

SOLITARIO EXPLORATION & ROYALTY

Solitario Exploration & Royalty is on track to becoming the newest U.S. gold producer with development of its Mt. Hamilton gold deposit.

But there's more, with exploration and feasibility activities accelerating on its Bongará high-grade zinc project, the timeline to production on both projects is in sight.

2011 ANNUAL REPORT



MT. HAMILTON, NEVADA USA

Letter to Shareholders

Project & Property Pipeline

Project	Partner	2012 Plans	Classification
Mt. Hamilton (Gold-Silver, Nevada, US)	Ely Gold (20%)	Plan of Operations Permitting & Drilling	Development
Bongará (Zinc, Peru)	Votorantim (max 70%)	Development Work & Drilling	Pre-feasibility
Pachuca Real (Silver-Gold, Mexico)	Secure JV Partner	Evaluate Data	Early-Stage Exploration
Pedra Branca (PGM, Brazil)	Anglo Platinum (max 65%)	Geophysics	Advanced Exploration
Peru Alliance Cerro Azul (Silver-Gold, Peru)	Newmont (max 75%)	Exploration	Early-Stage Exploration
Yanacocha Royalty (Gold, Peru)	NSR-Royalty	Continued Newmont Exploration, Drilling	Early-Stage Exploration
Mercurio (Gold, Brazil)	NSR-Royalty	Drilling	Exploration



Dear Shareholders,

Completion of the Mt. Hamilton Feasibility Study heralds a new chapter in Solitario's history. Our work since late 2010 bolstered the feasibility of the project and clearly demonstrated robust economics. We believe that Mt. Hamilton represents a platform capable of delivering solid value to Solitario for years into the future.

Key economic results of the Feasibility Study at \$1,500 gold and \$29.00 silver (pre-tax, 100% of project) include:

- NPV = \$198.5 million (5% discount rate)
- Annual operating cash flow of \$49 million
- Average Life-of-Mine operating cash cost of \$535 per gold equivalent ounce produced
- Initial capital of approximately \$72 million; sustaining capital \$35 million
- Average annual Life-of-Mine gold equivalent production of 54,000 ounces
- Excellent potential to add new resources adjacent to the currently established reserves

With this study in hand, we earned an 80% interest in the project and are now moving forward with permitting the mine and arranging financing. We believe that with the project's robust economics, we will have an array of financing opportunities available to us. Our mine plan is well conceived from an environmental standpoint to minimize environmental impacts on federal lands. This should help expedite our permitting timeline.

Mt. Hamilton was not our only project with impacting news in 2011. At the Bongará high-grade zinc project in Peru, underground drilling was initiated in the fourth quarter of 2011 and is ongoing. The initial underground drilling results and continued surface drilling are adding significant new zinc resources to the project. Our partner, Votorantim Metais, is now working towards completing a pre-feasibility report by year's end. Besides its pre-feasibility work, Votorantim is also planning another significant round of underground and surface drilling



Joint venture partners examining new drill core at Votorantim's Bongará core processing facility.

totaling 20,000 meters, continued advancement of the access road to the mine, and permitting for further underground development.

We are excited about both the Mt. Hamilton and Bongará projects as they enter a more advanced stage of development. Votorantim will fund and manage the Bongará pre-feasibility study to completion in 2012, while Mt. Hamilton will be the focus of our activities. Our primary objectives for Mt. Hamilton over the next 12 months are:

- Advance permitting to a Record of Decision in 2013
- Secure a significant component of project financing
- Add new resources through drilling

We will also strive to make sure the investment community fully understands the economic significance of both Mt. Hamilton and Bongará. If we are able to achieve the foregoing objectives, we believe that the market will recognize the value of our assets and reward our shareholders with a higher market valuation.

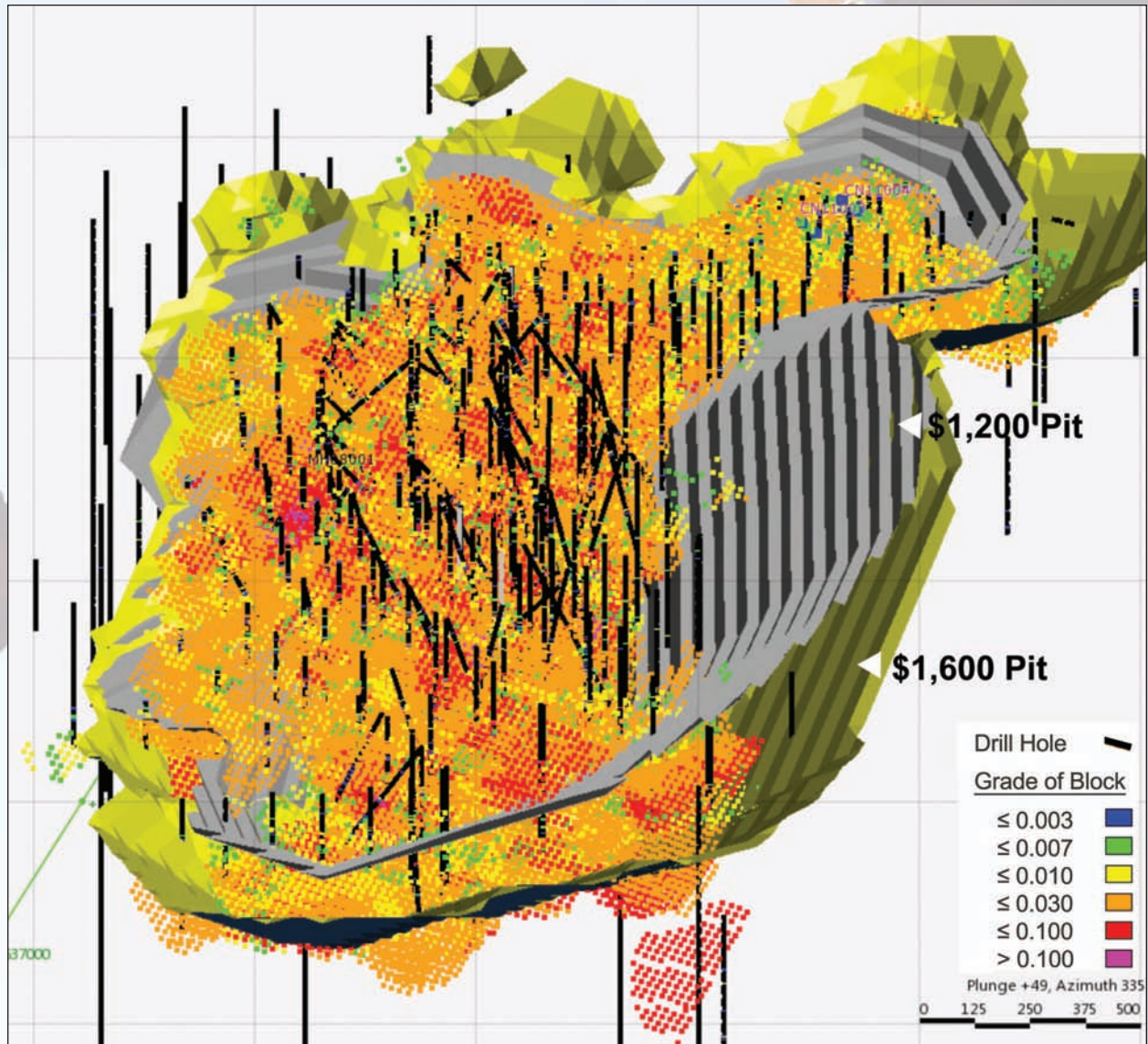
Sincerely,

A handwritten signature in black ink that reads "Christopher E. Herald".

Christopher E. Herald
President & Chief Executive Officer

Mt. Hamilton Gold Project – Nevada

Block Model Depicting \$1,200 Reserve Pit and \$1,600 Resource Pit



Completion of the Mt. Hamilton Feasibility Study represents the culmination of an intensive one-year effort by our staff and SRK Consulting US, Inc. ("SRK"), an internationally recognized and independent mine engineering firm that prepared the study. With the completion of the Feasibility Study, we are now moving forward with permitting the mine, arranging project financing and adding new reserves. We believe that with the project's robust economics, we will have an array of financing opportunities available to us.

Project Economics (100% basis): Gold Price Sensitivities

All currency figures in U.S. dollars; M=millions

Item	Pre-Tax				After Tax (Federal=35%, State=5%)			
	\$1,323	\$1,500	\$1,700	\$1,900	\$1,323	\$1,500	\$1,700	\$1,900
Gold \$/oz.	\$1,323	\$1,500	\$1,700	\$1,900	\$1,323	\$1,500	\$1,700	\$1,900
Silver \$/oz.	\$25.34	\$29.00	\$33.00	\$37.00	\$25.34	\$29.00	\$33.00	\$37.00
Cash Flow (\$M)*	\$226.4	\$284.9	\$389.9	\$476.1	\$136.4	\$183.9	\$237.5	\$290.8
NPV @ 8% (\$M)	\$111.1	\$154.4	\$207.0	\$259.3	\$60.7	\$87.3	\$120.0	\$152.3
NPV @ 5% (\$M)	\$145.3	\$198.5	\$261.5	\$324.1	\$83.1	\$116.0	\$155.0	\$193.7
IRR	35.0%	41.3%	51.2%	60.6%	25.4%	30.5%	37.9%	44.9%
Payback (Years)	2.7	2.5	2.2	1.9	3.2	2.9	2.6	2.3

* After all capital payback.

Life-of-mine cash operating costs on a gold equivalent basis (at a 52:1 silver-to-gold ratio) are estimated at \$535 per gold-equivalent ounce recovered, well below world-average industry cash costs. On average, silver production contributes approximately 12% to the overall project revenues. The economic base case assumes a \$1,323 life-of-mine gold price and a \$25.34 silver price, generating approximately \$226 million in pre-tax operating cash flow over the mine's currently anticipated eight-year mine life. At gold and silver prices of \$1,700 and \$33 per ounce, respectively, the project will generate nearly \$390 million in life-of-mine pre-tax operating cash flow. With initial capital costs estimated at \$71.9 million, payback of project capital is two to three years, depending on gold price. The base case economic analysis in the Feasibility Study assumed a declining price curve for gold and silver. Realized gold/silver prices were set at \$1,600/\$35.45 per ounce for the first year of production, \$1,420/\$28.25 for the second year, and \$1,280/\$23.90 per ounce for all subsequent years. These prices are based on the 12-month, 24-month and 36-month trailing average of gold and silver prices, respectively. This declining gold price scenario results in an average life-of-mine price of \$1,323 per ounce for gold and \$25.34 per ounce for silver.

Feasibility Study Highlights

The Mt. Hamilton gold project will be an open pit mining operation with heap leach processing and projected gold recoveries of 79%. The reserves are contained within a well-defined ore body displaying excellent continuity of mineralization that will be mined within a single pit.

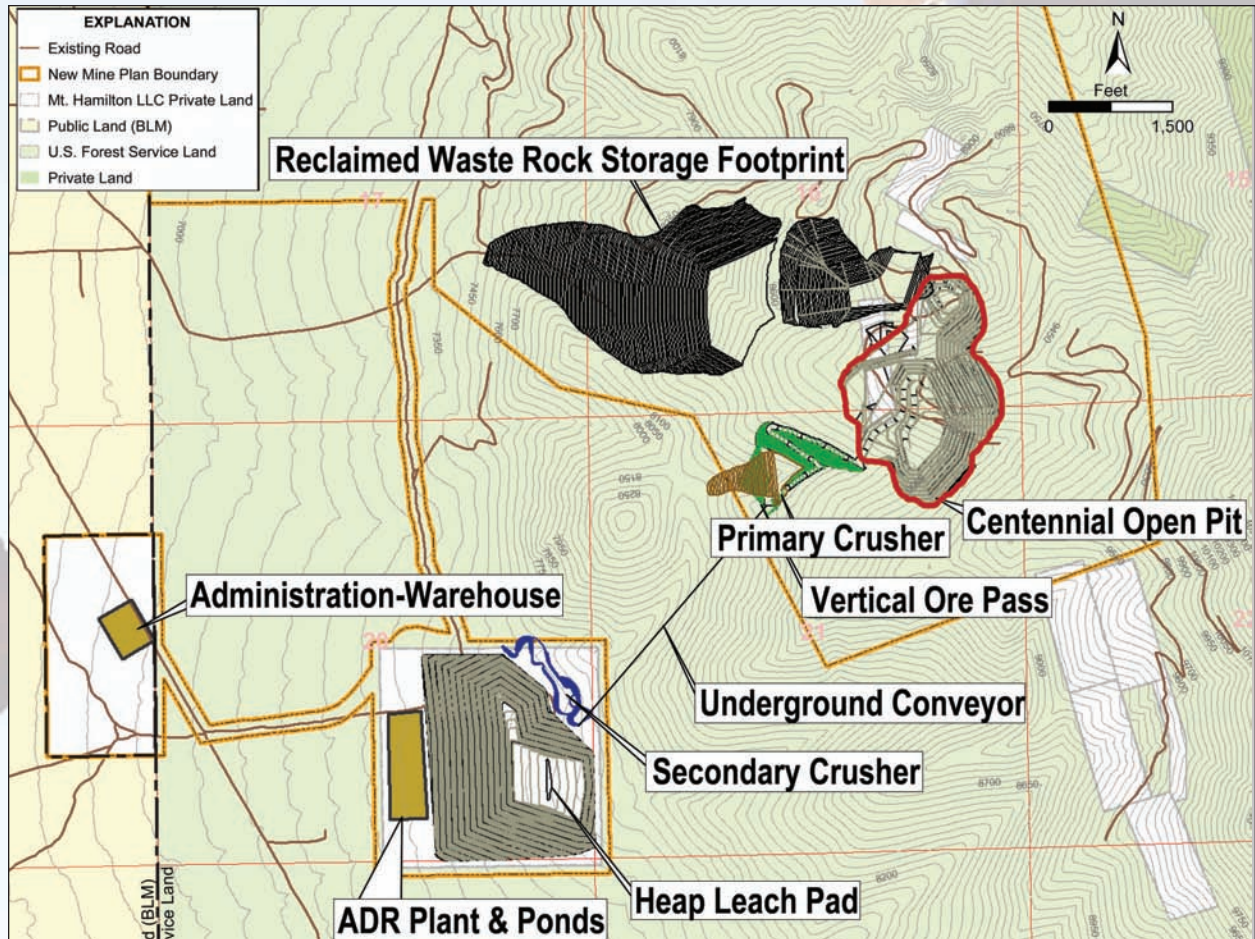
Delivery of ore from the pit to the primary crusher is a short half-mile truck haul. The ore is then dropped 350 feet down a vertical ore pass to a 3,400-foot tunnel that serves as a straight-line passageway to convey the ore to the secondary crusher situated near the heap leach facility. Processing is straightforward with two-stage crushing to minus ¾-inch, no agglomeration and rapid gold leach rates, followed by conventional ADR (adsorption-desorption-recovery) metal extraction.

