Collar were released upon the expiration of separate tranches of the Kinross Collar due on those dates. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of the tranches of the Kinross Collar. As of December 31, 2010, 100,000 shares are subject to the Kinross Collar, with a floor price of \$13.59 and a ceiling price of \$27.03, which expires in April 2011.

The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on approximately 100,000 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. We are continuing to look toward other Kinross risk management options to meet our risk management policy. These alternatives include the use of short-term margin loans, discussed above, listed options, use of covered calls and sale of the investment. The use of these Kinross risk management strategies reduce the potential of paying significant taxes on a near term sale of the entire investment in Kinross shares based upon both (i) the projected future needs for the use of funds from any sales of the investment in Kinross shares and (ii) the potential generation of future United States net operating losses which could be used to offset any taxable gains on future sale of the investment in Kinross shares. 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 March 8, 2011, we are restricted from selling the 100,000 shares under the Kinross Collar prior to the termination of the Kinross Collar in April 2011.

### Income Taxes

As a result of the United States federal and state net operating loss generated during 2010, which we may carry back to 2009, we have estimated that we will receive an income tax refund of approximately \$275,000 during 2011. See Note 5 to the consolidated financial statements.

### Working Capital

We had working capital of \$134,000 at December 31, 2010 compared to working capital of \$4,318,000 as of December 31, 2009. Our working capital at December 31, 2010 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 980,000 shares of Kinross common stock of \$5,214,000, less our short-term margin loans of \$2,823,000 and current deferred income taxes of \$1,945,000 related to our planned sales of Kinross common stock during the next year. We intend to liquidate a limited portion of our Kinross shares over the next year, in order to continue to defer current United States income taxes on the sale of shares of Kinross common stock. We also intend to continue to borrow on margin at RBC and on our UBS Bank secured credit line. We will continue to monitor 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 275,000 shares of Kinross stock during 2011 for assumed proceeds of \$5,214,000. Any funds received from the sale of our Kinross shares or borrowing against the value of our Kinross shares would be used primarily to fund exploration and development on our existing properties, for the acquisition and exploration of new properties and for general working capital.

Cash and cash equivalents were \$478,000 as of December 31, 2010 compared to \$1,946,000 at December 31, 2009. As of December 31, 2010, our cash balances along with our investment in marketable equity securities not subject to the Kinross Collar and our UBS Bank credit line 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 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

During the year ended December 31, 2010 and 2009, no options were exercised from the 2006 Plan. During the year ended December 31, 2010 and 2009, we granted 2,065,000 and 519,000 options, respectively, from the 2006 Plan. See Note 1 to the consolidated financial statements for a summary of the activity for stock options outstanding under the 2006 Plan as of December 31, 2010. We do

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not expect a significant number of our vested options from the 2006 Plan will be exercised in the next year.

None of our outstanding options from the 2006 Plan expire during 2011. The stock option liabilities of \$2,775,000 and \$262,000, respectively, as of December 31, 2010 and 2009 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. As a result of the deconsolidation of PBM during 2010, we reduced our deferred noncontrolling shareholder payments to zero. We do not anticipate recording any additional deferred noncontrolling shareholder payments in the near future. See a discussion of the deconsolidation in Note 11 to the consolidated financial statements, "Deconsolidation of PBM."

### Off-balance Sheet Arrangements

As of December 31, 2010 and 2009, we have no off-balance sheet arrangements.

### (e). Cash Flows

Net cash used in operations during the year ended December 31, 2010 increased to \$5,440,000 compared to \$3,213,000 for 2009 primarily as a result of (i) an increase in exploration expenses to \$4,033,000 in 2010 compared to \$3,579,000 in 2009, primarily related to \$1,214,000 in expenditures at our Mt. Hamilton project during 2010; (ii) the receipt of the \$2,200,000 break-fee related to our attempted merger with Metallic Ventures during 2009; and (iii) the payment during 2010 of \$365,000 of income taxes currently due at December 31, 2009. These increased uses of cash were mitigated by an increase in our accounts payable and other current liabilities of \$414,000 during 2010 compared to an increase of \$112,000 during 2009. The remaining uses of cash for operations were comparable in 2010 and 2009.

Net cash (used) provided from investing activities decreased to \$324,000 cash used during 2010 compared to \$1,931,000 cash provided during the year ended December 31, 2009 primarily related to (i) the decrease in cash of \$1,083,000 from the deconsolidation of PBM during 2010; (ii) a reduction in the proceeds from the sale of Kinross common stock to \$1,301,000 during 2010 compared with \$1,852,000 in proceeds from the sale of Kinross stock in 2009. During 2010 we sold 70,000 shares of Kinross at an average price of \$18.59 compared to the sale of 100,000 shares of Kinross during 2009 at an average price of \$18.52; and (iii) the purchase during

2010 of the Ely units for \$493,000 consisting of 3,333,333 shares of Ely common stock and warrants for 1,666,667 shares of Ely common stock. The remaining uses of cash from investing activities were comparable in 2010 and 2009.

Net cash provided from financing activities was \$4,296,000 during the year ended December 31, 2010 compared to \$1,286,000 during 2009. The primary reason for the increase in cash provided from financing activities in 2010 was related to our short-term margin loans of \$2,800,000 and (ii) an increase in the deferred noncontrolling shareholder payments received by PBM from Anglo to \$1,496,000 during 2010 compared to \$1,286,000 during 2009.

### (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 2010 mineral and surface property rental and option payments, including \$300,000 of advance royalty payments related to Mt. Hamilton were \$625,000. In 2011 we estimate exploration property rentals and option payments for properties we own or operate, excluding Mt. Hamilton, to be approximately \$874,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties. Approximately \$734,000 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 or if we enter into new 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 four 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. Historically, the nature of our activities of review, acquisition and exploration of properties prior to the establishment of reserves, which may include mapping, sampling,

## Management's Discussion & Analysis | continued

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, 2010 and 2009, we have not capitalized any costs related to environmental control facilities. We anticipate our planned development activities will increase our environmental expenditures in the event we begin mining development activities, including building a mine, building and operating an open pit, an ore processing

plant and leach pads and other similar activities. These mining development activities are dependent on, among other things, receiving a positive feasibility study, receiving required permits and obtaining necessary financing. None of which are in place currently. Please see "Risk Factors" in Item 1A of Part I, Form 10-K. Accordingly, we do not expect any of these additional environmental expenditures within the next year. We do not anticipate our other, non-Mt. Hamilton project, exploration activities will result in any material new or additional environmental expenditures or liabilities in the near future.

### Contractual Obligations

The following table provides an analysis of our contractual obligations at December 31, 2010:

(in thousands)

	As of December 31, 2010 - Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	\$ 151	\$ 95	\$ 56	\$ -	\$ -
Land holding costs <sup>(1)</sup>	140	140	-	-	-
Short-term margin loan <sup>(2)</sup>	2,823	2,823	-	-	-
Mt. Hamilton exploration <sup>(3)</sup>	86	86	-	-	-
Mt. Hamilton cash earn-in payments <sup>(3)</sup>	1,500	200	800	500	-
Mt. Hamilton earn in payments in stock of Solitario <sup>(3)(4)</sup>	1,090	182	545	363	-
Mt. Hamilton advance royalty <sup>(3)(5)</sup>	7,100	300	4,100	2,100	600
Long-term debt <sup>(3)(6)</sup>	3,750	500	1,500	1,750	-
Total	\$ 16,640	\$ 4,326	\$ 7,001	\$ 4,713	\$ 600

<sup>(1)</sup> Excluding Mt. Hamilton, discussed below, our other land holding contractual obligations, net of joint venture reimbursements, which are generally cancelable at our option, include all required payments for the next 12 months to maintain our existing mineral properties.

<sup>(2)</sup> The short term-margin loans are due on demand and include \$23,000 of accrued interest at December 31, 2010.

<sup>(3)</sup> Pursuant to the MH Agreement, in order to earn an additional 41% interest in MH-LLC, to a total of 51%, we must (i) spend a minimum of \$1,000,000 in exploration expenditures by August 23, 2011, which has been met as of February 28, 2011; (ii) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder, which was made in November 2010; (iii) make payments totaling \$1,250,000 to DHI-US, to enable Ely to make payments in satisfaction of the Augusta long-term debt and make payments totaling \$500,000 and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2012 (the "Phase I earn-in"), of which \$100,000 was paid and 25,000 shares of our stock was delivered in February 2011. In order to earn an additional 19% interest in MH-LLC, to a total of 70%, Solitario is required to (i) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder, and (ii) make payments totaling \$500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2013 (the "Phase II earn-in"). In order to earn an additional 10% interest in MH-LLC, to a total of 80%, Solitario is required to (i) invest \$600,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; (ii) make payments totaling \$500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to

DHI-US by August 23, 2014; and (iii) buy down the existing 8% net smelter return ("NSR") royalty to a 3% NSR royalty by paying the underlying royalty holder \$5,000,000 by November 19, 2014 (the "Phase III earn-in"). After the completion of Phase I earn-in, Solitario may elect to cease earning an additional interest in MH-LLC at any time prior to the Phase II earn-in or the Phase III earn-in, in which case Solitario's interest in MH-LLC will be reduced to 49% and DHI-US's interest will be increased to 51%.

<sup>(4)</sup> The commitment value of the shares of Solitario stock to be paid to DHI-US, discussed above in note (2) to this table, have been valued at \$3.63 per share, the December 31, 2010 ending stock price as quoted on the NYSE Amex.

<sup>(5)</sup> The minimum annual advance royalty payments of \$300,000 per year have been included in this table through December 2017, in addition to a \$3,500,000 royalty buy-down discussed above due in November 2013 and a \$1,500,000 royalty buy-down payment due in November 2014.

<sup>(6)</sup> Includes accrual of interest of \$665,000 as of December 31, 2010, see "Long-term Debt" above. Of these payments, \$1,250,000 will be made in cash to DHI-US, discussed above in note 3 to this table, and \$2,500,000 of these payments will be made to Ely, in the form of private placements for Ely common stock, of \$750,000 in June 2013, \$750,000 in June 2014, and \$1,000,000 in June 2015, as further discussed below in Note 12 to the consolidated financial statements, "Ely Gold Investment and the Mt. Hamilton Joint Venture."

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

The following discussion relates to an analysis of our exploration and potential development plans for our major properties as of December 31, 2010. Please also see Note 2 to the consolidated financial statements, "Mineral Properties," and our discussion of our properties under Item 2, "Mineral Properties" of this Annual Report on Form 10-K for a more complete discussion of all of our mineral properties.