Base Case: Gold Price-\$1,323; Silver Price-\$25.34

- Production Rate: 8,500 tons ore per day, 3.0 million tons per year
- Mine Life: 8.0 years
- Average Gold Recovery: 79% (70% of recoverable gold in the first 30 days)
- Average Silver Recovery: 90% of soluble silver (36% of total contained silver)
- Life-of-Mine Strip Ratio: 2.4:1.0 (waste:ore)
- Initial Capital Cost: \$71.9 M (including \$6.3 M contingency)
- Sustaining Capital: \$35.3 M (including \$4.3 M contingency and \$10.3 M end-of-mine closure costs)
- Working Capital: \$7.1 M
- Underlying NSR Royalty: 1%
- Operating Cash Costs per Gold-Equivalent Ounce Recovered: \$535
- Average Annual Gold Production: 48,000 ounces
- Average Annual Silver Production: 330,000 ounces
- Average Annual Gold-Equivalent Production: 54,000 ounces (at a 52:1 silver to gold ratio)

Mt. Hamilton Gold Project – continued

The Mt. Hamilton Centennial Mine Infrastructure



Shown above is the operational layout for Mt. Hamilton. What makes Mt. Hamilton such an attractive development project is its simplicity – open pit mining from a single pit and short haulage distances for both ore and waste rock. Surface disturbance is minimized and air quality improved with an underground conveyor system from the pit to the heap leach facility. The heap leach facility and administrative facilities are sited on private lands that we own, thus reducing environmental impacts on public lands. We further reduce the potential footprint of the operation by placing waste rock over an existing waste rock storage area, and then reclaiming the entire impacted area to current standards.

Mineral Reserves

The Feasibility Study prepared by SRK provides a reserve estimate in accordance with U.S. Securities and Exchange Commission Industry Guide 7 rules. It also provides mineral resource and mineral reserve estimates, and a classification of resources and reserves in accordance with the Canadian Institute of Mining. As a Canadian reporting company, our partner, Ely Gold and Minerals Inc., is required to report resources, including inferred resources.

We have disclosed resources in this annual report to provide full and equivalent disclosure to our shareholders. We ask our shareholders to carefully read the Cautionary Note on page 53 to more fully understand the difference between reserves and resources. The estimates of gold and silver contained in the reserves reported in the first table below are included within the estimates of gold and silver reported in the resources presented in the second table.

Mineral Reserves Statement - Centennial Gold-Silver Deposit, Nevada

Reserve Category	Tons (millions)	Gold Grade		Silver Grade*		Contained Gold(oz)**	Contained Silver(oz)**
		oz/ton	g/tonne	oz/ton	g/tonne		
Proven	0.923	0.032	1.10	0.155	5.31	29,300	142,700
Probable	21.604	0.021	0.72	0.134	4.59	457,800	2,884,300
Proven+Probable	22.527	0.022	0.75	0.136	4.66	487,100	3,028,200

*Reported silver grade is cyanide soluble. **Some numbers may not add up due to rounding.

Mineral reserves were estimated from a pit design based on \$1,200/oz. gold and \$20/oz. silver prices. The cutoff grade used to estimate reserves was 0.006 oz/t gold equivalent (0.20 grams/tonne) and is the internal cutoff grade. Multiple pit scenarios were evaluated using these criteria under a range of gold prices to determine the most

favorable pit design for both optimal resource extraction and cash flow. Reported gold and silver ounces are contained metal subject to process recovery which will result in a reduced number of recovered ounces, 79% for gold and 90% for silver.

Mineral Resource Statement - Centennial Gold-Silver Deposit, Nevada

Reserve Category	Tons (000's)	Gold Grade oz/t	Contained Gold(oz)	Silver Grade* oz/t	Contained Silver(oz)
Measured	918	0.032	29,524	0.155	142,152
Indicated	22,732	0.022	497,330	0.132	3,010,471
Measured and Indicated	23,650	0.022	526,854	0.133	3,152,624
Inferred	3,454	0.018	60,859	0.079	273,457

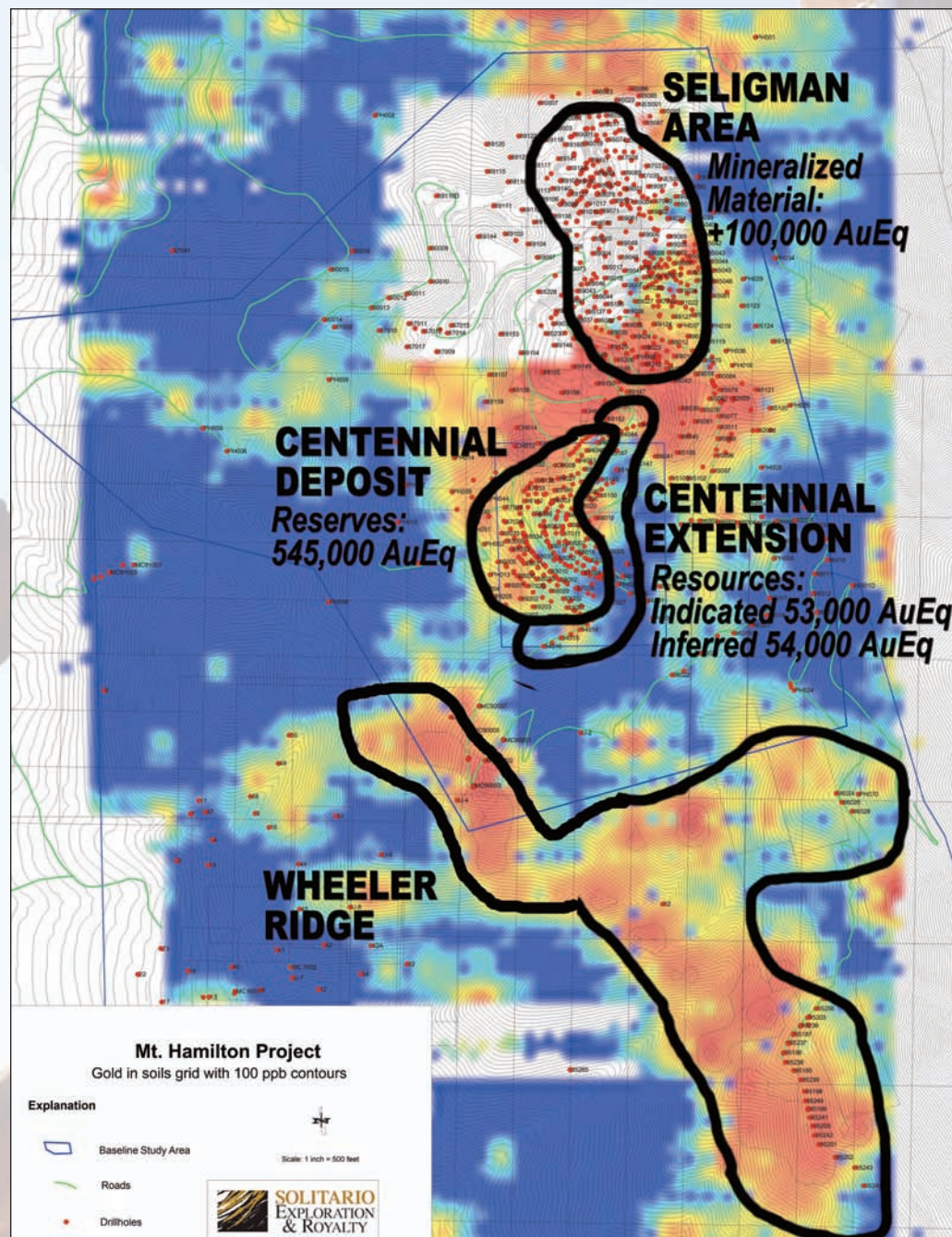
*Reported silver grade is cyanide soluble.

The above Mineral Resource Statement does not have demonstrated economic viability (see cautionary note on page 53), but does provide Solitario a basis for evaluating how the reserve increases under a higher gold/silver price scenario of \$1,600 per oz. gold and \$40 per oz. silver. As illustrated on page 2, the \$1,200 reserve pit is depicted as well as the \$1,600 resource pit, showing that a larger tonnage is extracted under higher gold prices assumed in

the resource estimate. Resources stated as contained are within a potentially economically minable open pit above a 0.006 oz/t gold equivalent cutoff grade and conservatively assumed heap leach recoveries of 75% and 90%, respectively, for gold and cyanide soluble silver. Mineral resource tonnage and contained metal have been rounded in the table to reflect the accuracy of the estimate, and numbers may not add up due to rounding.

Mt. Hamilton Gold Project – continued

Outstanding Exploration Potential



We believe the Mt. Hamilton gold project has tremendous upside for resource growth. Shown on this map are the results of a detailed soil survey that identifies large areas of strongly anomalous gold in soils (colored yellow and orange). A major drilling campaign is slated to begin in mid-2012 to further drill test the Centennial Extension, the Seligman Area and the large Wheeler Ridge zone. Most of the Wheeler Ridge zone has never been drill tested.

Potential to Increase Reserves and Resources

As demonstrated in the Feasibility Study, the economics for mining only the current 545,000 ounce gold equivalent reserves are robust. Remember, the reserves are based on \$1,200 gold price and a \$20 silver price. But what has us even more excited is the outstanding potential to significantly add to the reserve base as we conduct additional drilling on several well-defined targets. Our goal is to grow the total inventory of Mt. Hamilton mineralization to a million ounces of gold equivalent by conducting infill and step-out drilling in both the Centennial and Seligman deposit areas over the next eighteen months.

For instance, we believe we can add over 100,000 ounces of gold equivalent mineralization to the reserve base by drilling around the northeast, east and southeast margins of the current reserve pit. We call this area the Centennial Extension. Currently, 2.6 million tons of Indicated Resources grading 0.017 oz/t gold (45.3 koz of gold) and 0.153 oz/t silver (397.6 koz of silver) and 2.8 million tons of Inferred Resources grading 0.018 oz/t gold (50.2 koz of gold) and 0.080 oz/t silver (223.5 koz of silver) above a 0.006 oz/t gold cut-off have been estimated in the Centennial Extension resource, but not included in the reserve estimate. Drilling is planned in this area with the objective to upgrade the mineralization to Measured and Indicated Resources.

Solitario is also planning a drilling program to upgrade mineralization around the nearby historic Seligman pit area. The Seligman deposit, situated less than a mile north of the planned Centennial pit, was partially mined in the mid-1990's. Over 300 drill holes define several zones of near-surface gold mineralization that was never mined because of low gold prices of less than \$400 per ounce that prevailed in the mid-1990's. Based upon the past drilling results, we believe a confirmatory drilling program in the Seligman area could add between 90,000 - 150,000 ounces of gold equivalent mineralization to Mt. Hamilton.

The third area of exploration interest is what we refer to as Wheeler Ridge. This area has true blue-sky potential where we have identified anomalous gold concentrations in soils along the trend of the Centennial and Seligman gold

mineralization. The anomalous gold concentrations extend for nearly a mile to the south and a half-mile to the northeast of Centennial, with little to no previous drilling. We are currently permitting a major drilling program for the Wheeler Ridge area and hope to be able to begin drilling there by the fourth quarter of 2012.

We believe the Centennial Extension and Seligman areas may have the potential to extend mining for three to four years beyond our current mine plan. The Wheeler Ridge area has the potential to be a game changer, as the size of the untested gold soil anomaly is substantial. Drilling will be the ultimate test for adding significant new value at Mt. Hamilton, but we like our odds.