#### **Mt. Hamilton Joint Venture**

Our focus for 2011 is completion of a bankable feasibility report and a plan of operations that will be filed with the US Department of Agriculture - Forest Service. Feasibility field work began in November 2010 and consisted of feasibility-level geotechnical, metallurgical, and hydro-geologic drilling, and a limited amount of drilling to provide additional resource information. This 11-hole, 6,250-foot core drilling program was completed in January 2011. Auger drilling is planned in March 2011 for the proposed leach pad area for geotechnical design purposes. Additional metallurgical testing began in February 2011 to test several areas within the Centennial gold deposit that have not been adequately studied. Heap and waste rock geochemical characterization also began in the first quarter of 2011. We are continuing our feasibility level economic evaluation utilizing an independent engineering firm and will continue until the feasibility study is completed. We have budgeted approximately \$2,800,000 for exploration, planned development, land and earn-in payments for 2011 at Mt. Hamilton.

#### **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. For 2011, Votorantim will continue road construction to the project area, tunneling to access the San Jorge zone of the Florida Canyon deposit, metallurgical testing, and other pre-feasibility activities in preparation for potentially completing a full feasibility report by 2012. Drilling to further define mineralization will also be conducted from both the surface and underground workings that are currently being driven. The planned road construction will ultimately consist of approximately 23 kilometers of new road alignment to the deposit when all required permits and permissions are in place. To date, access to the deposit has occurred via helicopter and foot-trails. Permitting and social development activities with surrounding communities will also continue throughout 2011.

#### **Pedra Branca**

The Pedra Branca project is an advanced stage project in which PBM is exploring for platinum and palladium in Brazil. Our joint venture partner, Anglo Platinum ("Anglo"), currently owns 51% of PBM and is funding, through PBM, all work conducted on the project. We deconsolidated PBM during 2010 and will record our share of any exploration expense as our equity interest in the gains and losses of

PBM against its investment in PBM. As part of the Shareholders Agreement, we entered into a Services Agreement with Anglo whereby we receive a 5% management fee for operating the project based upon total expenditures. For 2011, PBM anticipates completing the planned 25-hole, 2,000-meter core drilling program sometime in early April 2011. Additional exploration by PBM, including drilling, for the remainder of 2011, is still in the planning stages and subject to funding approval by Anglo.

#### **Pachuca Real**

On April 28, 2010, Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura") on Solitario's Pachuca Real silver-gold project in central Mexico. The Pachuca Real project (the "Pachuca Project") encompasses approximately 31,300 hectares of mineral rights in and around the Pachuca silver-gold mining district. Through our joint venture partner, Buenaventura, we are exploring for silver and gold on the early-staged Pachuca Real project in central Mexico. Buenaventura has the right to terminate the agreement at anytime following an initial 18-month work commitment. For 2011, Buenaventura plans to continue surface exploration in 2011 consisting of mapping and sampling of vein structures on the property and rehabilitation of selected underground workings based on results of surface mapping. Additionally, a surface drilling program began in February 2011; however, the scope of this program has yet to be defined.

#### **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"). As of March 8, 2011, we have four property positions that fall within the currently defined Strategic Alliance areas and are subject to the provisions of the Newmont Alliance. These include La Promesa, Paria Cruz, Excelsior and Cerro Azul properties. Our budget for 2011, discussed below under "Wholly-owned exploration projects" includes funds for planned exploration on these properties including permitting, surface sampling, geophysical and geotechnical work and planned drilling at our Cerro Azul project during 2011.

#### **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.

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

We have budgeted approximately \$3,100,000 in 2011 for exploration on our wholly owned projects, our Newmont Strategic Alliance projects, discussed above, and reconnaissance exploration

## Management's Discussion & Analysis | continued

activities for 2011. This amount includes approximately \$800,000 for drilling related expenditures in 2011. These activities include mapping, sampling, geophysical and geochemical analysis in addition to our drilling activities. Our significant wholly owned projects include Triunfo and Espanola in Bolivia, Atico in Peru and Norcan in Mexico.

### (i). Discontinued Projects

During 2010 we abandoned the Santiago, Cajatambo, La Noria and Palmira properties and recorded a mineral property write-down of \$16,000, \$28,000, \$6,000 and \$5,000, respectively. We performed drilling, stream sediment sampling, rock chip channel sampling and reconnaissance geological mapping. The decision was made to abandon these projects, based upon this work.

During 2009 we abandoned the Chonta and Purica properties and recorded a mineral property write-down of \$51,000. 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 these 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. 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.

#### 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.

#### Fair Value

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.

#### Ely Units and Warrants

In connection with the LOI, we purchased 3,333,333 Ely units in two equal tranches consisting each of 1,666,666 shares of Ely common stock and warrants to purchase 833,333 shares of Ely common stock received on August 30, 2010 (the "First Tranche"). The second tranche was received on October 19, 2010 (the "Second Tranche"). The Ely common stock and any underlying shares to be received upon exercise of the warrants were subject to a four-month hold period from the date the units were purchased.

We allocated the purchase price of the units for both tranches between the shares of Ely common stock and the warrants based upon the relative fair values of the warrants and shares in the units on the dates of purchase. The fair value of the shares of Ely common stock was based upon the quoted market value of Ely shares as quoted on the TSXV. The fair value of the Ely warrants was based upon a Black-Scholes option pricing model. We did not discount these fair values for the four-month hold period because of our classification of these assets as long term based upon our intent to hold the shares and any shares from the potential exercise of the warrants for a period of more than one year and because the relatively short hold period was not considered to create a material discount to our value as of the date of purchase of the units. We recorded a day-one unrealized gain on the Ely marketable equity securities, net of deferred taxes, to other comprehensive income, based upon the quoted fair market value of the Ely shares on the date of purchase. We classify our shares of Ely common stock as marketable equity securities available for sale and any unrealized gains or losses are recognized in unrealized gain or loss on marketable equity securities in other comprehensive income.

Pursuant to ASC 815 the warrants received in both tranches do not qualify as a derivative instrument until 31 days prior to the end of the hold period. Accordingly we recorded a day-one unrealized gain to other comprehensive income on the Ely warrants as of the date of purchase for both tranches. However, on November 30, 2010, the date the hold period for the potential shares from warrants from the First Tranche was less than 31 days, we changed the classification of the warrants received on August 30, 2011 to derivative instrument



## Management's Discussion & Analysis | continued

and concurrently transferred the unrealized gain on the warrants as of that date of \$62,000, net of deferred taxes of \$37,000, to unrealized gain on derivative instrument in the statement of operations to reflect the change in the classification of the warrants received in the First Tranche as deferred instruments on that date. Solitario recorded an additional gain on derivative instruments of \$17,000, for a total gain on derivative instruments in the statement of operations since the date of acquisition of \$117,000. The fair value of the warrants was calculated based upon a Black-Scholes option pricing model at each period end date.

Because the warrants received in the Second Tranche did not qualify as derivative instruments as of December 31, 2010, we recorded all changes in value of the warrants during 2010 in unrealized gain in other comprehensive income in the equity section of the consolidated balance sheet. We transferred the balance of unrealized gain in other comprehensive income to gain on derivative instrument in the statement of operations, when the warrants were reclassified as derivative instruments in accordance with ASC 815 in January 2011.

### 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 call options as hedging instruments and any changes in the fair market value of the Kinross Collar or the Kinross call options 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 call options during 2010 and 2009.

### Revenue Recognition

We record delay rental payments as revenue in the period received. We received \$200,000 in delay rental payments during the years ended December 31, 2010 and 2009. 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.

### 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 by the other party, we record 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, we record any payments included in deferred noncontrolling shareholder payments to the statement of operations.

### Long-term Debt

We record the long-term debt due to Augusta at the discounted fair value as of the date of the formation of MH-LLC in accordance with ASC 470. Upon the contribution of the mineral properties by DHI-US to MH-LLC, MH-LLC recorded \$3,066,000 for the discounted fair value of the payments due to Augusta, discounted at 7.5%, which was based on our estimated cost of similar credit as of the formation of MH-LLC.

### Stock-based Compensation

We account for our stock options under the provisions of ASC 718 Compensation, "Stock Compensation." Pursuant to ASC 718, we classify 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 United States Dollar and the Canadian Dollar, a zero dividend yield, a zero forfeiture rate, and an expected volatility equal to the historical volatility of our common stock on 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

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 740-10 had no effect on our financial position or results of operations.

### (k). Related Party Transactions

#### TNR Gold Corp.

As of December 31, 2010, 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 \$190,000 at December 31, 2010. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

## Management's Discussion & Analysis | continued

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

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" ("ASU 2010-13"). ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification ("ASC") Topic 718 was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. Solitario will change

its accounting for options upon the adoption of ASU 2010-13 from liability accounting to equity accounting in the first quarter of 2011 and is evaluating the impact on its financial statements.

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for our fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation, which is effective for our fiscal year beginning January 1, 2011. The adoption had no impact on our consolidated financial position, results of operations or cash flows. See the discussion of our assets and liabilities measured at fair value above under "Fair Value."

## Report of Independent Registered Public Accounting Firm

**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, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive loss and cash flows for each of the years in the two-year period ended December 31, 2010. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solitario Exploration & Royalty Corp. as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended December 31, 2010 and December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.