Terms of the Mt. Hamilton LLC Joint Venture

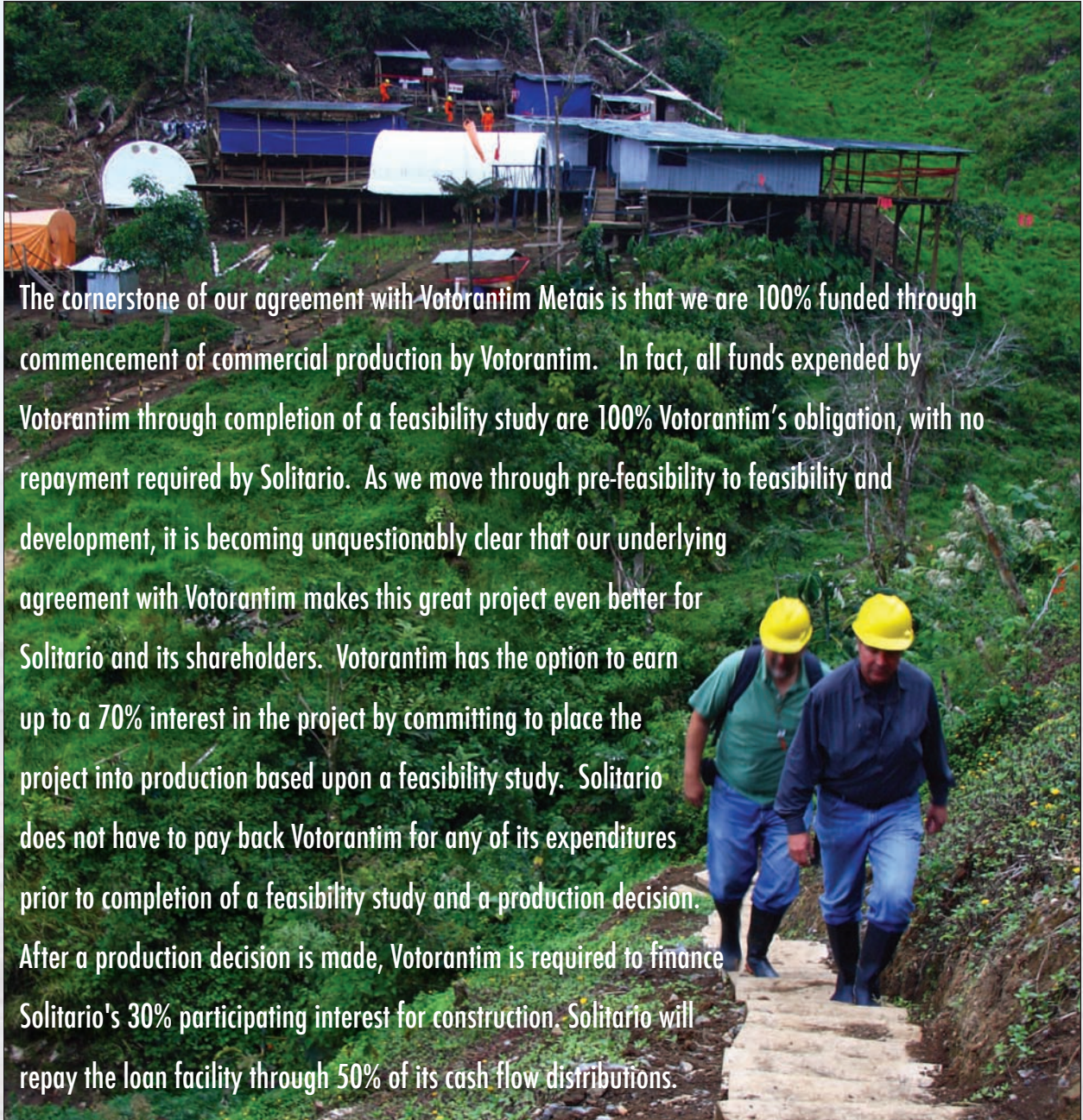
In late 2010, Solitario and Ely Gold formed Mt. Hamilton LLC ("MH-LLC"), a limited liability company which holds 100% of the Mt. Hamilton project assets under an Operating Agreement. Solitario is the manager of MH-LLC and holds an 80% interest as a result of completing the Feasibility Study. Further Solitario obligations include arranging project financing, funding environmental bonding, and making future property and advanced royalty payments. Ely Gold has elected to have Solitario fund its 20% participating interest either through direct Solitario funding or Solitario arranged third-party funding to MH-LLC. In the case of direct Solitario funding, Ely Gold will pay back Solitario from 80% of Ely Gold's share of MH-LLC cash distributions, plus a minimum 8% interest rate.



A significant drilling campaign is planned at Mt. Hamilton in mid-2012.

Bongará High-Grade Zinc Project – Peru

Significant Progress in 2011



The cornerstone of our agreement with Votorantim Metais is that we are 100% funded through commencement of commercial production by Votorantim. In fact, all funds expended by Votorantim through completion of a feasibility study are 100% Votorantim's obligation, with no repayment required by Solitario. As we move through pre-feasibility to feasibility and development, it is becoming unquestionably clear that our underlying agreement with Votorantim makes this great project even better for Solitario and its shareholders. Votorantim has the option to earn up to a 70% interest in the project by committing to place the project into production based upon a feasibility study. 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 cash flow distributions.

With the initiation of underground drilling in the fourth quarter of 2011, a new milestone was achieved. Our partner, Votorantim Metais, is now working towards completing a pre-feasibility report by year's end, drilling an additional 20,000 meters of core from both surface and underground, completing the 32-kilometer access road to the mine and permitting further underground development. The Bongará project hosts the high-grade Florida Canyon zinc deposit where zinc mineralization has been intersected over a four square kilometer area.

Underground Drilling

Underground drilling began in the fourth quarter of 2011. The drilling program is designed to provide better detail of the geometry of mineralization in the San Jorge zone, with the objective of producing an estimate of measured and indicated resources by the end of 2012. The San Jorge zone is situated in the southwestern part of the Florida Canyon deposit.

Results received to date have been outstanding. Drilling is planned to continue through much of 2012; consequently, we expect to report strong results for the remainder of the year. In total, 67 core holes are planned from eight different underground drill stations spaced every 40 meters along the trace of the tunnel, testing approximately 350 meters of strike length of the San Jorge zone. Anywhere from 4 to 12 core holes will be fan-drilled from each drill station. The 13 best intercepts received to date are presented in the table below.

Drill Hole #	Drill Station	Intercept (meters)*	Zinc %	Lead %	Zinc+Lead %	Silver g/tonne
V-240 (U)	4	26.9	13.20	0.25	13.45	16.39
V-244 (U)	4	32.1	9.64	1.76	11.40	18.80
V-245	4	5.9	21.52	15.09	36.61	53.48
V-246	4	9.4	7.33	0.83	8.16	7.35
		3.2	20.32	3.58	23.90	28.11
V-255	5	15.5	12.42	4.79	17.21	41.94
V-256	5	17.3	6.33	0.79	7.12	11.41
V-257	5	31.4	9.75	1.11	10.86	31.40
V-258	5	5.7	12.54	1.70	14.24	25.28
		22.9	11.76	0.84	12.60	14.07
V-266	3	7.4	11.98	1.46	13.44	31.43
V-270	6	20.8	10.14	0.31	10.45	10.32
		14.6	11.33	0.02	11.35	5.90

* True thickness has not been estimated for each individual intercept.

Surface Drilling

Surface drilling is focused on the Karen-Milagros zone located in the northeastern part of the Florida Canyon mineralized system. Here high-grade mineralization is stretched out along a 1.3 kilometer zone trending east-

northeast. Votorantim is conducting detailed surface drilling here to develop measured and indicated resource estimates by the end of 2012. The best 10 surface intercepts are provided in the table below.

Drill Hole #	Intercept (meters)*	Zinc %	Lead %	Zinc+Lead %	Silver g/tonne
V-223	3.8	9.92	1.94	11.86	15.06
V-224	6.2	7.60	0.18	7.78	5.40
V-225	6.7	6.51	0.20	6.71	4.00
V-227	7.7	6.27	0.53	6.80	7.37
	6.0	12.58	2.85	15.43	22.18
V-234	5.9	18.21	5.89	24.10	40.42
V-235	7.2	10.84	4.06	14.90	34.35
V-238	4.3	8.08	1.30	9.38	16.17
	4.7	7.06	0.56	7.62	3.74
V-250	3.4	7.84	1.40	9.24	8.91

* True thickness has not been estimated for each individual intercept.

Bongará High-Grade Zinc Project – continued

Underground Drilling Results Have Been Outstanding



The San Jorge tunnel provides underground access to better assess the geometry of mineralization of this high-grade zone.

With the development of underground access to the San Jorge zone, the Bongará project entered a new stage in its development. In 2011 our partner, Votorantim Metais, accelerated its exploration and development activities with an eye towards reaching a production decision by early 2014. With a new underground tunnel to access the Karen-Milagros zone in the permitting stage, we do not see the pace of development activities diminishing over the next several years.

Other Projects

Pachuca Silver-Gold Project, Mexico

Solitario's 100%-owned Pachuca Real project encompasses approximately 22,500 hectares of mineral rights in and around the famed Pachuca silver-gold mining district. Historic production from the Pachuca district totals approximately 1.4 billion ounces of silver and over 7.0 million ounces of gold, making it one of the largest historic silver-gold districts in the world.

In 2011, 38 core holes totaling 13,489 meters were completed on the property. Twenty of the holes intersected at least one interval grading in excess of 100 grams per tonne silver equivalent. The target at Pachuca consists of high-grade silver-gold mineralization in veins. Veins in the historic district were very continuous over long horizontal and vertical distances, and generally averaged 0.5 to 5.0 meters in thickness.

Seventeen separate vein prospects were tested covering an area measuring nearly 14 kilometers in an east-west direction and 8 kilometers in a north-south direction. The 10 best drill hole intercepts are presented in the table below:

Vein	Drill Hole	From (m)	To (m)	Width (m)	Gold g/t	Silver g/t	Ag Equiv.*
Investigadora	Pan11-12	217.75	218.60	0.85	1.95	271.47	368.93
Investigadora	Pan11-18	236.25	237.00	0.75	0.97	317.00	365.30
San Marcial	Pan11-19	225.15	225.60	0.45	0.75	657.00	694.50
La Perla	Pan11-22	344.90	345.90	1.00	6.30	53.48	368.23
Santa Rosa	Pan11-25	252.60	255.00	2.40	1.43	158.27	229.79
Santa Rosa	Pan11-27	144.90	145.50	0.60	5.60	837.00	1117.00
Sumbimblia	Pan11-28	46.30	47.35	1.05	16.40	238.86	1058.74
Escribano Norte	Pan11-29	444.45	445.05	0.60	2.60	834.00	964.00
Escondida	Pan11-31	250.30	251.15	0.85	8.40	283.00	703.00
Escribano Sur	Pan11-34	238.85	240.40	1.55	0.90	165.00	210.00

* Silver Equivalent: in g/t (1.0 g/t gold = 50 g/t silver); true widths of veins have not been estimated.

The entire 2011 drilling program was funded by our former joint venture partner Compania Minera Buenaventura. Buenaventura decided not to proceed with its 2012 \$2.3 million work commitment and consequently forfeited its right to earn an interest in the project. We believe the 2011 drilling results are very encouraging as the production history of the prolific Pachuca district demonstrates that a mineralized vein, no matter how narrow, can develop into a significant mineralized high-grade vein structure as it is followed horizontally or down dip.

Over the next several months, we will evaluate these results with an eye towards follow-up drilling around the more significant drill-hole intercepts to test for the widening of the high-grade mineralized structures. We have already received serious interest from several other companies to joint venture the project and will consider potentially entering into a new joint venture in 2012.

Other Projects - continued



Pedra Branca Platinum-Palladium Project, Brazil

Anglo Platinum continued funding our Pedra Branca Platinum-Palladium (“PGM”) project in Brazil and has committed to fund another \$1.5 million in exploration expenditures for 2012. We are particularly excited about the 2012 program as it is focused on identifying new drill targets over a very large regional area.

Specific plans include a detailed regional airborne magnetic geophysical survey. Our past exploration has shown that magnetic surveys are very successful in pinpointing buried magnetic rock formations that are often associated with PGM mineralization.

In the past we were limited to magnetometer surveys conducted by ground-based methods. By using an airborne system, we will be able to cover a much larger area than ever before, and hopefully in the process, discover multiple new drill targets.

Cerro Azul Silver-Gold Project, Peru

We drilled 11 core holes on our Cerro Azul gold-silver-lead-zinc project in Peru during 2011. Seven of the holes intersected mineralization. We believe these initial drilling results are positive and warrant additional work.