Ehrhardt Keefe Steiner & Hottman PC

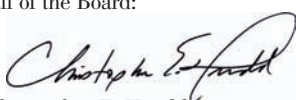
March 11, 2011

Denver, Colorado

## Consolidated Balance Sheets | in thousands of U.S. dollars, except share & per share amounts

	December 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 478	\$ 1,946
Investments in marketable equity securities, at fair value	5,214	4,600
Prepaid expenses and other	421	196
Total current assets	6,113	6,742
Mineral properties, net	6,153	2,739
Investments in marketable equity securities, at fair value	14,557	15,006
Equity method investment	2,276	-
Other assets	509	154
Total assets	\$ 29,608	\$ 24,641
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 630	\$ 269
Derivative instruments fair value	-	53
Short-term margin loan	2,823	-
Current taxes payable	-	385
Current portion long-term debt	481	-
Deferred income taxes	1,945	1,567
Other	100	150
Total current liabilities	5,979	2,424
Long-term debt	2,604	-
Deferred income taxes	4,474	5,555
Stock option liability	2,775	262
Deferred noncontrolling shareholder payments	-	1,286
<b>Commitments and contingencies (Notes 2 and 8)</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, 2010 and 2009)	-	-
Common stock, \$0.01 par value, authorized, 100,000,000 shares (29,750,242 shares issued and outstanding at December 31, 2010 and 2009)	297	297
Additional paid-in capital	36,799	35,611
Accumulated deficit	(36,996)	(32,930)
Accumulated other comprehensive income	11,786	11,722
Total Solitario shareholders' equity	11,886	14,700
Noncontrolling interest	1,890	414
Total shareholders' equity	13,776	15,114
Total liabilities and shareholders' equity	\$ 29,608	\$ 24,641

On behalf of the Board:

  
Christopher E. Herald  
Director

  
John Hainey  
Director

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Operations | in thousands of U.S. dollars, except per share amounts

	For the year ended December 31,	
	2010	2009
<b>Property and joint venture revenue</b>		
Joint venture property payments	\$ 200	\$ 200
<b>Costs, expenses and other:</b>		
Exploration expense	4,033	3,579
Depreciation and amortization	67	91
General and administrative	4,280	2,079
Gain on derivative instruments	(152)	(694)
Property abandonment and impairment	55	51
(Gain) loss on sale of assets	(22)	18
Interest and dividend income (net)	(63)	(106)
<b>Total costs, expenses and other</b>	<b>8,198</b>	<b>5,018</b>
<b>Other income</b>		
Gain on sale of marketable equity securities	995	1,409
Equity in net loss of equity method investment	(220)	-
Gain on deconsolidation of PBM subsidiary	724	-
Break fee on attempted acquisition	-	2,200
<b>Total other income</b>	<b>1,499</b>	<b>3,609</b>
<b>Loss before income tax</b>	<b>(6,499)</b>	<b>(1,209)</b>
Income tax (expense) benefit	1,159	(996)
<b>Net loss</b>	<b>(5,340)</b>	<b>(2,205)</b>
Less net loss attributable to noncontrolling interest	1,274	419
<b>Net loss attributable to Solitario shareholders</b>	<b>\$ (4,066)</b>	<b>\$ (1,786)</b>
<b>Loss per common share attributable to Solitario shareholders:</b>		
Basic and diluted	<b>\$ (0.14)</b>	<b>\$ (0.06)</b>
<b>Weighted average shares outstanding:</b>		
Basic and diluted	<b>29,750</b>	<b>29,750</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders' Equity | And Comprehensive Loss

In thousands of U.S. dollars, except share amounts.  
For the years ended December 31, 2010 and 2009

	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 12/31/2008</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	-	-	-	-	-	(2,518)	(419)	(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>
Noncontrolling interest equity contribution			1,188			1,188	1,594	2,782
Deconsolidation of PBM subsidiary							(1,844)	(1,844)
Noncontrolling interest equity contribution							3,000	3,000
Comprehensive income:								
Net loss	-	-	-	(4,066)		(4,066)	(1,274)	(5,340)
Net unrealized gain on marketable equity securities (net of tax of \$163)	-	-	-		64	64	-	64
Comprehensive loss	-	-	-	-	-	(4,002)	(1,274)	(5,276)
<b>Balance at December 31, 2010</b>	<b>29,750,242</b>	<b>\$ 297</b>	<b>\$ 36,799</b>	<b>\$ (36,996)</b>	<b>\$ 11,786</b>	<b>\$ 11,886</b>	<b>\$ 1,890</b>	<b>\$13,776</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows | in thousands of U.S. dollars

	For the year ended December 31,	
	2010	2009
<b>Operating activities:</b>		
Net loss	\$ (5,340)	\$ (2,205)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on derivative instruments	(152)	(694)
Depreciation and amortization	67	91
Loss on equity method investment	220	-
Asset write down	55	51
Employee stock option expense (benefit)	2,513	(269)
Deferred income taxes	(867)	611
Amortization of interest on long-term debt	19	-
Gain on asset and equity security sales	(1,017)	(1,391)
Gain on deconsolidation of PBM subsidiary	(724)	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	49	96
Accounts payable and other current liabilities	414	112
Current income taxes payable	(677)	385
Net cash used in operating activities	(5,440)	(3,213)
<b>Investing activities:</b>		
Additions to mineral properties	(11)	(5)
Additions to other assets	(60)	(15)
Purchase of marketable equity securities	(358)	-
(Purchase) sale of derivative instrument, net	(135)	99
Proceeds from sale of marketable equity securities	1,301	1,352
Decrease in cash from deconsolidation of PBM subsidiary	(1,083)	-
Proceeds from sale of other assets	22	-
Net cash (used in) provided by investing activities	(324)	1,931
<b>Financing activities:</b>		
Short-term borrowing (net)	2,800	-
Deferred noncontrolling shareholder payments	1,496	1,286
Net cash provided by financing activities	4,296	1,286
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,468)</b>	<b>4</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,946</b>	<b>1,942</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 478</b>	<b>\$ 1,946</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$ 319	\$ -
<b>Supplemental disclosure of non-cash flow investing and financing activities:</b>		
Assumption of Mt. Hamilton long-term debt on acquisition of Mt. Hamilton mineral property	\$ 3,066	\$ -
Noncontrolling shareholder contribution of Mt. Hamilton property	\$ 3,000	\$ -
Reclassification of deferred noncontrolling shareholder payments to additional paid-in-capital	\$ 1,188	\$ -
Reclassification of deferred noncontrolling shareholder payments to noncontrolling interest	\$ 1,594	\$ -

See Notes to Consolidated Financial Statements.

## Notes | to Consolidated Financial Statements

### For the years ended December 31, 2010 and 2009

#### 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. In August 2010, Solitario signed a Letter of Intent to earn up to an 80% interest in the Mt. Hamilton project located in Nevada, discussed below under “Recent developments.” Solitario has been working on the exploration and potential development of the Mt. Hamilton project. However, Solitario has never developed a mineral property. Solitario is exploring on other mineral properties that may be developed in the future by Solitario or through a joint venture. Solitario has been actively involved in mineral exploration since 1993. Solitario recorded revenues from joint venture delay rental payments of \$200,000 each year, respectively, related to its Bongará project during 2010 and 2009. 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, 2010, Solitario had 12 mineral exploration properties in Peru, Bolivia, Mexico and Brazil and its Yanacocha and La Tola royalty properties in Peru and its Mercurio royalty property in Brazil. Solitario is conducting exploration activities in all of those countries.

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

##### Recent Developments

##### Ely Gold and Minerals, Inc.

On August 26, 2010, Solitario signed a Letter of Intent (“LOI”) with Ely Gold and Minerals, Inc., (“Ely”) to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project, which was wholly-owned by DHI-Minerals (US) Ltd. (“DHI-US”). DHI-US is an indirect wholly-owned subsidiary of Ely. The formation of the joint venture terms and certain equity investments, described below, were subject to the approval (the “Approval”) of the LOI by Ely shareholders and regulatory approval from the TSX Venture Exchange (“TSXV”), which was received on October 18, 2010.

On August 26, 2010 and October 19, 2010, Solitario made private placements investments of Cdn\$250,000 each in Ely. Solitario received a total of 3,333,333 shares of Ely common stock and warrants to purchase a total of 1,666,667 shares of Ely stock (the “Ely Warrants”) for an exercise price of Cdn \$0.25 per share, which expire two years from the date of purchase. The placements were part of the LOI to joint venture Ely's Mt. Hamilton gold project. On November 12, 2010, Solitario made an initial contribution of \$300,000 for a

10% interest in, upon the formation of Mt. Hamilton LLC (“MH-LLC”), which was formed in December 2010. The terms of the joint venture are set forth in the Limited Liability Company Operating Agreement of MH-LLC between Solitario and DHI-US (the “MH Agreement”). Pursuant to the MH Agreement, Solitario may earn up to an 80% interest in MH-LLC by completing various staged commitments. Pursuant to the terms of the MH Agreement Solitario has determined that MH-LLC is a variable interest entity (a “VIE”) and that Solitario controls MH-LLC and is the primary beneficiary of MH-LLC in accordance with ASC 810. As a result of its controlling interest in MH-LLC, Solitario has consolidated MH-LLC and recorded \$3,066,000 of debt related to MH-LLC upon the formation of MH-LLC. See a more complete discussion in Note 12, “Ely Gold investment and the Mt. Hamilton Joint Venture” below.

##### Pedra Branca do Mineração, Ltd.

On July 21, 2010, Anglo Platinum Limited (“Anglo”) made a payment of \$746,000 to Pedra Branca do Mineração, Ltd. (“PBM”) required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. Accordingly, Solitario has deconsolidated its interest in Pedra Branca and has recorded its 49% interest in PBM as an equity investment in the consolidated balance sheet as of December 31, 2010. Solitario recorded a gain on deconsolidation as of July 21, 2010 of \$724,000 and has recorded its equity in the net loss of PBM from that date as other income in the condensed consolidated statement of operations. Please see Note 11 “Deconsolidation of PBM” below.

##### Investment in Kinross

Solitario has a significant investment in Kinross stock at December 31, 2010, which consists of 980,000 shares of Kinross common stock. During 2010, Solitario sold 70,000 shares of Kinross common stock for proceeds of \$1,301,000 and during 2009 Solitario sold 100,000 Kinross common shares for net proceeds of \$1,852,000. As of March 8, 2011, Solitario owns 960,000 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 stock 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 stock. On April 13, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. 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 either tranche of the Kinross Collar. As of December 31, 2010, 100,000 shares remain subject to the Kinross Collar which expires in April 2011. The Kinross Collar is discussed below under “Derivative instruments.”

##### Financial Reporting

The consolidated financial statements include the accounts of Solitario and its wholly-owned subsidiaries, controlled non-wholly-owned subsidiaries and its equity investment in PBM. All significant inter-company accounts and transactions have been eliminated in consol-



## Notes | to Consolidated Financial Statements continued

idation. 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 United States dollars.

In performing its activities, Solitario has incurred certain costs for mineral properties. The recovery of these costs is ultimately dependent upon the sale of mineral property interests or the development of economically recoverable ore reserves, the ability of Solitario to obtain the necessary permits and financing to successfully place the properties into production, and upon future profitable operations, none of which is assured.

### Revenue Recognition

Solitario records delay rental payments as revenue in the period received. Solitario received \$200,000 in delay rental payments during the years ended December 31, 2010 and 2009. 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.