Cerro Azul 2011 Drill Results

Drill Hole	From (m)	To (m)	Width (m)	Gold g/t	Silver g/t	Zinc %	Lead %
AZ-001	80.30	84.80	4.50	1.16			
	113.55	117.50	3.95	1.91	90.4	2.5	
AZ-002	92.60	93.60	1.00	3.10			
	112.20	115.10	2.90	1.35	65.00	1.6	0.7
AZ-003	45.00	46.70	1.70		90.00		
	119.10	173.55	54.50	0.46	7.30	0.3	0.1
	123.20	128.00	6.90	1.46			
	165.82	168.54	2.70	1.80	40.00	1.8	
AZ-004	30.37	31.30	0.93		250.00		
	166.00	171.50	5.50	1.40	21.00		
AZ-005	133.80	155.64	10.70	0.45	16.00		
AZ-006	150.90	151.30	0.40	1.30	38.00		
AZ-011	29.00	30.30	1.30	7.60	31.00		

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

The following discussion should be read in conjunction with the information contained in the consolidated financial statements and notes thereto included in this Annual Report. 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, as of February 22, 2012, a development stage company (prior to February 22, 2012 we were 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 announced on February 22, 2012 the completion of a feasibility study on our Mt. Hamilton project (the "Feasibility Study"), prepared by SRK Consulting (US), Inc. of Lakewood, Colorado ("SRK"). As a result of the completion of the Feasibility Study, we have earned an 80% interest in the Mt. Hamilton project and intend to develop the Mt. Hamilton project, subject to a number of factors including obtaining necessary permits and availability of required capital, none of which is currently in place. The Mt. Hamilton project is discussed below under "Ely Gold Investment and the Mt. Hamilton Joint Venture." In addition, 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 related to our Bongará project of \$200,000, each year, during 2011, 2010 and 2009 and we recorded \$42,000 in delay rental joint venture property payments during 2011 related to a \$50,000 payment received on our Mercurio project, less capitalized costs of \$8,000. 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, 2011, 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. As discussed below under "Recent Developments," in August 2010 we signed a Letter of Intent ("LOI") with Ely Gold & Minerals, Inc. ("Ely"), and in December 2010 we signed the Limited Liability Company Operating Agreement for Mt. Hamilton, LLC (the "MH Agreement") to earn up to an 80% interest in the Mt. Hamilton project located in Nevada.

In addition to our work at Mt. Hamilton, we have expertise 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. For these early-stage projects, 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 or development 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 development 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 development activities at 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; however we do not have any current plans to joint venture Mt. Hamilton. Although we anticipate these practices will continue for the foreseeable future, we can provide no assurance that these sources of capital will be available in sufficient amounts to meet our needs, if at all.

(b). Recent Developments Feasibility Study

On February 22, 2012, we announced the completion of the Feasibility Study, and as a result we earned an 80% interest in MH-LLC, and became a development-stage company (but not a company in the "Development Stage") and we reported the following mineral reserves at our Mt. Hamilton project:

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Mineral Reserves Statement, Centennial Gold-Silver Deposit

Reserve Category	Tons (millions)	Gold Grade		Silver Grade*		Contained Gold (koz)**	Contained Silver (koz)**
		oz/ton	g/tonne	oz/ton	g/tonne		
Proven	0.923	0.032	1.10	0.155	5.31	29.3	142.7
Probable	21.604	0.021	0.72	0.134	4.59	457.8	2,884.3
Proven + Probable	22.527	0.022	0.75	0.136	4.66	487.1	3,028.2

*Reported silver grade is cyanide soluble. **Some numbers may not add due to rounding.

Equity Financing

On April 13, 2011, we sold 3,400,000 shares of our common stock in the Offering at a price to the public of \$2.50 per share and on May 9, 2011, we sold an additional 510,000 shares at \$2.50 per share, upon the exercise of the underwriter's option to cover over-allotments. The net proceeds from the Offering were \$8,937,000 after the underwriter's commission of six percent totaling \$587,000 and offering costs of \$251,000. The Offering was made pursuant to a shelf registration statement on Form S-3 previously filed with the SEC on March 18, 2011, which was declared effective on March 29, 2011. A prospectus supplement relating to the Offering has been filed with the SEC and is available on the SEC's website located at www.sec.gov.

Ely Gold Investment and the Mt. Hamilton Joint Venture

On August 26, 2010, we signed a letter of intent (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-Minerals (US) Ltd. ("DHI-US"). DHI-US is an indirect wholly-owned subsidiary of Ely. The LOI and the joint venture terms and equity investments, described below were subject to the approval (the "Approval") by Ely shareholders and regulatory approval from the TSX Venture Exchange ("TSXV"), which was received on October 18, 2010. Pursuant to the LOI, on August 26, 2010 and October 19, 2010, we made private placements 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 Limited Liability Company Operating Agreement of Mt. Hamilton LLC ("MH-LLC") between us and DHI-US (the "MH Agreement"). Pursuant to the terms of the MH Agreement, we determined that upon formation, MH-LLC was a variable interest entity (a "VIE") and we controlled MH-LLC and were the primary beneficiary of MH-LLC in accordance with ASC 810. As a result of our controlling interest in MH-LLC, we consolidated MH-LLC and its debt with an initial fair value of \$3,066,000 related to MH-LLC. As a result of the completion of the Feasibility Study, we have earned an 80% interest in the Mt. Hamilton project and intend to develop the Mt. Hamilton project, subject to a number of factors including obtaining necessary permits and availability of required capital, none of which is currently in place. See a more complete discussion of Ely and MH-LLC in Note 12 to the consolidated financial statements, "Ely Gold investment and the Mt. Hamilton Joint Venture." During the year

ended December 31, 2011, we made cash payments of \$200,000 and issued 50,000 shares of common stock, valued at \$140,000, to DHI-US as part of our earn-in to MH-LLC. These payments were recorded as contra-noncontrolling interest account in the equity section of the consolidated balance sheet.

Royalty Buy-down

On May 17, 2011, we entered into an agreement, along with our subsidiary MH-LLC, with an underlying royalty holder on our Mt. Hamilton property whereby we delivered, for the benefit of MH-LLC, 344,116 shares of our common stock, with a fair market value of \$1,000,000 based upon a 20-day weighted average quoted stock price, and \$1,520,000 of cash, to reduce the future net smelter royalty (the "Royalty Buy-down") from a maximum royalty of 8% to a maximum royalty of 6%. MH-LLC retains its existing right to further reduce the net smelter royalty at Mt. Hamilton by an additional 5%, to an ultimate royalty of 1%, as further discussed in Note 12 to the consolidated financial statements, "Ely Gold investment and the Mt. Hamilton Joint Venture." As part of the Royalty Buy-down transaction, we agreed to loan \$504,000 to DHI-US, the non-controlling member of MH-LLC, for its mutually agreed 20% of the total purchase price contributed by us to MH-LLC to fund the Royalty Buy-down. This loan is unsecured; bears interest at 6% per annum and the loan and any accrued interest thereon will only be repaid from 80% of DHI-US share of distributions from MH-LLC, if any. We have recorded the loan of \$504,000 as an offset to DHI-US's non-controlling interest in MH-LLC, as the loan represents a claim on DHI-US's share of the future distributions from MH-LLC. During the year ended December 31, 2011, we accrued \$19,000, of interest on the \$504,000 loan as an offset to DHI-US's minority interest in the equity section of our consolidated balance sheet.

Investment in Kinross

We have a significant investment in Kinross at December 31, 2011, which consists of 850,000 shares of Kinross common stock. During 2011, 2010 and 2009, we sold 130,000, 70,000 and 100,000 shares, respectively, of Kinross common stock for proceeds of \$2,035,000, \$1,301,000 and \$1,852,000. As of March 8, 2012, we own 820,000 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 12, 2011, the final tranche of the Kinross Collar due on that date expired, and 100,000 shares under the Kinross Collar were released. The Kinross Collar has expired as of that date and no shares are sub-

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ject to the Kinross Collar. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of the Kinross Collar. 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. During 2011, 2010 and 2009, Solitario has from time to time sold covered calls against its holdings of Kinross. As of December 31, 2011, Solitario has no covered calls outstanding against its holdings of Kinross shares. The Kinross Collar and Kinross Calls are discussed below under Note 6 to the consolidated financial statements, "Derivative instruments." As of December 31, 2011, Solitario has borrowed \$2,000,000 in a margin loan against its holdings of Kinross shares. The short-term margin loan is discussed below under Note 3 to the consolidated financial statements, "Short-term debt."

Mineral Property

During the year ended December 31, 2011, we capitalized a total of \$235,000, related to the acquisition of certain leases located near the Mt. Hamilton project, owned by MH-LLC and we capitalized \$2,520,000 for the Royalty Buy-down discussed above. We also capitalized \$10,000 of mineral properties in Mexico during the year ended December 31, 2011. 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.

Stock Option Liability – Change in Accounting Principle

On January 1, 2011, we changed our accounting for stock options to equity accounting from liability accounting in accordance with ASU 2010-13. In accordance with ASU 2010-13, this change in accounting principle has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in-capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000. The newly adopted accounting principle is preferable because it improves consistency in financial reporting by eliminating diversity in accounting practice. See Note 9, "Employee stock compensation plans" to our consolidated financial statements.

(c). Results of Operations

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

We had a net loss of \$3,377,000 or \$0.10 per basic and diluted share for the year ended December 31, 2011 compared to a net loss of \$4,066,000 or \$0.14 per basic and diluted share for the year ended December 31, 2010. As explained in more detail below, the primary reasons for the increase in net loss during 2011 compared to the net loss during 2010 were (i) \$3,700,000 of exploration costs on our Mt. Hamilton project compared to \$1,214,000 during 2010; (ii) an increase in our non-stock option general and administrative expense to \$2,160,000 during 2011 compared to \$1,767,000 during 2010; (iii) a loss on derivative instruments and an increase in our interest expense, net during 2011 compared to gains for both items during 2010; (iv) no gain on sale on deconsolidation of PBM during 2011 compared to a gain on deconsolidation of \$724,000 during 2010; (v) an increase in the equity in our loss of PBM to

\$623,000 during 2011 compared to a loss of \$220,000 during 2010; and (vi) a reduction in our income tax benefit during 2011 to \$635,000 compared to a net income tax benefit of \$1,159,000 during 2010. Partially offsetting these increases in costs were (i) a reduction in non-Mt. Hamilton exploration expenses to \$2,246,000 during 2011 compared to \$2,819,000 during 2010; (ii) an increase in the gain on sale of marketable equity securities to \$1,937,000 during 2011 compared to \$995,000 during 2010; and (iii) an increase in the share of the loss on our Mt. Hamilton project attributable to the noncontrolling shareholder to \$3,591,000 during 2011 compared to \$1,274,000 during 2010. Each of these items is discussed in greater detail below.

Our primary activities during 2011, 2010 and 2009 have been the (i) exploration activities to advance the Mt. Hamilton property toward the completion of a feasibility study, (ii) exploration on our mineral properties to delineate deposits to enable us to sell or joint venture the mineral property and (iii) reconnaissance exploration to locate and acquire mineral properties. During 2011 we increased our exploration efforts related to our Mt. Hamilton project and spent \$3,700,000, including a \$300,000 advance royalty payment and \$3,400,000 in direct exploration expenditures related to Mt. Hamilton. We acquired the Mt. Hamilton project during 2010, and in 2010 we 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 \$3,591,000 and \$1,110,000, respectively, during 2011 and 2010 for DHI-US's noncontrolling interest in the expenditures of MH-LLC, related to these exploration expenditures. We decreased our exploration expenditures at our South American and Mexico properties to \$2,246,000 and \$2,819,000, respectively, in 2011 and 2010, from \$3,579,000 in 2009 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 2011 we completed a drilling program at our Cerro Azul project in Peru. During 2011 we capitalized \$2,755,000 related to our Mt. Hamilton properties, and we capitalized \$10,000 related to our Jaripo and Aconchi properties in Mexico. Included in these capitalized costs was the issuance of 344,116 shares of our common stock valued at \$1,000,000. 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.

Our 2012 exploration expenditure budget is approximately \$3,442,000, which includes approximately \$1,325,000 for development costs related to Mt. Hamilton. In addition we anticipate we will spend approximately \$1,675,000 for payments on leases to landowners, advance minimum royalty payments and payments to DHI-US pursuant to the MH Agreement. The primary factor in the reduction in Mt. Hamilton exploration and development expense from 2011 to 2012 relates to the completion of our Feasibility Study and related activities, including drilling and engineering design work, which occurred during 2011, and which will not be a significant part of our planned activities during 2012. Our planned activities during 2012 relate to our intention to move the Mt. Hamilton project through development activities including permitting, obtaining financing for the capital required to build the project and

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other engineering and project management. The future construction of Mt. Hamilton will be dependent on a number of factors including receiving permits and obtaining financing for the capital and construction. We cannot predict with certainty that we will be successful in achieving any of these goals. In addition we plan to continue to perform our early-stage planned exploration activities on our other properties and to continue reconnaissance exploration activities to acquire new properties. These exploration activities may also be modified, as necessary for changes, in joint venture funding, commodity prices and access to capital.