### Deferred Noncontrolling Shareholder Payments

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, Solitario records 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, Solitario records any payments remaining in deferred noncontrolling shareholder payments to the statement of operations.

On July 21, 2010, Anglo made a payment of \$746,000 to PBM required to fund the 2010 work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. As a result of Anglo earning a 51% interest in PBM by meeting the requirements of the Shareholders Agreement, Solitario reclassified the balance of \$2,782,000 in deferred noncontrolling shareholder payments as \$1,594,000 to Anglo's interest in PBM and \$1,188,000 to additional paid-in-capital, for Solitario's share of the deferred noncontrolling shareholder payments. Accordingly, as it no longer controls PBM, Solitario deconsolidated PBM, in accordance with ASC 810 during the year ended December 31, 2010. See Note 11 “Deconsolidation of PBM.” This reduced the balance in the deferred noncontrolling shareholder account to zero as of July 21, 2010. Solitario recorded \$1,286,000 as deferred noncontrolling shareholder payments as of December 31, 2009. During the years ended December 31, 2010 and 2009, Solitario received deferred noncontrolling shareholder payments of \$1,496,000 and \$1,286,000, respectively.

### 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: (i) the recoverability of mineral properties and their future exploration potential; (ii) 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; (iii) the ability of Solitario to realize its deferred tax assets; (iv) the current portion of Solitario's investment in Kinross stock and in Ely shares included in marketable equity securities; v) the fair value of Solitario's investment in the Ely Warrants; (vi) the discounted value of the long-term debt recorded upon the formation of MH-LLC; (vii) the fair value of PBM upon deconsolidation; (viii) the fair value of the Mt. Hamilton property recorded upon the formation of MH-LLC; and (ix) 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, 2010 and 2009, Solitario had concentrations of cash and cash equivalents in excess of federally insured amounts and cash in foreign banks for which there was no United States 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 undiscounted 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, 2010 and 2009, Solitario recorded an impairment of \$55,000 and \$51,000, respectively, on its mineral properties.

Solitario's net capitalized mineral properties of \$6,153,000 and \$2,739,000 at December 31, 2010 and 2009, respectively, related to gross land, leasehold and acquisition costs of \$6,156,000 and \$3,762,000 at December 31, 2010 and 2009, respectively, less accumulated amortization of \$3,000 and \$1,023,000 at December 31, 2010 and 2009, respectively. 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, either on our own or 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

## Notes | to Consolidated Financial Statements continued

Agreement for Equity Collars and a Pledge and Security Agreement with UBS whereby Solitario pledged 900,000 shares of Kinross common stock to be sold (or delivered back to us with any differences settled in cash). As of December 31, 2010, 100,000 shares remained subject to the Kinross Collar which expires in April 2011.

Beginning in December 2008, Solitario 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, of which 50,000 of these call options expired unexercised in April 2009, 40,000 were repurchased in July 2009 and 40,000 were repurchased in November 2009. In November 2009, Solitario sold an option for 40,000 shares which expired in May 2010.

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 6, "Derivative Instruments" below.

In connection with the LOI, Solitario acquired the Ely Warrants. On August 30, 2010 Solitario allocated its investment between the Ely common stock received of \$178,000 and the Ely Warrants received of \$65,000 based upon the fair values of each. Because the Ely Warrants had a 120-day hold period from the date of purchase, Solitario did not classify the Ely Warrants as derivative instruments and any gain or loss was recorded as other comprehensive income, prior to November 30, which was 31 days before the Ely Warrants could be freely traded, or approximately 89 days after the Ely Warrants were purchased. On November 30, 2010, the Ely Warrants received on August 30, 2010 became classified as derivative instruments and any changes in the fair value of the Ely Warrants as of that date were recorded in gain on derivative instruments in the statement of operations. On November 30, 2010, Solitario transferred \$99,000 to gain on derivative instrument from other comprehensive income for the 666,667 Ely Warrants received on August 30, 2010. Solitario recorded an additional \$18,000 in gain on derivative instrument for the increase in the fair value of the Ely Warrants for a total gain on derivative instruments of \$117,000 for the year ended December 31, 2010 on the Ely Warrants received on August 30, 2010. For the 666,666 Ely Warrants received on October 19, 2010, Solitario has recorded other comprehensive income of \$114,000 as of December 31, 2010 for the increase in the fair value of the Ely Warrants received on October 19, 2010. Any gain or loss included in other comprehensive income on January 16, 2011 will be recorded to gain/loss on derivative instrument in the statement of operations for 2011 upon the Ely Warrants received on October 19, 2010 being classified as derivative instruments.

### Variable Interest Entity

Pursuant to the terms of the MH Agreement Solitario has determined that MH-LLC is a VIE in accordance with ASC 810. Solitario has also determined that it is the primary beneficiary of MH-LLC. Accordingly, Solitario consolidates MH-LLC in its consolidated financial statements in accordance with ASC 810. Solitario has determined no separate presentation of assets or liabilities is necessary per ASC 810, as MH-LLC does not have any assets that can only be used to settle specific obligations or any liabilities for which creditors do not have recourse to Solitario. See Note 12, "Ely Gold

Investment and Mt. Hamilton Joint Venture" below for further discussion of MH-LLC.

### Metallic Ventures

On August 24, 2009, Solitario and Metallic Ventures Gold Inc. ("Metallic Ventures") entered into a definitive arrangement agreement, as amended, (the "MV Agreement") whereby Solitario would acquire, through a friendly statutory plan of arrangement under Canadian Law, all outstanding shares of Metallic Ventures, by issuing 19.5 million shares of Solitario common stock and pay \$18 million for all of the outstanding shares of Metallic Ventures. The MV Agreement, as amended, was subject to shareholder and regulatory approval. In order to offer Metallic Ventures' shareholders the Solitario 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 November 2, 2009, Metallic Ventures terminated the MV 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

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, short-term margin loans 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 7, "Fair Value of Financial Instruments" below.

### 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 \$19,771,000 and \$19,606,000, respectively, and cost of \$1,087,000 and \$1,035,000, respectively, at December 31, 2010 and 2009. Solitario has accumulated other comprehensive income for unrealized holding gains of \$18,684,000 and \$18,571,000, respectively, net of deferred taxes of \$6,969,000 and \$6,849,000, respectively, at December 31, 2010 and 2009 related to our marketable equity securities. Solitario acquired 3,333,333 shares of Ely common stock during the year ended December 31, 2010 at a cost of \$358,000, discussed in Note 12, "Ely Gold investment and the Mt. Hamilton joint venture" below. Solitario sold 70,000 shares of its Kinross common stock during the year ended December 31, 2010 for gross proceeds of \$1,301,000. Solitario sold 100,000 shares, respectively, of its Kinross common stock during the year ended December 31, 2009 for gross proceeds of \$1,852,000. Solitario has classified \$5,214,000 and \$4,600,000, respectively, of marketable

## Notes | to Consolidated Financial Statements continued

equity securities as current, as of December 31, 2010 and 2009, which represents Solitario's estimate of what portion of marketable equity securities will be liquidated within one year.

The following table represents changes in marketable equity securities (in thousands):

	2010	2009
Gross cash proceeds	\$ 1,301	\$ 1,852
Cost	306	443
Gross gain on sale included in earnings during the period	995	1,409
Unrealized holding gain arising during the period included in other comprehensive income, net of tax of \$534 and \$90	689	152
Reclassification adjustment for net losses (gains) included in earnings during the period, net of tax of \$371 and \$526	(624)	(884)

### Foreign Exchange

The United States dollar is the functional currency for all of Solitario's foreign subsidiaries. Although Solitario's South American 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 2010 and 2009, Solitario recorded foreign exchange gain (loss) of \$(29,000) and \$35,000, 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 \$32,000 and \$280,000, respectively, at December 31, 2010 and 2009.

### 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

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. These provisions of ASC 740 had no effect on Solitario's financial position or results of operations. See Note 5, "Income Taxes" below.

### 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, 2010 and 2009. Potentially dilutive shares related to outstanding common stock options of 2,584,000 and 519,000 for the years ended December 31, 2010 and 2009, 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, and an expected volatility based upon the historical volatility of Solitario's common stock on 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 liability 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 the 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, 2010, Solitario's Mt. Hamilton project is located in Nevada and all of Solitario's remaining operations are located in Peru, Bolivia, Brazil and Mexico as further described in Note 2 to these consolidated financial statements. At December 31, 2010, Solitario has recorded \$6,066,000 of mineral property related to its Mt. Hamilton project in Nevada.

## Notes | to Consolidated Financial Statements continued

Included in the consolidated balance sheet at December 31, 2010 and 2009 are total assets of \$515,000 and \$3,310,000, 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, 2010 and 2009 are net capitalized costs related to the Pedra Branca Property, located in Brazil, of zero and \$2,607,000, respectively. Solitario is not aware of any foreign exchange restrictions on its subsidiaries located in foreign countries.

### Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" ("ASU 2010-13"). ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification ("ASC") Topic 718 was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. Solitario will classify its options as equity options, in accordance with ASU 2010-13 and will no longer record a liability for the fair value of its outstanding options beginning January 1, 2011. Solitario is currently evaluating the impact ASU 2010-13 will have on its financial statements.

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for Solitario's fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation, which is effective for Solitario's fiscal year beginning January 1, 2011. The adoption had no impact on Solitario's consolidated financial position, results of operations or cash flows. See the discussion of Solitario's assets and liabilities measured at fair value above under "Fair Value."

## 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 that contain proven or probable reserves, 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 and development potential. 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,	
	2010	2009
Mineral interests	\$ 6,156	\$ 3,762
Accumulated amortization	(3)	(1,023)
Net mineral interests	<u>\$ 6,153</u>	<u>\$ 2,739</u>

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.

### United States

As discussed in Note 1 above, on August 26, 2010, Solitario signed the LOI with Ely to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project. MH-LLC recorded the Mt. Hamilton mineral properties at their fair value of \$6,066,000 on formation of MH-LLC. The Mt. Hamilton claims are subject to a security interest granted to Augusta Resources Corporation ("Augusta"), from whom Ely had previously acquired its interest in the Mt. Hamilton project that DHI-US contributed to MH-LLC. Upon formation, MH-LLC recorded a liability of \$3,066,000, discounted at 7.5%, which is Solitario's deemed market interest rate, for the secured liability to Augusta. MH-LLC recorded \$3,000,000 for the fair value of the net contribution of the Mt. Hamilton properties by DHI-US as of the formation of MH-LLC. Pursuant to the MH Agreement, Solitario has control of MH-LLC and is consolidating the activities of MH-LLC in accordance with ASC 810. Accordingly, Solitario recorded an addition to mineral properties of \$6,066,000 during 2010. Pursuant to the MH Agreement, Solitario is required to fund all exploration expenditures to complete a feasibility study and fund a minimum of \$1,000,000 in exploration expenditures on or before August 21, 2011, which minimum has been met as of February 28, 2011. Including its initial investment, during 2010 Solitario has funded \$1,214,000 of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2010. In addition, MH-LLC recorded \$19,000 of interest expense related to the long-term debt due to Augusta. Solitario recorded a \$1,110,000 reduction in the noncontrolling interest for Ely's 90% interest in the losses of MH-LLC for 2010.

### Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 5,200 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

## Notes | to Consolidated Financial Statements continued

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 12,800 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. 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, 2010, 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, which was met in 2010, 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 and by making further delay rental payments to Solitario of \$200,000 on all subsequent anniversaries (completed through 2010) 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 is responsible for all joint venture costs as part of the Framework Agreement. Votorantim has conducted annual drilling programs at Bongará for the years 2006-2010.

### Brazil

#### (a) Pedra Branca

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. On July 21, 2010, Anglo made a payment of \$746,000 to PBM required to fund the second half of the 2010 work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. 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.

Upon Anglo earning a 51% interest on July 21, 2010, Solitario made the determination that Anglo had gained control of PBM per the terms of the PBM shareholders agreement between Solitario and Anglo. This necessitated the deconsolidation of our interest in PBM and the recording of a gain or loss on deconsolidation in accordance with ASC 810-10-40-5. Accordingly Solitario reduced its mineral properties and accumulated amortization by \$3,627,000 and \$1,020,000, respectively, as of July 21, 2010. See Note 11, "Deconsolidation of PBM," below.

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 2010 Solitario charged PBM management fees of \$47,000, to PBM of which \$36,000, received prior to July 21, 2010 were eliminated in consolidation, net of \$12,000 of noncontrolling interest. During 2009 Solitario recorded \$65,000 of management fees which were eliminated in consolidation, net of \$20,000 of noncontrolling interest.

#### (b) Mercurio

On March 9, 2010, Solitario signed a letter agreement with Regent Holdings, Ltd. ("Regent"), related to Solitario's Mercurio property, located in Brazil. In November 2010, Solitario signed a definitive agreement with Regent Holdings, Ltd. ("Regent"), whereby Regent has agreed to pay to Solitario \$1,000,000 over the next four years, in the amounts of \$50,000, \$100,000, \$200,000 and \$650,000 beginning March 15, 2011 and on each anniversary of that date through March 15, 2014, and invest in minimum expenditure amounts totaling \$900,000 over the same period. However, this schedule is dependent upon issuance by the Brazilian government of one of the titles comprising the property which is currently pending and has thus far not occurred. Upon the final payments to Solitario, Regent will own Mercurio and Solitario will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to 2 million ounces and Solitario will retain a net smelter royalty of 2.0% on all ounces of gold produced at Mercurio over 2 million ounces. Regent may terminate the agreement at any time after six months from the date of signing the agreement.

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### Mexico

#### (a) Pachuca

The 31,300 hectare Pachuca Real silver-gold property in central Mexico was acquired by staking in late 2005 and early 2006. Part of the property, the 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 \$82,000 are due in 2011. Solitario may terminate its option at anytime without any further costs.

On April 28, 2010, Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. (“Buenaventura”) on the Pachuca Real silver-gold project. The agreement calls for a firm work commitment by Buenaventura of \$2.0 million over the first 18 months. Work commitments over the entire 4.5 years total \$12.0 million. Buenaventura will earn a 51% interest in the Pachuca Project upon the completion of \$12.0 million in expenditures. All work commitments will be performed by Buenaventura employees or contractors. Buenaventura will have the right to earn an additional 14% (total 65%) interest in the Pachuca Project by completing a positive feasibility study for the project. During the feasibility stage, Buenaventura is required to make all required property payments and to spend a minimum of \$5.0 million annually until such time as the positive feasibility study is completed. Buenaventura has the right to terminate the agreement at anytime following its firm initial work commitment. Upon completion of the feasibility study, Solitario will have the option to self-finance its 35%-participating interest in the Pachuca Project, or to have Buenaventura fund Solitario’s portion of construction costs at Libor + 3%. If Solitario elects to have Buenaventura fund its portion of construction costs, then Solitario’s participating interest in the Pachuca Project will be 30% and Buenaventura’s interest will be 70%. Buenaventura will be repaid for its funding plus interest from 80% of Solitario’s 30% interest in the distribution of earnings from the Pachuca project.

#### Discontinued Projects

During the third quarter of 2010 Solitario abandoned the Santiago prospect and recorded a mineral property write down of \$16,000. The Santiago prospect was acquired in 2007 and consists of one mining concession totaling 1,000 hectares. During the second quarter of 2010 Solitario abandoned the Cajatambo, La Noria and Palmira properties and recorded a mineral property write down of \$28,000, \$6,000 and \$5,000, respectively.

During the fourth quarter of 2009 Solitario abandoned the Chonta property in Peru and recorded a mineral property write-down of \$42,000. 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.

### Exploration Expense

The following items comprised exploration expense:

(in thousands)	2010	2009
Geologic and field expenses	\$ 2,420	\$ 2,339
Administrative	399	1,240
Mt. Hamilton exploration	1,214	-
Total exploration expense	<u>\$ 4,033</u>	<u>\$ 3,579</u>

### 3. Short-term Debt:

Solitario borrowed \$900,000, net, from RBC Capital Markets, LLC (“RBC”) during 2010, in short-term margin loans, using Solitario’s investment in Kinross held at RBC as collateral for the short-term margin loans. During 2010, the loans carried interest at a margin loan rate of 4.25% per annum, which floats based upon the London Interbank Offered Rate. The margin loan rate can be modified by RBC at any time. The margin loans are callable by RBC at any time. Per the terms of the margin loans, Solitario is required to maintain a minimum equity value in the account of 35%, based upon the value of its Kinross shares and any other assets held at RBC, less any short-term margin loan balance and any other balances owed to RBC. The equity value percentage may be modified by RBC at any time. If the equity value in Solitario’s account at RBC falls below the minimum, RBC may call the loan, or may sell enough Kinross shares held in Solitario’s brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2010, the equity balance in Solitario’s account at RBC was 80%. Interest expense related to the short-term margin loans for the year ended December 31, 2010 was \$5,000.

Solitario borrowed \$1,900,000 during 2010 from UBS Bank, USA (“UBS Bank”) pursuant to a secured credit line agreement between Solitario and UBS Bank. The UBS Bank credit line carries an interest rate of 2.51% per annum as of December 31, 2010, which floats, based upon a base rate of 2.25% plus the one-month London Interbank Offered Rate (“LIBOR”), which is 0.26% as of December 31, 2010. UBS Bank may change the base rate at any time. The UBS Bank credit line provides that Solitario may borrow up to \$2 million and that Solitario maintain a minimum equity value percentage in its UBS brokerage account above 40%, based upon the value of its Kinross shares and any other assets held in Solitario’s UBS brokerage account, less the value of its UBS Bank credit line and any other balances owed to UBS Bank. UBS Bank may modify the minimum equity value percentage of the loan at any time. In addition, if the equity value in Solitario’s UBS brokerage account falls below the minimum equity value, UBS Bank may sell enough Kinross shares held in Solitario’s UBS brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2010, the equity value in Solitario’s UBS brokerage account was 80%. Solitario recorded interest expense related to the UBS credit line of \$18,000 for the year ended December 31, 2010.

### 4. Long-term Debt:

In connection with the formation of MH-LLC, the Mt. Hamilton properties contributed by DHI-US to MH-LLC were subject to a security interest granted to Augusta Resources Corporation (“Augusta”) related to Ely’s acquisition of the Mt. Hamilton properties. Pursuant to the MH

## Notes | to Consolidated Financial Statements continued

Agreement, as part of its earn-in, Solitario has agreed to make payments totaling \$3,750,000, of which \$1,250,000 will be paid in cash to DHI-US and \$2,500,000 will be in the form of private placement investments in Ely common stock, all to provide Ely with the funds necessary for Ely to make the loan payments due to Augusta. The payments due to Augusta are non-interest bearing. Accordingly upon formation and the contribution of the mineral properties by DHI-US to MH-LLC, MH-LLC recorded \$3,066,000 for the discounted fair value of the payments due to Augusta, discounted at 7.5%, which was Solitario's estimated cost of similar credit as of the formation of MH-LLC.

Schedule of debt payments due to Augusta as of December 31, 2010:

<b>Date</b>	<b>Amount</b>
June 1, 2011	\$ 500,000
June 1, 2012	750,000
June 1, 2013	750,000
June 1, 2014	750,000
June 1, 2015	1,000,000
Discount	(665,000)
Net due	<u>\$ 3,085,000</u>

During 2010, Solitario recorded \$19,000 for accretion of interest expense related to MH-LLC long-term debt due to Augusta, which increased the outstanding long-term debt balance to \$3,085,000 at December 31, 2010 from the balance on formation of \$3,066,000 upon formation of MH-LLC.

### 5. Income Taxes:

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

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Current:		
United States	\$ (342)	\$ 385
Foreign	50	-
Deferred:		
United States	\$ (773)	\$ 162
Foreign	-	-
Operating loss and credit carryovers:		
United States	(94)	449
Foreign	-	-
Income tax expense (benefit)	<u>\$ (1,159)</u>	<u>\$ 996</u>

Consolidated income (loss) before income taxes includes losses from foreign operations of \$2,721,000 and \$3,894,000 in 2010 and 2009, respectively.

During 2010 and 2009, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of \$1,223,000 and \$242,000, respectively. Other comprehensive income has been charged \$534,000 and \$90,000, respectively, for the income tax expense associated with these gains. During 2010 and 2009, Solitario transferred unrealized gain of \$995,000 and \$1,409,000, respectively, from other comprehensive income upon the sale of 70,000 and 100,000 shares, respectively, of Kinross common stock, less income tax of \$371,000 and \$526,000, respectively, associated with these unrealized gains.