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

Property Name	2011	2010
Mt. Hamilton	\$ 3,700	\$ 1,214
Cerro Azul	715	185
Jaripo	26	-
Espanola	24	21
La Promesa	17	40
Mercurio	15	36
Cajatambo	7	361
Chonta	4	3
Newmont Alliance	4	1
Excelsior	3	40
Norcan	3	6
Bongará	3	6
Pachuca	2	91
Triunfo	1	6
Pedra Branca, net	(50)	402
Palmira	-	146
La Noria	-	139
Paria Cruz	-	26
Atico	-	20
El Sello	-	19
Reconnaissance	1,472	1,271
Total exploration expense	\$ 5,946	\$ 4,033

We recorded a credit (reduction of expense) of \$3,591,000 and \$1,110,000, respectively, during 2011 and 2010 for DHI-US's non-controlling interest in the losses of MH-LLC. In addition, we recorded a credit of \$164,000 during 2010 for Anglo's noncontrolling interest in the losses of the consolidated subsidiary, PBM, prior to its deconsolidation on July 21, 2010. During 2011 we recorded management fees of \$50,000 to PBM as a credit to exploration expense. During 2010 we recorded management fees of \$47,000 to PBM, which were eliminated in consolidation, net of \$11,000 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 \$2,160,000 during 2011 compared to \$1,767,000 in 2010. We incurred salary and benefits expense of \$1,300,000 during 2011 compared to \$985,000 in 2010, which increased due to a bonus paid during 2011 of \$245,000, and an increase in salaries during 2011 compared to 2010. We also recorded an increase in our legal and accounting costs to \$305,000 during 2011 from \$279,000 in 2010, due to the legal and account-

ing work associated with setting up the administration of MH-LLC and land matters at Mt. Hamilton and the Royalty Buy-down. In addition, other general and administrative costs including rent, travel, and insurance decreased to \$238,000 during 2011 compared to \$248,000 in 2010, primarily related to reduced exploration activity in South America and Mexico, continuing efforts to reduce overhead although overhead costs related to Mt. Hamilton increased. These decreases were mitigated by an increase in our shareholder relations costs to \$318,000 during 2011 compared to \$254,000 during 2010. We anticipate general and administrative costs will decrease in the future as a result of not spending for costs related to setting up the administration of MH-LLC and related land matters at the Mt. Hamilton project compared to what we incurred in 2011, as well as a reduction in shareholder relations costs compared to what we incurred during 2011. We have forecast 2012 general and administrative costs to be approximately \$1,695,000, excluding non-cash stock option compensation expense or benefit.

We account for our employee stock options under the provisions of ASC 718. Beginning in January 1, 2011, we recognize stock option compensation expense on the date of grant for 25% of the grant date fair value, and subsequently, based upon a straight line amortization of the grant date fair value of each of its outstanding options. During the year ended December 31, 2011, we recorded \$697,000 of non-cash stock option expense for the amortization of grant date fair value with a credit to additional paid-in-capital compared to \$2,513,000 of non-cash stock option compensation expense during 2010. Prior to January 1, 2011, Solitario recorded a 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 the percentage vested on the measurement date. See Note 9, "Employee stock compensation plans" to our 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 2011 we recorded a loss on derivative instruments of \$137,000 compared to a gain on derivative instruments of \$152,000 during 2010. The decrease in the gain to a loss was primarily related to an unrealized loss on our investment in Ely warrants of \$180,000 during 2011 compared to a gain of \$117,000 during 2010. The change in value in the Ely warrants is determined using a Black-Scholes option pricing model and is highly dependent on the change in the price of Ely's common stock which declined from Cdn\$0.30 per share at December 31, 2010 to Cdn\$0.18 per share at December 31, 2011. This loss was partially mitigated by a gain on a Kinross call we sold (and repurchased) during 2011 of \$42,000. 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 have any Kinross call options outstanding at December 31, 2011 and do not anticipate selling a material number of covered Kinross call options during 2012. See Note 6, "Derivative instruments" to our consolidated financial statements for an analysis of the changes in our derivative instruments, and the components that are used to determine the fair value of our derivative instruments.

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We had \$46,000 of depreciation and amortization expense during 2011 compared to \$67,000 in 2010 primarily as a result of an increase in the amount of fully depreciated furniture and fixtures during 2011 compared to 2010. We amortize these assets over a three-year period. We anticipate our 2012 depreciation and amortization costs will be similar to our 2011 amount.

During 2011 we recorded interest expense, net of interest and dividend income, of \$163,000 compared to interest and dividend income, net, of \$63,000 during the same period in 2010. The increase in interest expense is primarily related to \$217,000 of interest expense on our long-term debt during 2011 compared to \$19,000 of interest expense on long-term debt during 2010. In addition we recorded \$71,000 of interest expense related to our short-term margin loans during 2011 compared to \$23,000. The increase is related to the time our margin loans were outstanding during 2011 compared to 2010. During 2011 we recorded dividend income of \$98,000 compared to \$103,000 during 2010 from dividends on our Kinross stock. Remaining interest income recorded during 2011 and 2010 consisted of payments on cash and cash equivalent deposit accounts. We anticipate our interest expense will increase as we continue to utilize short-term margin loans to fund a portion of our activities to supplement the sales of our Kinross common stock. However we anticipate this increase will be partially offset by an expected reduction in the interest expense related to our long-term debt as we pay down our Augusta debt. We also anticipate dividend income will continue to decrease during 2012 as we sell a portion of our Kinross common stock to fund our operations. See Note 3, "Short-term debt" and Note 4, "Long-term debt" to our consolidated financial statements for additional discussion of our interest expense related to our short and long-term debt.

During 2011 we sold 130,000 shares of Kinross stock for proceeds of \$2,035,000 and recorded a gain on sale of \$1,937,000 compared to 2010, when we sold 70,000 shares of Kinross stock for proceeds of \$1,301,000 and recorded a gain on sale of \$995,000. We anticipate we will continue to liquidate our holdings of Kinross stock to fund our exploration activities and our 2012 budget anticipates the sale of 360,000 shares of Kinross stock for assumed proceeds of \$5,040,000 during 2012. 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 2011 we recorded an income tax benefit of \$635,000 compared to an income tax benefit of \$1,159,000 during 2010. The reduction in our tax benefit during 2011 primarily related to the increase in our United States taxable gain on the sale of Kinross stock to \$1,937,000 in 2011 compared to a gain on sale of \$995,000 during 2010. In addition, we recorded a decrease in our stock option expense to \$697,000 during 2011 compared to a stock option expense during 2010 of \$2,513,000. Partially offsetting the increased gain on sale of marketable equity securities was an increase in our general and administrative expenses, discussed above, during 2011 compared to 2010 and by the fact that we recorded a gain on deconsolidation of our PBM subsidiary of \$724,000 during 2010 and had no similar item during 2011. Al-

though our United States exploration expense at our Mt. Hamilton project was significantly higher during 2011 compared to 2010, as discussed above, because we record minority interest credit for DHI-US's share of those expenditures, the tax effect of the expenditures in determining our tax expense reflected in our consolidated statement of operations is also reduced. See Note 5, "Income taxes," to our consolidated financial statements for additional discussion of our income tax expense and deferred income tax liability at December 31, 2011. 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 2011 we recorded \$10,000 of mineral property impairments related to our Paria Cruz project in Peru, discussed below, compared to 2010 when we recorded \$55,000 of mineral property impairments related to our Santiago, La Noria and Palmira projects.

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 to \$2,513,000 during 2010 compared to a stock option benefit of \$269,000 during 2009; and (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.

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

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recorded a credit of \$1,110,000 for DHI-US's 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.

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, was 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.

Excluding non-cash stock option compensation costs, discussed below, 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 a reduction in 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 accounted for our employee stock options under the provisions of ASC 718, Compensation – Stock Compensation, and during 2010 and 2009, we classified our stock options as liabilities as they are priced in Canadian dollars and our functional currency is United States dollars. We recorded 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 increases and the converse is true as well. See Employee stock compensation plans in Note 1 to the consolidated financial statements for an analysis of the changes in the fair value of our outstanding stock options and the components that are used to determine the fair value.

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 from unrealized gain of \$522,000 during 2009 to an unrealized loss on our Kinross Collar of \$7,000 during 2011. 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

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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 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.

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.

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.

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.

During 2010 we recorded \$55,000 of mineral property impairments related to our Santiago, La Noria and Palmira projects 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 have borrowed \$2,000,000 from UBS Bank, USA ("UBS Bank") pursuant to a secured credit line agreement between us and UBS Bank and have accrued \$1,000 of unpaid interest on this debt in accounts payable. The UBS Bank credit line carries an interest rate which floats, based upon a base rate of 2.25% plus the one-month London Interbank Offered Rate ("LIBOR"), which was 0.25% as of December 31, 2011. We are required to maintain minimum equity value percentages of 40% at UBS. The equity value percentage may be modified by UBS at any time. If the equity value in our account at UBS falls below the minimum, UBS 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, 2011 and March 8, 2012, the equity balance in our account at UBS was 67% and 65%, respectively. Solitario recorded interest expense related to the UBS credit line of \$50,000 and \$18,000, respectively, for the year ended December 31, 2011 and 2010.

We also have access to short-term margin loan borrowing capacity from RBC Capital Markets, LLC ("RBC") using our investment in Kinross stock held at RBC as collateral for the short-term margin loans. As of December 31, 2011, we have repaid all short-term margin loans previously borrowed from RBC. Subsequent to December 31, 2011, we have borrowed \$500,000 against our short-term margin account. We estimate we have access to additional borrowing of approximately \$1.2 million on our RBC margin loan borrowing capacity as of March 8, 2012, based upon the market value of our Kinross shares held at RBC. The previously outstanding loans carried, and the currently outstanding loan carries, 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 March 8, 2012, the equity balance in our account at RBC was 81%. We recorded \$21,000 and \$5,000, respectively, of interest expense related to the RBC short-term margin loans for the year ended December 31, 2011 and 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 we were to sell our Kinross common stock in excess of our anticipated United States tax deductible expenses for the entire year of 2012, 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 2012 will not exceed our anticipated United States tax deductible expenses, and accordingly,

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we do not anticipate having any currently payable United States income taxes for 2012. 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 2012. 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 \$3,875,000, including accrued interest, during the year ended December 31, 2011. Our average short-term borrowing during the year ended December 31, 2011 was \$2,466,000. Subsequent to December 31, 2011, we borrowed an additional \$500,000 and as of March 8, 2012, we have a total of \$2,500,000 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 is to be paid in cash to DHI-US and of which \$2,500,000 is 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. During 2011 we made a \$500,000 payment on the Augusta debt, and the total remaining payments as of December 31, 2011 are \$3,250,000. Failure to make any of the payments to DHI-US or investments in Ely 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. As a result of earning an 80% interest in MH-LLC on the completion of the Feasibility Study, pursuant to the terms of the MH Agreement, we no longer have the right to opt-out of the payments due to Augusta.

Schedule of debt payments due to Augusta as of December 31, 2011:

Date	Amount
June 1, 2012	\$ 750,000
June 1, 2013	750,000
June 1, 2014	750,000
June 1, 2015	1,000,000
Discount	(448,000)
Net due	2,802,000
Less current portion	727,000
Net long-term debt	\$ 2,075,000

During the year ended December 31, 2011, Solitario made a \$500,000 payment of principal on the long-term debt to DHI-US, which in turn was paid to Augusta. During 2011 and 2010, Solitario recorded \$217,000 and \$19,000, respectively, 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 from the sale of our marketable equity security investment in Kinross. We received \$200,000, each year respectively, from joint venture payments during 2011, 2010 and 2009 related to delay rental payments on our Bongará project, discussed above, and during 2011 we received a \$50,000 delay rental joint venture payment on our Mercurio project in Peru, which was partially offset by \$8,000, the entire capitalized value of Mercurio at the time of the payment. 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. Per our agreements with both Votorantim on Bongará and Regent on Mercurio, the joint venture partners may terminate the agreements at any time, and will not be required to make further delay rental payments if they terminate the agreements. Our agreement with Votorantim on our Bongará project calls for annual delay rental payments of \$200,000 until Votorantim provides notice that it has made certain minimum expenditures or makes a decision to place the project in production or decides to drop the project. 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, 2011 and 2010, we owned 850,000 and 980,000 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value of \$9,690,000 and \$18,581,000 at December 31, 2011 and December 31, 2010, respectively. In addition we own other marketable equity securities with a fair value of \$671,000 and \$1,190,000 as of December 31, 2011 and December 31, 2010, respectively. Our investments in marketable equity securities are based upon market quotes on the NYSE and the TSXV. At December 31, 2011, we have classified \$4,361,000 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 stockholders' equity. During the year ended December 31, 2011, we recorded a loss in other comprehensive income on marketable equity securities of \$9,425,000, less related deferred tax expense of \$3,516,000.

During the year ended December 31, 2011, we sold 130,000 shares of Kinross stock for proceeds of \$2,035,000, resulting in a gain of \$1,937,000 which was transferred, less related deferred tax expense of \$722,000, from previously unrealized gain on marketable equity securities in other comprehensive income. We also own (i) 1,000,000 shares of TNR Gold Corp. that are recorded at their fair market value of \$54,000 at December 31, 2011; (ii) 250,000 shares of Interna-

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tional Lithium Corporation that are recorded at their fair market of \$28,000 at December 31, 2011; and (iii) 3,333,333 shares of Ely that are recorded at their fair market value of \$588,000, all of which are classified as marketable equity securities available for sale.

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 \$18.60 per share to a low of \$11.14 per share during the year ended December 31, 2011.