The net deferred tax assets/liabilities in the December 31, 2010 and 2009 consolidated balance sheets include the following components:

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Deferred tax assets:		
Loss carryovers	\$ 9,387	\$ 8,480
Stock option compensation expense	976	98
Royalty	1,492	1,492
Severance	30	47
Other	74	25
Valuation allowance	(9,971)	(9,173)
Total deferred tax assets	<u>1,988</u>	<u>969</u>
Deferred tax liabilities:		
Unrealized gain on derivative securities	241	311
MH-LLC investment	305	-
Exploration costs	845	845
Unrealized gains on marketable equity securities	7,012	6,927
Other	4	8
Total deferred tax liabilities	<u>8,407</u>	<u>8,091</u>
Net deferred tax liabilities	<u>\$ 6,419</u>	<u>\$ 7,122</u>

At December 31, 2010 and 2009, Solitario has classified \$1,945,000 and \$1,567,000, 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:

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Expected income tax expense (benefit)	\$ (2,210)	\$ (411)
Non-deductible foreign expenses	1	13
Non-deductible foreign stock compensation expense	54	(9)
Foreign tax rate differences	98	107
State income tax	(94)	88
Change in valuation allowance	798	1,205
Permanent differences and other	194	3
Income tax expense (benefit)	<u>\$ (1,159)</u>	<u>\$ 996</u>

During 2010 and 2009 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, 2010, Solitario has unused US Federal Net Oper-

## Notes | to Consolidated Financial Statements continued

ating Loss (“NOL”) carryovers of \$170,000 and unused US State NOL carryovers of \$1,078,000, both of which expire in 2030. 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.

Solitario adopted the provisions of ASC 740, 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 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, Solitario performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards established by ASC 740. The provisions of ASC 740 had no effect on Solitario’s financial position, cash flows or results of operations at December 31, 2009 or December 31, 2010, or for the years then ended as Solitario had no unrecognized tax benefits.

Solitario and its subsidiaries are subject to the following material taxing jurisdictions: United States Federal, State of Nevada, State of Colorado, Mexico, Peru and Brazil. The tax years that remain open to examination by the United States Internal Revenue Service are years 2007 through 2010. The tax year that remains open to examination by the State of Nevada is 2010. The tax years that remain open to examination by the State of Colorado are years 2006 through 2010. The tax years that remain open to examination by Mexico are years 2007 through 2010. 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 December 31, 2009, or December 31, 2010 or for the years then ended.

### 6. Derivative Instruments:

#### Ely Warrants

In connection with the equity investment in Ely on August 30, 2010 (the “First Ely Investment”), Solitario acquired warrants to purchase 833,333 shares of Ely common stock at Cdn\$0.25 per share for a period of two years. The warrants had a four-month hold period from August 30, 2010, whereby any shares received upon exercise of the warrants could not be traded until after December 30, 2010. Accordingly, Solitario did not classify the warrants as derivative instruments in accordance with ASC 815-10-55-84, until November 30, 2010, or 31 days prior to the underlying shares being readily convertible to cash. Prior to that time, any gains and losses on the warrants were recorded in other comprehensive income. On November 30, 2010, Solitario transferred an unrecognized gain on derivative instrument of \$99,000 for the warrants received with the First Ely Investment to gain on derivative instrument. On December 31, 2010, Solitario recognized \$18,000 in gain on derivative instrument for the increase in the value of the warrants received. As of December 31, 2010, Solitario has recorded \$182,000 for the fair value of the warrants received from Ely as a long-term asset and recorded an unrealized gain on derivative instrument of \$117,000 in the statement of operations.

On October 19, 2010, Solitario made an additional equity investment into Ely, (the “Second Ely Investment”) and received warrants to purchase an additional 833,333 shares of Ely common stock at Cdn\$0.25 per share for a period of two years. However because the underlying shares’ four-month hold period did not expire until February 2011, as of December 31, 2010 the warrants were not classified as derivative instruments. At December 31, 2010, Solitario has recorded \$184,000 for the fair value of the warrants received in the Second Ely Investments in other assets and has recorded \$114,000 unrealized gain in other comprehensive income.

#### Kinross Collar

On October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the “Kinross Collar”) whereby Solitario pledged 900,000 shares of Kinross common shares to be sold. As of December 31, 2010, 800,000 of those shares have been released from the Kinross Collar and no shares were delivered or sold pursuant to the terms of the Kinross Collar. As of December 31, 2010, the Kinross Collar provides for delivery of the remaining 100,000 shares due on April 12, 2011 for a lower threshold price of \$13.69 per share and an upper threshold price of \$27.50 per share. The business purpose of the Kinross Collar is to provide downside price protection of the Floor Price on 100,000 shares of the total shares Solitario owns as of December 31, 2010, 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 price during the remaining term of the Kinross Collar.

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, 2010, Solitario recorded \$2,000 for the fair market value of the Kinross Collar in other current assets. Solitario recorded the fair market value of the Kinross Collar as an asset of \$9,000 as of December 31, 2009, of which \$20,000 is recorded as other assets and \$11,000 is recorded as derivative instruments in current liabilities. Solitario recorded an unrealized gain of \$7,000 during 2010, and an unrealized gain of \$522,000 during 2009 in gain on derivative instrument for the change in the fair value of the Kinross Collar.

#### Covered Call Options

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 instruments in statement of operations during 2008. Solitario recorded a gain on derivative instruments of \$116,000 during 2009 upon the expiration of the February 09 Kinross Calls.



## Notes | to Consolidated Financial Statements continued

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 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 in gain (loss) on derivative instrument of \$34,000 during the year ended December 31, 2009 related to the May 10 Kinross Call. Solitario recorded a gain on derivative instruments of \$42,000 during 2010 upon the expiration of the May 10 Kinross Call.

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, 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, 2010 and December 31, 2009:

(in thousands)

	Derivatives		
	Balance Sheet Location	December 31, 2010	December 31, 2009
<b>Derivatives not designated as hedging instruments under ASC 815</b>			
First Ely Investment Warrants	Long-term other assets	\$ 182	\$ -
Kinross Collar	Current assets	2	-
Kinross Collar	Long-term other assets	-	20
Kinross Collar	Current liabilities	-	11
May 10 Kinross Call	Current liabilities	-	42

The following amounts are included in loss (gain) on derivative instruments in the consolidated statement of operations for the years ended December 31, 2010 and 2009:

(in thousands)

	Year ended December 31, 2010 <sup>(1)</sup>		Year ended December 31, 2009 <sup>(1)</sup>	
	Realized	Unrealized	Realized	Unrealized
<b>Loss (gain) on derivatives not designated as hedging instruments under ASC 815</b>				
First Ely Investment Warrants	\$ -	\$ (117)	\$ -	\$ -
Kinross Collar	-	7	-	(522)
May 10 Kinross Call	(42)	-	-	(34)
February 09 Kinross Call	-	-	(116)	-
April 09 Kinross Call	-	-	(21)	-
August 09 Kinross Call	-	-	80	-
November 09 Kinross Call	-	-	(81)	-
Total (gain) loss	\$ (42)	\$ (110)	\$ (138)	\$ (556)

<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 certain holdings of Kinross common stock held as collateral for the Kinross Collar in a separate account at UBS. The Kinross common stock held as collateral for the margin loans at UBS Bank and RBC are held in Solitario's brokerage accounts at UBS and RBC, respectively.

### 7. Fair Value of Financial Instruments:

For certain of Solitario's financial instruments, including cash and cash equivalents, payables and short-term debt, the carrying amounts approximate fair value due to their short maturities. Solitario's marketable equity securities, First and Second Ely Equity Investments

## Notes | to Consolidated Financial Statements continued

are carried at their estimated fair value primarily based on quoted market prices. The long-term debt associated with MH-LLC is carried at its estimated fair value based upon the discounted present value of the payments using an estimated discount rate and the Kinross Collar is carried at its estimated fair value based on a Black-Scholes option pricing model.

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. 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. During the year ended December 31, 2010 and 2009, there were no reclassifications in financial assets or liabilities between level 1, 2 or 3 categories.

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, 2010:

(in thousands)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Marketable equity securities	\$ 18,771	\$ -	\$ -	\$ 18,771
Marketable equity securities - Ely common stock	500	500	-	1,000
Kinross Collar derivative instrument	-	2	-	2
Other assets - Ely investment warrants	-	366	-	366

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:

(in thousands)	Level 1	Level 2	Level 3	Total
<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

Items measured at fair value on a recurring basis:

**Marketable equity securities:** At December 31, 2010 and 2009, the fair value of Solitario's investment in Kinross, TNR and unrestricted Ely tradeable marketable equity securities is based upon quoted market prices. The fair value of Solitario's investment in Ely common stock, subject to a hold period, which expires in February for the shares of Ely common stock from the Second Ely investment, is based upon quoted market prices, which Solitario has not adjusted for the hold period due to the short remaining time period of the hold. However, these are classified as Level 2 inputs due to the restriction.

**Ely warrants:** The Ely warrants are not traded on any public exchange. Solitario determines the fair value of the Ely warrants using a Black-Scholes model, using inputs, including share price, volatility of Ely common stock, and discount rates that include an assessment of performance risk, that are readily available from public markets and for the hold period discussed above; therefore, they are classified as Level 2 inputs.

**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, volatility of the 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.

**Covered call options:** The May 10 Kinross Call at December 31, 2009 is an exchange traded option and fair value is based upon quoted market prices. See Derivative Instruments above.

Items measured at fair value on a nonrecurring basis:

**Mt. Hamilton long-term debt:** The long-term debt associated with the Mt. Hamilton claims was discounted using Solitario's estimate of a market interest rate to obtain similar financing. Solitario did not have access to a readily traded market for similar credit risks and estimated the interest rate based upon what similar interest rates were on publicly held debt instruments held by mining companies traded on public markets, what Solitario currently is borrowing

## Notes | to Consolidated Financial Statements continued

money on its short-term margin accounts, and a discussion with an investment banking firm regarding what Solitario may be able to borrow to fund the Mt. Hamilton project. Solitario discounted the \$3,750,000 required payments at an interest rate of 7.5%. Accordingly these inputs are classified as Level 3 inputs.

*Mt. Hamilton property valuation:* Solitario determined the fair value of the mineral claims making up the Mt. Hamilton project upon its investment in MH-LLC based upon: (i) Solitario's evaluation of similar non-producing mining properties, without proven and probable reserves based upon Solitario's experience in these types of transactions; (ii) an analysis of the fair values of the liabilities assumed and the equity interests received upon the formation of MH-LLC; (iii) a review of the funds previously expended and capitalized by Ely in their historical financial statements; and iv) a review of the stated estimated value of the Mt. Hamilton property transferred to MH-LLC in the transaction documents between DHI-US and Solitario upon the formation of MH-LLC. Accordingly, these inputs are classified as Level 3 inputs.

*Deconsolidation of PBM:* Upon Anglo earning a 51% interest in PBM, discussed below in Note 11, "Deconsolidation of PBM," Solitario deconsolidated PBM in accordance with ASC 810-10-40 whereby Solitario performed a valuation using Level 3 inputs of its 49% interest in the assets of PBM on the date of deconsolidation. The fair value analysis examined four valuation techniques and used assumptions of management on future results and included: (i) the present value of future cash flows, (ii) a market valuation analysis of publicly traded entities with exploration exposure to platinum group metals, similar to PBM, (iii) an analysis of the market value based upon sales and joint ventures of similar exploration properties and projects, and (iv) the recent investment by Anglo to earn an additional 21% interest in PBM.

*Allocation of purchase cost on investment in Ely:* Solitario also recorded the allocated fair value to the Ely warrants included in the First and Second Tranche equity investments in Ely, discussed below in Note 12, "Ely Gold investment and Mt. Hamilton Joint Venture." The allocation is based on the ratio of (i) the quoted fair value of the shares of Ely and (ii) the fair value Solitario determined for the Ely warrants using a Black-Scholes model using inputs, including the price of a share of Ely common stock, volatility of Ely common stock prices that are readily available from public markets and discounts that include an assessment of performance risk; therefore, the calculation of this fair value utilized a Level 2 input.

During the year ended December 31, 2010, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

### 8. 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 above. Solitario estimates its 2011 property rentals and option payments, excluding Mt. Hamilton, discussed above, for properties we own or operate to be approximately \$874,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties. Approximately \$734,000 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 or if we enter into new agreements.

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 2010 and 2009 was approximately \$89,000 and \$60,000, 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 \$36,000.

As a result of the MH Agreement, Solitario committed to spend a minimum of \$1,000,000 for exploration at the Mt. Hamilton project, which minimum was met as of February 28, 2011. As of December 31, 2010, Solitario had spent approximately \$933,000 towards this commitment. See Note 12, "Ely Gold Investment and the Mt. Hamilton Joint Venture," below.

### 9. Employee Stock Compensation 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.

Solitario granted 2,065,000 options on May 5, 2010, with a grant date fair value of \$2,449,000, based upon a Black-Scholes option pricing model resulting in a weighted average fair value of \$1.19 per share. Solitario granted 519,000 options 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.

On October 13, 2009, concurrent with the signing of the Amendment to the MV 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. The following table details the options cancelled on October 13, 2009:

Option Price	Cdn\$ 2.77	Cdn\$ 4.38	Cdn\$ 4.53	Cdn\$ 5.12
Option expiration date	06/27/2011	02/08/2012	09/07/2012	06/14/2012
Cancelled options	1,388,000	5,000	442,000	100,000

## Notes | to Consolidated Financial Statements continued

There were no options exercised during 2010. There were no options forfeited during 2010. Options for 200,000 shares were forfeited during 2009.

At December 31, 2010 and 2009, 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 0.99994 and 0.95290, respectively.

Grant Date Plan	Fair Value at December 31, 2010		Fair Value at December 31, 2009
	5/5/10 2006 Plan	5/19/09 2006 Plan	5/19/09 2006 Plan
Option price (Cdn\$)	\$ 2.40	\$ 1.55	\$ 1.55
Options outstanding	2,065,000	519,000	519,000
Expected life	4.4 yrs	3.4 yrs	4.4 yrs
Expected volatility	62%	66%	57%
Risk free interest rate	1.6%	1.1%	2.2%
Weighted average fair value	\$ 2.24	\$ 2.54	\$ 1.27
Portion of vesting at measurement date	41.6%	64.6%	39.5%
Fair value of outstanding vested options	\$1,924,000	\$ 851,000	\$ 262,000

During 2010 Solitario recognized stock option expense of \$2,513,000, net of deferred taxes of \$937,000. During 2009 Solitario recognized stock option benefit of \$269,000, net of deferred taxes of \$100,000.

### b.) Summary of Stock-based Compensation Plans

The activity in the 2006 Plan for the two years ended December 31, 2010 and 2009 is as follows:

	2010		2009	
	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)
<b>2006 Plan</b>				
Outstanding, beginning of year	519,000	\$ 1.55	2,135,000	\$ 3.28
Granted	2,065,000	\$ 2.40	519,000	\$ 1.55
Forfeited	-	-	(200,000)	\$ 3.12
Cancelled	-	-	(1,935,000)	\$ 3.30
Exercised	-	-	-	-
Outstanding, end of year	<u>2,584,000</u>	\$ 2.23	<u>519,000</u>	\$ 1.55
Exercisable, end of year	<u>775,750</u>	\$ 2.12	<u>129,750</u>	\$ 1.55

The following table summarizes Solitario's stock options as of December 31, 2010:

	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>	2,584,000	4.2	\$ 2.23	\$3,772,000	775,750	\$ 2.12	\$ 1,218,000

<sup>(1)</sup> The intrinsic value at December 31, 2010 based upon the quoted market price of Cdn\$3.69 per share for our common stock on the TSX and an exchange ratio of 0.99994 Canadian dollars per United States dollar.

### 10. Shareholders' Equity and Noncontrolling Interest:

The following provides a reconciliation of the beginning and ending balances of Solitario Shareholders' equity and noncontrolling interest in PBM and MH-LLC for the years ended December 31, 2010 and 2009. PBM has no debt or other guarantee obligations as of December 31, 2010 and December 31, 2009.

(in thousands) December 31, 2010	Shareholders' Equity	Anglo Noncontrolling Interest	Ely Noncontrolling Interest	Total Noncontrolling Interest
Beginning balance	\$ 14,700	\$ 414	\$ -	\$ 414
Transfer of deferred noncontrolling interest	1,188	1,594	-	1,594
Noncontrolling interest equity contribution	-	-	3,000	3,000
Deconsolidation of PBM subsidiary	-	(1,844)	-	(1,844)
Comprehensive income:				
Net income (loss)	(4,066)	(164)	(1,110)	(1,274)
Net unrealized gain on marketable equity securities (net of tax of \$163)	64	-	-	-
Comprehensive income (loss)	(4,002)	(164)	(1,110)	(1,274)
Ending balance	\$ 11,886	\$ -	\$ 1,890	\$ 1,890

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(in thousands)	Shareholders'	Noncontrolling
December 31, 2009	Equity	Interest
Beginning balance	\$ 17,218	\$ 833
Noncontrolling interest equity contribution		
Comprehensive income:		
Net income (loss)	(1,786)	(419)
Net unrealized loss on marketable equity securities (net of tax of \$435)	(732)	-
Comprehensive loss	(2,518)	(419)
Ending balance	\$ 14,700	\$ 414

### 11. Deconsolidation of PBM:

On July 21, 2010, Anglo made a payment of \$746,000 to PBM required to fund the 2010 work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM. As part of earning its interest, Solitario transferred \$1,594,000 of previously recorded deferred noncontrolling shareholder payments to Anglo's minority interest and \$1,188,000 to additional paid-in-capital for Solitario's disproportionate share of the deferred noncontrolling shareholder payments as of that date.

Solitario reviewed the elements of control over PBM in accordance with ASC 810. Solitario made the determination that as a less than 50% owning non-controlling shareholder, Solitario did not have aspects of control to overcome the assumption of control by Anglo, the controlling shareholder. Accordingly, it was determined that Anglo had gained control of PBM per the terms of the PBM shareholders agreement between Solitario and Anglo. This necessitated the deconsolidation of our interest in PBM and the recording of a gain on deconsolidation in accordance with ASC 810.

Solitario determined the fair value of PBM on the date of deconsolidation based upon a weighted average of four valuation analyses and used assumptions of management on future results that included: (i) the present value of future cash flows, (ii) a market valuation analysis of publicly traded entities with exploration exposure to platinum group metals, similar to PBM, (iii) an analysis by management of the market value based upon sales and joint ventures of similar exploration properties and projects to Pedra Branca, and (iv) the recent investment by Anglo to earn an additional 21% interest in PBM. Solitario determined the deconsolidation date fair value of its 49% interest in PBM to be \$2,496,000. Solitario recorded a non-cash gain on deconsolidation of PBM of \$724,000 for the year ended December 31, 2010 in other income in the consolidated statement of operations. Solitario recorded the cash decrease of \$1,083,000 from deconsolidation of PBM in its investment activities in the consolidated statement of cash flows for the year ended December 31, 2010.

Solitario will record its equity interest in the gains and losses of PBM against its investment in PBM after July 21, 2010 and has elected not to record its equity method investment in PBM at fair value after July 21, 2010. Solitario recorded a reduction of \$220,000 in its equity method investment in PBM for the year ended December 31, 2010 for its equity share in the loss of PBM since July 21, 2010.

### 12. Ely Gold Investment and the Mt. Hamilton Joint Venture:

On August 26, 2010, Solitario signed the LOI with Ely to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton gold project through the formation of MH-LLC. The formation of MH-LLC and certain equity investments, described below were subject to the approval (the "Approval") of the LOI by Ely shareholders and regulatory approval from the TSX Venture Exchange ("TSXV"), which was received on October 18, 2010.

### First Tranche Equity Investment in Ely

As part of the LOI, Solitario agreed to make up to five sequential equity investments in Ely. On August 30, 2010, Solitario acquired 1,666,666 units of Ely at a price of Cdn\$0.15 per unit for consideration of Cdn\$250,000 or \$243,000 (the "First Tranche"). Each unit consisted of one share of Ely common stock and one-half warrant entitling the holder of a full warrant to purchase an additional share of Ely for CDN\$0.25, with such warrant expiring two years from the subscription date. Any shares received from the units including any shares from the exercise of the warrants were subject to a hold period which expired on December 30, 2010. The warrants further provide that if the price of a share of Ely common stock trades above Cdn\$0.35 on the TSXV for 20 consecutive trading days Ely may give notice to Solitario that the warrants will expire in 10 days from the date of the notice, to effectively force Solitario to exercise the warrants. Solitario allocated \$178,000 of the purchase price of the units of \$243,000 to the shares of Ely common stock and allocated \$65,000 of the purchase price to the warrants based upon the relative fair values of the warrants and shares in the units on August 30, 2010. The fair value of the shares of Ely common stock on August 30, 2010 was \$317,000 based upon the quoted market value of Ely shares as quoted on the TSXV. The fair value of the Ely warrants was \$117,000 on August 30, 2010 based upon a Black-Scholes option pricing model. Solitario did not discount these fair values for the four-month hold period because the relatively short hold period did not create a material discount to Solitario's value as of the date of purchase of the units.