Kinross Collar and Kinross Calls

Kinross Collar

On October 12, 2007, we entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS whereby we pledged 900,000 shares of Kinross common shares to be sold (or delivered back to us with any differences settled in cash). On April 12, 2011, the final tranche of 100,000 shares under the Kinross Collar was released upon the expiration of that tranche of the Kinross Collar. As of December 31, 2011, no shares are subject to the Kinross Collar.

Kinross Calls

Beginning in December 2008, we sold covered calls covering our shares of Kinross common stock. We 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 we sold an option for 40,000 shares which expired in May 2010. In September 2011 we sold options covering 65,000 shares for proceeds of \$57,000, which were repurchased in October 2011 for \$15,000 and we recorded a gain of \$42,000 in loss (gain) on derivative instruments. As of December 31, 2011, we have no outstanding covered calls covering our investment in Kinross common stock.

The business purpose of the Kinross Collar was to provide downside price protection for our investment in Kinross. In consideration for obtaining this price protection, we had given up the upside appreciation above the upper threshold price of the Kinross Collar. Our risk management policy related to our investment in the Kinross Collar was to reduce the potential price risk on assets which represented a significant proportion of total assets, where economically feasible. The business purpose of the Kinross calls was to lock in a specific price on a portion of the Kinross shares we intended to sell within the next year. We will continue 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 reduces 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 or Kinross calls as hedg-

ing instruments as described in ASC 815 and any changes in the fair market value of the Kinross Collar or the Kinross calls are recognized in the statement of operations in the period of the change.

Income Taxes

As a result of the United States federal and state net operating loss generated during 2011, which we may carry back to 2010, we have recorded a receivable for an income tax refund of approximately \$275,000, which was received in February 2012. See Note 5, "Income taxes," to the consolidated financial statements for more information.

Working Capital

We had working capital of \$345,000 at December 31, 2011 compared to working capital of \$134,000 as of December 31, 2010. Our working capital at December 31, 2011 consists of our cash and equivalents and marketable equity securities, primarily consisting of the current portion of our investment in 850,000 shares of Kinross common stock of \$4,361,000, less our short-term margin loans of \$2,000,000 and current deferred income taxes of \$1,627,000 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 360,000 shares of Kinross stock during 2012 for assumed proceeds of \$5,040,000. 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 general working capital.

Cash and cash equivalents were \$432,000 as of December 31, 2011 compared to \$478,000 at December 31, 2010. As of December 31, 2011, our cash balances along with our investment in marketable equity securities and our UBS Bank credit line are considered adequate to fund our expected expenditures over the next year, including our planned 2012 development and payment obligations related to MH-LLC and the Mt. Hamilton project.

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 fund our long-term payment obligations associated with MH-LLC, develop the Mt. Hamilton project on our own and explore 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 a combination of such sources of funds will be available in the quantity or on terms acceptable to us, if at all.

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Stock-based Compensation Plans

During the year ended December 31, 2011, 150,600 options were exercised for proceeds of \$247,000 and no options were granted from the 2006 Plan. During the year ended December 31, 2010, no options were exercised from the 2006 Plan and we granted 2,065,000 options from the 2006 Plan. None of our outstanding options from the 2006 Plan expire during 2012. We do not expect a significant number of our vested options from the 2006 Plan will be exercised in the next year. See Note 9, "Employee stock compensation plans," to the consolidated financial statements for a summary of the activity for stock options outstanding under the 2006 Plan as of December 31, 2011.

Off-balance Sheet Arrangements

As of December 31, 2011 and 2010, we have no off-balance sheet arrangements.

(e). Cash Flows

Net cash used in operations during the year ended December 31, 2011 increased to \$7,931,000 compared to \$5,440,000 for 2010 primarily as a result of (i) an increase in exploration expenses to \$5,946,000 in 2011 compared to \$4,033,000 in 2010, primarily related to an increase in exploration expenditures at our Mt. Hamilton project to \$3,700,000 during 2011 compared to exploration expenditures of \$1,214,000 at Mt. Hamilton during 2010; (ii) an increase in non-stock option general and administrative costs to \$2,160,000 during 2011 compared to non-stock option general and administrative costs of \$1,767,000; and (iii) the net payment of \$119,000 of accounts payable during 2011 compared to the net increase of \$414,000 of accounts payable during 2010. These increased uses of cash were mitigated by an increase in joint venture property payments to \$242,000 during 2011 compared to \$200,000 during 2010. The remaining uses of cash for operations were comparable in 2011 and 2010.

Net cash provided from (used in) investing activities increased to \$193,000 cash provided during 2011 compared to (\$324,000) cash used during the year ended December 31, 2010 primarily related to (i) an increase in the proceeds from the sale of Kinross common stock to \$2,035,000 during 2011 compared with \$1,301,000 proceeds from the sale of Kinross stock in 2010. During 2011 we sold 130,000 shares of Kinross at an average price of \$15.65 compared to the sale of 70,000 shares of Kinross during 2010 at an average price of \$18.59; (ii) no effect on cash during 2011 from the deconsolidation of PBM compared to a decrease in cash of \$1,083,000 from the deconsolidation of PBM during 2010; 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. These increases in cash provided by investing activities between 2011 and 2010 were partially offset by the use of cash for additions to mineral property of \$1,765,000 during 2011 compared to additions to mineral property of \$11,000 during 2010. The remaining uses of cash from investing activities were comparable in 2011 and 2010.

Net cash provided from financing activities increased to \$7,692,000 during the year ended December 31, 2011 compared to \$4,296,000 during 2010. The primary reason for the increase in cash provided from financing activities in 2011 was related to the equity offering, discussed above under recent developments which provided \$8,937,000 in cash during 2011 and no similar financing was completed during 2010. The increase in cash provided by this financing was partially offset by reductions in cash provided during 2011 for short-term borrowing and from contributions from noncontrolling interests compared to 2010.

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

Development Activities

With the completion of the Feasibility Study on February 22, 2012, we are now entering the development stage of the Mt. Hamilton project. The development of the Mt. Hamilton project, if it occurs, will entail a significant capital investment, which is estimated in the Feasibility Study to be \$71.9 million. We currently do not have the funds for the estimated \$71.9 million capital investment to develop the Mt. Hamilton project. The funding for the full development will require significant additional capital which we anticipate may come from the liquidation of our investment in Kinross, additional issuance of our common stock, equipment leasing, debt and commodity stream financing, none of which is currently in place to adequately fund the required capital investment. We cannot provide any assurance that such capital will be available in sufficient amounts, if at all. If we develop the Mt. Hamilton deposit, we will be responsible for reclamation of the Mt. Hamilton project at the completion of mining. In addition we are required to make certain annual claim payments on our mineral property at Mt. Hamilton and to make payments to DHI-US, Ely and to certain other underlying leaseholders at Mt. Hamilton to maintain our ownership of MH-LLC and the Mt. Hamilton project. These obligations are detailed below under "Contractual Obligations." If we fail to make any of these payments we may lose some or all of our interest in MH-LLC and/or the Mt. Hamilton project.

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 2011 mineral and surface property rental and option payments included in exploration expense, not including \$300,000 of advance royalty payments related to Mt. Hamilton, were \$287,000. In 2012 we estimate our net

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exploration property rentals and option payments for properties we own or operate, excluding Mt. Hamilton, to be approximately \$860,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties, we estimate that our joint venture partners will reimburse approximately \$665,000 of these annual payments. These obligations are detailed below under "Contractual Obligations." 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.

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, 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, 2011 and 2010, we have not capitalized any costs related to environmental control facilities. 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.

Our planned development activities will increase our environmental expenditures in the event we complete the development of the Mt. Hamilton project, which entails among other things, building a mine, building and operating an open pit, an ore processing plant and leach pads and other similar activities. Prior to mining development activities, substantial reclamation and mine closure bonds to the federal and state regulatory agencies must be put in place and are dependent on, among other things, receiving required permits and obtaining necessary financing. None of which are in place currently; please see "Risk Factors" in Item 1A of Part I, above. We do not expect any of these additional environmental expenditures within the next year.

Contractual Obligations

The following table provides an analysis of our contractual obligations at December 31, 2011:

(in thousands)

	As of December 31, 2011 – Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations	\$ 65	\$ 65	\$ -	\$ -	\$ -
Short-term margin loan ⁽¹⁾	2,001	2,001	-	-	-
Land Holding Costs ⁽²⁾	205	205	-	-	-
Mt. Hamilton land holding costs ⁽³⁾	2,146	657	609	636	244
Mt. Hamilton cash earn-in payments ⁽⁴⁾	1,300	300	1,000	-	-
Mt. Hamilton earn-in payments in stock of Solitario ⁽⁴⁾⁽⁵⁾	358	72	286	-	-
Mt. Hamilton advance royalty and royalty buy-down payments ⁽⁴⁾⁽⁶⁾	6,800	300	5,600	600	300
Long-term debt ⁽⁴⁾⁽⁷⁾	3,250	750	1,500	1,000	-
Total	\$ 16,125	\$ 4,350	\$ 8,995	\$ 2,236	\$ 544

⁽¹⁾ The short-term margin loans are due on demand and include \$1,000 of accrued interest at December 31, 2011.

⁽²⁾ Excluding Mt. Hamilton, discussed below, our other land holding contractual obligations, net of expected joint venture reimbursements of \$655,000. Our non-Mt. Hamilton land holding agreements are generally cancelable at our option and this amount includes all required net land payments for the next 12 months to maintain our existing mineral properties.

⁽³⁾ Mt. Hamilton land holding costs have been shown through 2017 and included \$32,000 of annual unpatented mining claim fees, minimum cash stand-by royalty and land payments and required minimum royalty payments of 33 ounces of gold per year in 2016 and 2017, valued at \$1,566 per ounce, the closing price of an ounce of gold at December 31, 2011, quoted on kitco.com.

⁽⁴⁾ Pursuant to the MH Agreement, we have agreed to make the following payments as part of our earn-in upon completion of the Feasibility Study: We have agreed to (i) make payments totaling \$750,000 to DHI-US, to enable Ely to make payments in satisfaction of the Augusta long-term debt and make payments totaling \$300,000 and deliver 50,000 shares of Solitario common stock to DHI-US by August 23, 2012 (the "Phase I earn-in"), of which \$150,000 was paid and 25,000 shares of our stock was delivered in February 2012. We have further agreed 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"). Finally, we have agreed to (i) invest \$600,000 into MH-LLC for an advance royalty payment to the underlying royalty holder; (ii) make payments to

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taling \$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"). If we fail to make any of the payments prior to the completion of Phase I earn-in, we will forfeit our entire interest in MH-LLC. If we fail to make any of the payments after the completion of Phase I earn-in, our interest in MH-LLC will be reduced to 49% and DHI-US's interest will be increased to 51%.

⁽⁵⁾ The commitment value of the shares of Solitario stock to be paid to DHI-US, discussed above in note (4) to this table, have been valued at \$1.43 per share, the December 31, 2011 ending stock price as quoted on the NYSE Amex.

⁽⁶⁾ 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.

⁽⁷⁾ Includes unamortized discount as of December 31, 2011; see "Long-term debt" above. Of these payments, \$1,250,000 will be made in cash to DHI-US, discussed above in note 4 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, 2011. Please also see Note 2 to the consolidated financial statements, "Mineral Properties" for a more complete discussion of all of our mineral properties.

Mt. Hamilton Joint Venture

The Mt. Hamilton gold property, located in east-central Nevada, is currently the most important project in the Company and is our primary focus for 2012. With the completion of the Feasibility Study in February 2012, we have now earned an 80% interest in the property. It is our only property with proven and probable reserves. Our initial participation in the Mt. Hamilton property began in August 2010, when we signed a Letter of Intent with Ely Gold to earn up to an 80% interest. In December 2010 we entered into the definitive MH Agreement with DHI-US, a wholly owned subsidiary of Ely Gold, with respect to MH-LLC, a limited liability company, that now holds the Mt. Hamilton project assets.

We are the manager of all project activities. The most important objectives for the remainder of 2012 are the filing of a Plan of Operations with the US Department of Agriculture - Forest Service and advancing the environmental studies necessary to move the project into construction and production. As part of the permitting process, we will undertake public scoping meetings to define

potential concerns and develop mitigation plans to address issues identified by all stakeholders, which includes the public, county, state, and federal regulatory agencies, and Native American input. Prior to the scoping process and consultancy with the regulatory agencies, it is not possible to predict the timetable to complete permitting.

In addition to the permitting activities, we are also planning a drilling program to convert mineralization to proven and probable reserves. This drilling will occur mainly along the eastern and southern margins of the currently defined Centennial ore body, but some drilling in the previously mined Seligman area may also be undertaken.

We have budgeted approximately \$3,000,000 for permitting activities, planned development, land and earn-in payments for 2012 at Mt. Hamilton.

Bongará

The Bongará project is an advanced-stage high-grade zinc project in Peru. Based on extensive exploration and development work conducted to date, we believe the property has excellent potential to be developed into a mine over the next several years. In August 2006 we signed a Letter Agreement with Votorantim Metais ("Votorantim"), granting Votorantim the right to earn up to a 70% interest in the project by meeting certain spending and development milestones. Votorantim is funding and managing all work conducted on the project. 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 2012, permitting has been initiated to construct a new tunnel to provide underground access and drilling platforms in the Karen-Milagros zone of the Florida Canyon deposit. Tunneling is scheduled to begin in late 2012 or early 2013. Ongoing work in 2012 includes additional metallurgical testing, and other pre-feasibility activities in preparation for completion of a full feasibility report in 2013. Additionally, 20,000 meters of drilling to further define mineralization is planned in 2012 from both the surface at San Jorge and Karen-Milagros and the existing underground workings at San Jorge. Votorantim will also continue road construction to the project area with the objective of completing access to the Florida Canyon area late in the year. 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 2012.

Pedra Branca

The Pedra Branca project is an advanced-stage project in which we are exploring for platinum and palladium ("PGM") in Brazil. Several well mineralized bodies containing strong values of PGM's have been delineated by drilling. We believe there is good potential to discover additional PGM-bearing deposits. The property is 100% owned by PBM. Our joint venture partner, Anglo Platinum ("Anglo"), currently owns 51% of PBM and is funding, through PBM, all work conducted on the project. We hold a 49% interest in PBM. We deconsolidated PBM during 2010 and will record our share of any exploration expense as our equity interest in the gains

Management's Discussion & Analysis | continued

and losses of PBM against its investment in PBM. As part of the Shareholders Agreement, PBM has paid us a 5% management fee for operating the project based upon total expenditures, pursuant to a Services Agreement. Anglo has indicated they will be taking over the management of the project during the second quarter of 2012, and we will no longer be receiving the 5% management fee.

The work program for 2012 consists of helicopter-borne geophysics on closely spaced flight lines traversing areas potentially underlain by ultramafic rocks. Ultramafic rocks are highly magnetic and detectable by geophysics. Ultramafic rocks are also the host to all PGM mineralization identified on the property to date. Anglo has indicated additional work will be conducted on re-logging selected drill core to better interpret the geology and geometry of the mineralization. If the geophysical program is successful in identifying new ultramafic bodies, Anglo has indicated PBM may drill test these areas in 2013.

Pachuca Real

The Pachuca project located in central Mexico is an early-stage exploration project in which we are exploring for silver and gold. We believe the project has excellent potential to host multiple high-grade silver-gold veins over a fairly large area. In April 2010 Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura"), allowing Buenaventura to earn up to a 70% interest in the property by meeting certain expenditure and development milestones. In 2011 Buenaventura completed a 38-hole core drilling program totaling 13,489 meters. In December 2011 Buenaventura elected to terminate its option to earn an interest in the property, and consequently, Solitario retains a 100% interest.

Our initial plans for 2012 are to evaluate the extensive work program that Buenaventura completed and we will probably seek a new joint venture partner later in the year. Absent securing a venture partner in 2012, we are considering conducting a follow-up drilling program in 2013 offsetting some of the well mineralized Buenaventura drill holes.

Newmont Alliance

In January 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"). We currently have the La Promesa, Excelsior and Cerro Azul properties that fall within the currently defined Strategic Alliance areas and are subject to the provisions of the Newmont Alliance. All three properties are considered early-stage exploration properties.

In 2011 we drilled 11 core holes at Cerro Azul and intersected mineralization in seven of the holes. We believe there is potential on all three of the Strategic Alliance properties, but as we are currently focused on higher priority projects, we plan to conduct very limited activities on these in 2012.

Yanacocha Royalty Property

The 61,000-hectare Yanacocha royalty property is located in northern Peru immediately north of Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America.

We acquired the property in 1993 and sold it to Newmont in 2000 for \$6.0 million and we retained a net smelter return ("NSR") royalty on the property. We amended the NSR royalty schedule in January 2005 at which time Newmont committed to a long-term US\$4.0 million work program on our royalty property. We consider the property to be an early-stage exploration property, but believe it has good potential to host gold mineralization. Newmont continues to conduct annual exploration work on the property, and we see this work continuing for the foreseeable future.

(h). Wholly-owned Exploration Properties

Jaripo

In December 2011 we optioned the 775-hectare Jaripo silver-zinc-lead-gold project in Sonora, Mexico, from a private Mexican individual. We can acquire a 100% interest in the property without any retained royalty due the underlying owner by making scheduled option payments of \$225,000 over the next three years, and a final payment of \$1.75 million in December 2015.

The property is characterized by a vein system that has been traced over a length of 1,500 meters. Another company drilled 12 core holes totaling 1,503 meters in 2010. All the drill holes, except one, intersected mineralization. Since optioning the property, we have conducted detailed surface sampling and mapping. We believe the property has the potential to host significant silver-zinc-lead-gold mineralization in veins, is underexplored and will be relatively inexpensive to drill test. We are planning a 10-hole drilling program in 2012.

Other Properties

For Peru and Mexico, we have budgeted approximately \$2,117,000 in 2012 for exploration on our wholly-owned projects, our Newmont Strategic Alliance projects, discussed above, and reconnaissance exploration activities for 2012. This amount includes approximately \$266,000 for drilling related expenditures for the Jaripo property in 2012. These activities include mapping, sampling, geophysical and geochemical analysis in addition to our drilling activities. Our significant wholly-owned projects include Atico in Peru, Jaripo, Aconchi and Norcan in Mexico, and Triunfo and Espanola in Bolivia.

(i). Discontinued Projects

During 2011 we abandoned the Paria Cruz project and recorded a mineral property write-down of \$10,000. During 2010 we abandoned the Santiago, Cajatambo, La Noria and Palmira properties and recorded a mineral property write-down of \$16,000, \$23,000, \$6,000 and \$5,000, respectively. We performed drilling, stream sediment sampling, rock chip channel sampling and reconnaissance geological mapping. Based upon this work, the decision was made to abandon these projects.

(j). Critical Accounting Estimates

Mineral Properties, Net

We classify our interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to ASC 930. On February 22, 2012, we announced the completion of the Feasibility Study, and as a result we earned an 80% interest in MH-LLC, and we reported the mineral reserves as of February 22, 2012 at our Mt. Hamilton project, discussed above. The majority of our mineral properties represents mineral use rights for parcels of land we do not own. Except

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for Mt. Hamilton, all of our mineral properties are located in Latin America, and relate to exploration stage properties. 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 our 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 indicates 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 or development 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 stockholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations.

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, 2010 to derivative instrument 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

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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 loss (gain) on derivative instrument related to the Kinross Collar and the Kinross call options during 2011 and 2010.

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, 2011 and 2010. 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. During 2011 we recorded \$42,000 in joint venture and property payments related to a \$50,000 payment on our Mercurio project, less \$8,000 for the entire capitalized cost at Mercurio at the time of the payment.

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

Solitario classifies its options as equity options, in accordance with ASU 2010-13 and no longer records a liability for the fair value of its outstanding options beginning January 1, 2011. In accordance with ASU 2010-13, this change has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in-capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000 as a cumulative effect of a change in accounting principle. The adoption of ASU 2010-13 had the effect of increasing the 2011 net loss and basic and diluted earnings per share by \$524,000 and \$0.02 per share, respectively, by no longer accounting for its options as liabilities. See Note 9, to the consolidated financial statements, "Employee stock compensation plans," below.

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, 2011, 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 \$54,000 at December 31, 2011. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

(l). 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 changed its accounting for options upon the adoption of ASU 2010-13 from liability accounting to equity accounting in the first quarter of 2011. In

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accordance with ASU 2010-13, this change has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in-capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000. See "Employee stock compensation plans" below as discussed in Note 1 to the Financial Statements.

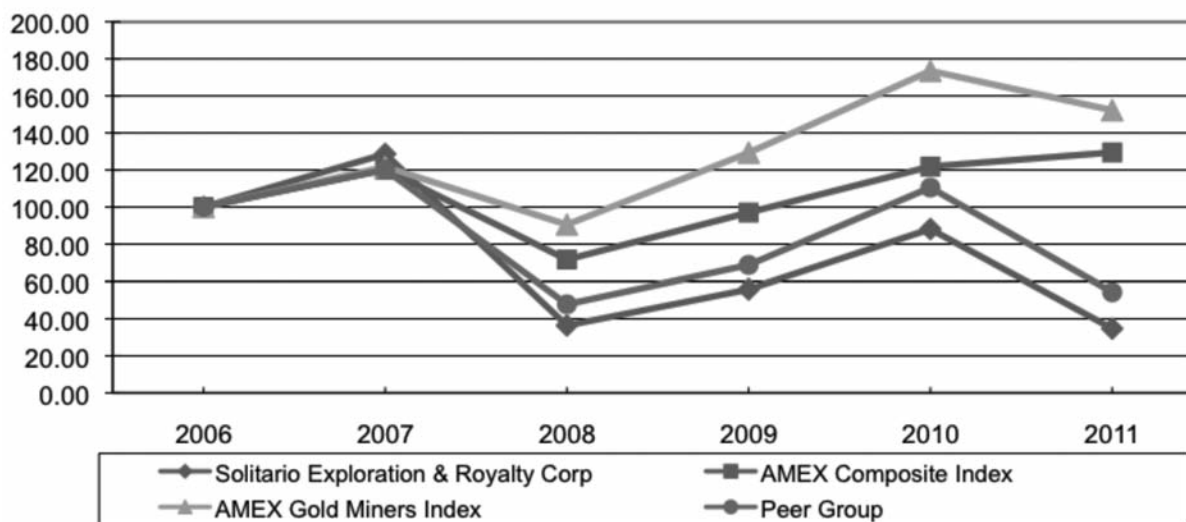
In January 2010 ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to

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."

Stock Performance Graph

The following five-year performance Graph compares the performance of Solitario's common stock to the AMEX Composite Index, The AMEX Gold Miners Index and a custom composite index ("Peer Group"). The Peer Group consists of Atna Resources, Ltd., Esperanza Resources Corp., Great Basin Gold Ltd., Midway Gold Corp., and Pacific Rim Mining Corporation. The graph assumes that the value of the investment in Solitario's common stock and each index was \$100 at December 31, 2006 and that all dividends were reinvested.

Comparison of 5 Year Cumulative Total Return



	December 31,					
	2006	2007	2008	2009	2010	2011
Solitario Exploration & Royalty Corp.	100.00	128.63	36.41	55.83	88.11	34.72
AMEX Composite Index	100.00	120.22	71.64	97.02	121.84	129.48
AMEX Gold Miners Index	100.00	121.67	90.48	129.29	173.48	152.25
Peer Group	100.00	120.13	47.81	68.76	110.50	54.31

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, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders’ equity and comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solitario Exploration & Royalty Corp. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Solitario Exploration & Royalty Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based payment awards as of January 1, 2011 due to the adoption of new FASB guidance.

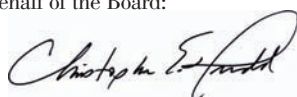


Ehrhardt Keefe Steiner & Hottman PC
March 12, 2012
Denver, Colorado

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

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 432	\$ 478
Investments in marketable equity securities, at fair value	4,361	5,214
Prepaid expenses and other	488	421
Total current assets	5,281	6,113
Mineral properties	8,901	6,153
Investments in marketable equity securities, at fair value	6,000	14,557
Equity method investment	1,653	2,276
Other assets	219	509
Total assets	\$ 22,054	\$ 29,608
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 482	\$ 630
Short-term margin loan	2,000	2,823
Current portion long-term debt	727	481
Deferred income taxes	1,627	1,945
Other	100	100
Total current liabilities	4,936	5,979
Long-term debt, net of discount	2,075	2,604
Deferred income taxes	1,170	4,474
Stock option liability	-	2,775
Commitments and contingencies (Notes 2 and 8)		
Shareholders' equity:		
Solitario shareholders' equity		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2011 and 2010)	-	-
Common stock, \$0.01 par value, authorized, 100,000,000 shares (34,204,958 and 29,750,242, respectively, shares issued and outstanding at December 31, 2011 and 2010)	342	297
Additional paid-in capital	49,015	36,799
Accumulated deficit	(39,381)	(36,996)
Accumulated other comprehensive income	5,877	11,786
Total Solitario shareholders' equity	15,853	11,886
Noncontrolling interest	(1,640)	1,890
Contra-noncontrolling interest	(340)	-
Total shareholders' equity	13,873	13,776
Total liabilities and shareholders' equity	\$ 22,054	\$ 29,608

On behalf of the Board:



Christopher E. Herald
Director



John Hailey
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,		
	2011	2010	2009
Property and joint venture revenue			
Joint venture property payments	\$ 242	\$ 200	\$ 200
Costs, expenses and other:			
Exploration expense	5,946	4,033	3,579
Depreciation and amortization	46	67	91
General and administrative	2,857	4,280	2,079
Loss (gain) on derivative instruments	137	(152)	(694)
Property abandonment and impairment	10	55	51
(Gain) loss on sale of assets	-	(22)	18
Interest and dividend income (net)	163	(63)	(106)
Total costs, expenses and other	9,159	8,198	5,018
Other income			
Gain on sale of marketable equity securities	1,937	995	1,409
Equity in net loss of equity method investment	(623)	(220)	-
Gain on deconsolidation of PBM subsidiary	-	724	-
Break fee on attempted acquisition	-	-	2,200
Total other income	1,314	1,499	3,609
Loss before income tax	(7,603)	(6,499)	(1,209)
Income tax benefit (expense)	635	1,159	(996)
Net loss	(6,968)	(5,340)	(2,205)
Less net loss attributable to noncontrolling interest	3,591	1,274	419
Net loss attributable to Solitario shareholders	\$ (3,377)	\$ (4,066)	\$ (1,786)
Loss per common share attributable to Solitario shareholders:			
Basic and diluted	\$ (0.10)	\$ (0.14)	\$ (0.06)
Weighted average shares outstanding:			
Basic and diluted	32,807	29,750	29,750