### Ely Shares from the First Tranche

Solitario recorded a day-one unrealized gain on the Ely shares of common stock of \$87,000, net of deferred taxes of \$52,000, to other comprehensive income, based upon the quoted fair market value of the Ely shares on August 30, 2010, the date of purchase. During the year ended December 31, 2010, Solitario recognized an additional unrealized gain on marketable equity securities of \$115,000, net of deferred taxes of \$68,000, to a total of \$202,000, net of deferred taxes of \$120,000, in other comprehensive income related to the 1,666,666 shares of Ely acquired on August 30, 2010.

### Ely Warrants from the First Tranche

Pursuant to ASC 815 the warrants to purchase 833,333 shares of Ely common stock do not qualify as a derivative instrument until 31 days prior to the end of the hold period. Accordingly Solitario classifies any gain or loss on the Ely warrants to other comprehensive income, until such time as the warrants qualify as a derivative instrument, at which time all unrealized gains and losses are recorded in gain loss on derivative instrument in the statements of operations. Because the hold period for the Ely warrants from the First Tranche expired on December 30, 2010, Solitario has recorded a gain of \$117,000 to gain on derivative instrument for the year ended December 31, 2010. The fair value of the Ely warrants received on August 30, 2010 was calculated based upon a Black-Scholes option pricing model at each period end date.

### Second Tranche Equity Investment in Ely

On October 19, 2010, Solitario acquired an additional 1,666,666

## Notes | to Consolidated Financial Statements continued

units of Ely at a price of Cdn\$0.15 per unit for consideration of Cdn\$250,000 or \$250,000 (the "Second Tranche"). The warrants included in the units expire on October 18, 2012 and otherwise the units for the First and Second Tranches have the same terms and conditions. Solitario allocated \$180,000 of the purchase price of the Second Tranche units of \$250,000 to the shares of Ely common stock and allocated \$70,000 of the purchase price to the warrants based upon the relative fair values of the warrants and shares in the units on October 19, 2010. The fair value of the Second Tranche shares of Ely common stock on October 19, 2010 was \$508,000 based upon the quoted market value of Ely shares as quoted on the TSXV. The fair value of the Second Tranche Ely warrants was \$197,000 on October 19, 2010 based upon a Black-Scholes option pricing model.

### **Ely Shares from the Second Tranche**

Solitario recorded a day-one unrealized gain on the Ely shares of common stock of \$206,000, net of deferred taxes of \$122,000, to other comprehensive income, based upon the quoted fair market value of the Ely shares on October 19, 2010, the date of purchase. During the year ended December 31, 2010, Solitario recognized an additional unrealized loss on marketable equity securities of \$5,000, net of deferred taxes of \$3,000, to a total of \$201,000, net of deferred taxes of \$119,000, in other comprehensive income related to the 1,666,666 shares of Ely acquired on October 19, 2010.

### **Ely Warrants from the Second Tranche**

Because the warrants did not qualify as derivative instruments as of December 31, 2010 because the hold period had more than 31 days remaining at December 31, 2010, Solitario has recorded a total of \$72,000, net of deferred taxes of \$43,000 to other comprehensive income for the increase in the fair market value over the allocated cost of the Ely warrants received in the Second Tranche. The fair value of the Ely warrants received on October 19, 2010 was calculated based upon a Black-Scholes option pricing model at each period end date. Solitario will transfer its balance of unrealized gain in other comprehensive income to gain on derivative instrument in the statement of operations, when the warrants are reclassified as derivative instruments in accordance with ASC 815 in January 2011.

### **Additional Tranches of Ely Common Stock**

The LOI provides that Solitario subscribe for three additional tranches of shares of Ely: (i) \$750,000 in shares of Ely common stock at a price equal to the 20-day weighted moving average price on the TSXV (the "WMAP") on or before June 1, 2013 (the "Third Tranche"), (ii) \$750,000 in shares of Ely common stock at a price equal to the WMAP on or before June 1, 2014 (the "Fourth Tranche"), and (iii) \$1,000,000 in shares of Ely common stock at the WMAP on or before June 1, 2015 (the "Fifth Tranche"). However, the LOI provides that Solitario would have no obligation to subscribe for any of the shares if Solitario chooses to cease earning an additional interest in MH-LLC, discussed below, prior to the subscription for the shares.

### **Formation of MH-LLC Joint Venture of the Mt. Hamilton Project**

On November 12, 2010, Solitario made an initial contribution of \$300,000 for a 10% interest in, upon the formation of, MH-LLC which was formed in December 2010. The terms of the joint venture are set forth in the Limited Liability Company Operating Agreement of MH-LLC between Solitario and DHI-US (the "MH Agreement"). Pursuant to the MH Agreement, Solitario may earn up to an 80% interest in MH-LLC by completing various staged commitments, and has deemed its interest in MH-LLC as a controlling interest. As a result of its controlling interest in MH-LLC, Solitario has consolidated MH-LLC and recorded \$3,066,000 of debt related to MH-LLC.

Pursuant to the MH Agreement, in order to earn an additional 41% interest in MH-LLC, to a total of 51%, Solitario must (i) spend a minimum of \$1,000,000 in exploration expenditures by August 23, 2011, which minimum has been spent as of February 28, 2011, (ii) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; and (iii) make payments totaling \$1,750,000 to DHI-US, and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2012 (the "Phase I earn-in"). In order to earn an additional 19% interest in MH-LLC, to a total of 70%, Solitario is required to (i) invest \$300,000 into MH-LLC for an advance royalty payment to the underlying royalty holder, and (ii) make payments totaling \$500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2013 (the "Phase II earn-in"). In order to earn an additional 10% interest in MH-LLC, to a total of 80%, Solitario is required to (i) invest \$600,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; (ii) make payments totaling \$500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2014; and (iii) buy down the existing 8% net smelter return ("NSR") royalty to a 3% NSR royalty by paying the underlying royalty holder \$5,000,000 by November 19, 2014 (the "Phase III earn-in"). After the completion of Phase I earn-in, Solitario may elect to cease earning an additional interest in MH-LLC at any time prior to the Phase II earn-in or the Phase III earn-in, in which case Solitario's interest in MH-LLC will be reduced to 49% and DHI-US's interest will be increased to 51% and Solitario would cease to exercise control of MH-LLC if Phase II is not achieved.

Including the payment of \$300,000 for advance royalty from its initial investment in MH-LLC, during 2010 Solitario has funded \$1,214,000 of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2010. In addition MH-LLC recorded \$19,000 of interest expense. Solitario recorded a \$1,110,000 reduction in the noncontrolling interest for Ely's 90% interest in the losses of MH-LLC for 2010.

Alternatively, Solitario may also earn an 80% interest in MH-LLC by completion of a bankable feasibility study at any time prior to the completion of Phase III. However, if Solitario completes a bankable feasibility study and earns an 80% interest in MH-LLC, as of that date, it will no longer be able to opt-out of any future required payments, and will be obligated to make any unpaid payments of cash and stock to DHI-US, any unpaid payments to the underlying royalty holder and any uncompleted investment Tranches due to Ely by the due dates described above. Solitario is required per the terms of the MH Agreement to fund all expenditures until completion of a bankable feasibility study.

Once Solitario has completed the bankable feasibility study, all costs will be shared by Solitario and DHI-US pro-rata. However DHI-US has the option of having Solitario contribute its share of costs through commercial completion as a loan, with such loan, plus interest, being repaid to Solitario from 80% of DHI-US's share of net proceeds from MH-LLC.

## **13. Related Party Transactions:**

### **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 \$190,000 and \$286,000, respectively, at December 31, 2010 and 2009. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

# Company Information

## Officers & Directors

### Corporate Offices

4251 Kipling Street, Suite 390  
Wheat Ridge, Colorado 80033  
Telephone: 303-534-1030  
Fax: 303-534-1809  
www.solitarioxr.com

### Legal Counsel

Hensley Kim & Holzer, LLC  
Denver, Colorado

Fogler, Rubinoff LLP  
Toronto, Ontario

### Auditors

Ernhardt Keefe Steiner and Hottman, PC  
Denver, Colorado

### Transfer Agent

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

### Notice of Annual Meeting of Shareholders

The Annual Meeting will be at 10 a.m. MDT on Thursday, June 9, 2011 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 [dwmino@slrxpl.com](mailto:dwmino@slrxpl.com)

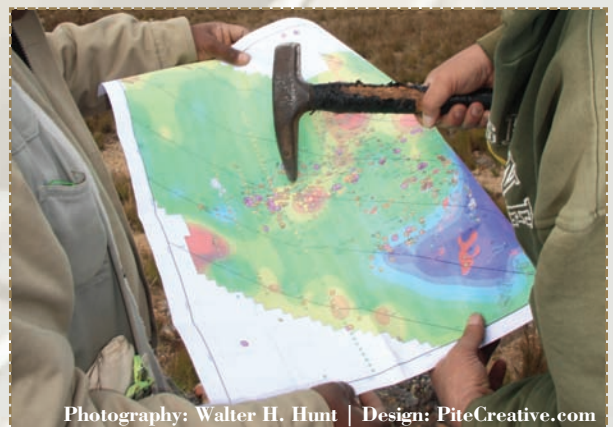
### Officers

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

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 is 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 contains estimates of mineralized material based upon measured, indicated and inferred mineral resource categories that are recognized and required by Canadian regulations, but the SEC does not recognize them and U.S. reporting companies are normally prohibited from including resource estimates in their U.S. filing. U.S. investors are cautioned not to assume that any part, or all, of mineralized material or mineral resources categories will ever be converted into reserves. The economic significance of Proven and Probable Reserves differs substantially from mineralized material and measured and indicated mineral resources. Furthermore economic viability has yet to be established by a feasibility report for mineralized material and the Company has yet determined that any part of the mineralized material can be legally mined. 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.



Photography: Walter H. Hunt | Design: PiteCreative.com

**Solitario Exploration & Royalty Corp.**

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