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, 2011, 2010 and 2009

	Common Stock		Additional Paid-in Capital	Solitario Shareholders'			Non- Controlling Interest	Contra Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount		Accumulated Deficit	Accumulated Other Comprehensive Income	Total Solitario Shareholders' Equity			
Balance at 12/31/08	29,750,242	\$ 297	\$ 35,611	\$ (31,144)	\$ 12,454	\$ 17,218	\$ 833	\$ -	\$ 18,051
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)
Balance at 12/31/09	29,750,242	297	35,611	(32,930)	11,722	14,700	414	-	15,114
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)
Balance at 12/31/10	29,750,242	297	36,799	(36,996)	11,786	11,886	1,890	-	13,776
Cumulative effect of change in accounting principle, net of deferred tax of \$543	-	-	1,240	992	-	2,232	-	-	2,232
Issuance of shares for cash in public offering, net of issuance costs of \$838	3,910,000	39	8,898	-	-	8,937	-	-	8,937
Issuance of shares for royalty buy-down	344,116	3	997	-	-	1,000	-	-	1,000
Issuance of shares and \$200 of cash to noncontrolling shareholder for future earn-in	50,000	1	139	-	-	140	-	(340)	(200)
Noncontrolling interest contribution	-	-	-	-	-	-	584	-	584
Loan to noncontrolling interest	-	-	-	-	-	-	(504)	-	(504)
Stock option expense	-	-	697	-	-	697	-	-	697
Issuance of shares on exercise of stock options	150,600	2	245	-	-	247	-	-	247
Accrued interest on advance to noncontrolling interest	-	-	-	-	-	-	(19)	-	(19)
Comprehensive income:									
Net loss	-	-	-	(3,377)	-	(3,377)	(3,591)	-	(6,968)
Net unrealized (loss) on marketable equity securities (net of tax of \$3,516)	-	-	-	-	(5,909)	(5,909)	-	-	(5,909)
Comprehensive loss	-	-	-	-	-	(9,286)	(3,591)	-	(12,877)
Balance at 12/31/11	34,204,958	\$ 342	\$ 49,015	\$ (39,381)	\$ 5,877	\$ 15,853	\$ (1,640)	\$ (340)	\$ 13,873

See Notes to Consolidated Financial Statements.

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

	For the year ended December 31,		
	2011	2010	2009
Operating activities:			
Net loss	\$ (6,968)	\$ (5,340)	\$ (2,205)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss (gain) on derivative instruments	137	(152)	(694)
Depreciation and amortization	46	67	91
Loss on equity method investment	623	220	-
Property abandonment and impairment	10	55	51
Employee stock option expense (benefit)	697	2,513	(269)
Deferred income taxes	(635)	(867)	611
Amortization of interest on debt discount	217	19	-
Gain on asset and equity security sales	(1,937)	(1,017)	(1,391)
Gain on deconsolidation of PBM subsidiary	-	(724)	-
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(2)	49	96
Accounts payable and other current liabilities	(119)	414	112
Current income taxes payable	-	(677)	385
Net cash used in operating activities	(7,931)	(5,440)	(3,213)
Investing activities:			
Additions to mineral properties	(1,765)	(11)	(5)
Additions to other assets	(119)	(60)	(15)
Purchase of marketable equity securities	-	(358)	-
Sale (purchase) of derivative instrument, net	42	(135)	99
Proceeds from sale of marketable equity securities	2,035	1,301	1,852
Decrease in cash from deconsolidation of PBM subsidiary	-	(1,083)	-
Proceeds from sale of other assets	-	22	-
Net cash provided by investing activities	193	(324)	1,931
Financing activities:			
Short-term margin loan (repayment) borrowing, net	(872)	2,800	-
Repayment of long-term debt	(500)	-	-
Proceeds from common stock offering, net	8,937	-	-
Proceeds from exercise of options	247	-	-
Payment to noncontrolling interest	(200)	-	-
Noncontrolling interest contribution	80	1,496	1,286
Net cash provided by financing activities	7,692	4,296	1,286
Net increase (decrease) in cash and cash equivalents	(46)	(1,468)	4
Cash and cash equivalents, beginning of year	478	1,946	1,942
Cash and cash equivalents, end of year	\$ 432	\$ 478	\$ 1,946
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 71	\$ 31	\$ 23
Cash paid for income taxes	\$ -	\$ 319	\$ -
Supplemental disclosure of non-cash flow investing and financing activities:			
Acquisition of mineral properties for stock	\$ 1,000	\$ -	\$ -
Loan to noncontrolling interest	\$ 504	\$ -	\$ -
Issuance of stock to noncontrolling interest	\$ 140	\$ -	\$ -
Reclassification of stock option liability to additional paid-in capital, \$1,240 and to retained earnings, \$992, net of deferred taxes of \$543 upon change in accounting principle	\$ 2,775	\$ -	\$ -
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, 2011, 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 at December 31, 2011 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 or 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 related to the Mt. Hamilton project and in December 2010 Solitario signed a Limited Liability Company Operating Agreement to form Mt. Hamilton LLC (“MH-LLC”) whereby Solitario could earn-in up to an 80% interest in MH-LLC and have the right to develop the Mt. Hamilton project located in Nevada, discussed below under “Recent developments.” Solitario intends to develop 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 may also evaluate mineral properties to potentially buy a royalty.

Solitario has been actively involved in mineral exploration since 1993. 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, 2011, Solitario had 12 mineral exploration properties in the United States, Peru, Bolivia, Mexico and Brazil and its Yanacocha and La Tola royalty properties in Peru. Solitario is conducting exploration activities in all of those countries.

Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly-owned subsidiary of Crown Resources Corporation (“Crown”). In July 1994 Solitario became a publicly traded company on the Toronto Stock Exchange (the “TSX”) through its Initial Public Offering.

Recent Developments

Mt. Hamilton Feasibility Study

Solitario announced on February 22, 2012 the completion of a feasibility study on its Mt. Hamilton project (the “Feasibility Study”), prepared by SRK Consulting (US), Inc. of Lakewood, Colorado (“SRK”). As a result of the completion of the Feasibility Study, Solitario earned an 80% interest in MH-LLC, became a development-stage company (but not a company in the “Development Stage”) and reported mineral reserves at its Mt. Hamilton project. See Note 15, “Subsequent event, Mt. Hamilton feasibility study,” below.

Equity Financing

On April 13, 2011, Solitario sold 3,400,000 shares of its common stock in an underwritten public offering (the “Offering”) at a price to the public of \$2.50 per share and on May 9, 2011, Solitario sold an additional 510,000 shares at \$2.50 per share, upon the exercise of the underwriter’s option to cover over-allotments. The net proceeds were \$8,937,000 after the underwriter’s commission of six percent totaling \$587,000 and offering costs of \$251,000. The

Offering was made pursuant to a shelf registration statement on Form S-3 previously filed with the SEC on March 18, 2011, which was declared effective on March 29, 2011. A prospectus supplement relating to the Offering has been filed with the SEC and is available on the SEC’s website located at www.sec.gov.

Stock Option Liability – Change in Accounting Principle

On January 1, 2011, Solitario changed its accounting for stock options to equity accounting from liability accounting upon the adoption of Financial Accounting Standards Board (“FASB”) 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.” The newly adopted accounting principle is preferable because it improves consistency in financial reporting by eliminating diversity in accounting practice. See Note 9, “Employee stock compensation plans.”

Royalty Buy-down

On May 17, 2011, we entered into an agreement, along with our subsidiary MH-LLC, with an underlying royalty holder on our Mt. Hamilton property whereby we delivered, for the benefit of MH-LLC, 344,116 shares of our common stock, with a fair market value of \$1,000,000 based upon a 20-day weighted average quoted stock price, and \$1,520,000 of cash, to reduce the future net smelter royalty (the “Royalty Buy-down”) from a maximum royalty of 8% to a maximum royalty of 6%. MH-LLC retains its existing right to further reduce the net smelter royalty at Mt. Hamilton by an additional 5% to an ultimate royalty of 1%. As part of the Royalty Buy-down transaction, we agreed to loan \$504,000 to DHI Minerals (US) Ltd. (“DHI-US”), the noncontrolling member of MH-LLC, for its mutually agreed 20% of the total purchase price contributed by us to MH-LLC to fund the Royalty Buy-down. This loan is unsecured, bearing interest at 6% per annum, and the loan and any accrued interest thereon will only be repaid from 80% of DHI-US share of distributions from MH-LLC, if any. We have recorded the loan of \$504,000 as an offset to DHI-US’s noncontrolling interest in MH-LLC, as the loan represents a claim on DHI-US’s share of the future distributions from MH-LLC. During 2011 we accrued \$19,000 of interest on the \$504,000 loan recorded as an offset to DHI-US’s noncontrolling interest in the equity section of our consolidated balance sheet.

Investment in Kinross

Solitario has a significant investment in Kinross at December 31, 2011, which consists of 850,000 shares of Kinross common stock. During 2011, 2010 and 2009, Solitario sold 130,000, 70,000 and 100,000 shares, respectively, of Kinross common stock for proceeds of \$2,035,000, \$1,301,000 and \$1,852,000 respectively. As of March 8, 2012, Solitario owns 820,000 shares of Kinross common stock. Solitario’s investment in Kinross common stock represents a significant concentration of assets, with the inherent risk that entails. 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 Solitario entered into a collar that limited the proceeds on 900,000 shares of Solitario’s investment in Kinross common shares. On April 12, 2011, the final tranche of the Kinross Collar due on that date expired, and 100,000 shares under the Kinross Collar were re-

Notes | to Consolidated Financial Statements continued

leased. During 2011, 2010 and 2009, Solitario has from time to time sold covered calls against its holdings of Kinross. As of December 31, 2011, Solitario has no covered calls outstanding against its holdings of Kinross shares. The Kinross Collar and Kinross Calls are discussed below under "Derivative instruments." As of December 31, 2011, Solitario has borrowed \$2,000,000 in a margin loan against its holdings of Kinross shares. The short-term margin loan is discussed below under Note 3, "Short-term debt."

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 Pedra Branca Mineracao, Ltd ("PBM"), which owns the Pedra Branca project in Brazil. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and are expressed in US dollars.

Revenue Recognition

Solitario records delay rental payments as revenue in the period received. Solitario recorded \$242,000 in joint venture and property payments for the year ended December 31, 2011, and recorded \$200,000 in joint venture and property 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 Platinum Limited ("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 the FASB Accounting Standards Codification ("ASC") No. 810, "Consolidations," during 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. During the year ended December 31, 2010, Solitario received deferred noncontrolling shareholder payments of \$1,496,000. During the year ended December 31, 2011, Solitario received no deferred noncontrolling shareholder payments from joint venture partners to earn an interest in any of Solitario's subsidiaries.

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 grants to employees; (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; and (viii) the fair value of the Mt. Hamilton property recorded upon the formation of MH-LLC.

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 and 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.

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, 2011 and 2010, Solitario had concentrations of cash and cash equivalents in excess of federally insured amounts and cash in foreign banks, which are not covered under the federal deposit insurance rules for the United States.

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, 2011, 2010 and 2009, Solitario recorded an impairment of \$10,000, \$55,000 and \$51,000, respectively, on its mineral properties.

Notes | to Consolidated Financial Statements continued

Solitario's net capitalized mineral properties of \$8,901,000 and \$6,153,000 at December 31, 2011 and 2010, respectively, related to land, leasehold and acquisition costs. As of December 31, 2011, Solitario has not identified any proven and probable reserves related to its mineral properties. However on February 22, 2012, Solitario announced the completion of the Feasibility Study with regard to its Mt. Hamilton project. See Note 15, "Subsequent event, Mt. Hamilton feasibility study."

Derivative Instruments

Solitario accounts for its derivative instruments in accordance with ASC 815 "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815"). On October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "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) upon exercise of the put or call options under the Kinross Collar. On April 12, 2011, the final tranche of the Kinross Collar due on that date expired unexercised, and 100,000 shares under the Kinross Collar were released. As of December 31, 2011, none of Solitario's Kinross shares are subject to the Kinross Collar.

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. In September 2011 Solitario sold options covering 65,000 shares for proceeds of \$57,000, which were repurchased in October 2011 for \$15,000 and Solitario recorded a gain of \$42,000 in (gain) loss on derivative earnings.

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.

On August 26, 2010, Solitario signed a letter of intent with Ely Gold and Minerals, Inc. ("Ely") to make certain equity investments into Ely and to joint venture Ely's Mt. Hamilton project, which was wholly owned by DHI-US. Solitario made private placement investments into Ely of \$250,000 each on August 26, 2010 and October 19, 2010. Solitario received a total of 3,333,333 shares of Ely common stock in the private placements and warrants for the purchase of 1,666,667 shares of Ely common stock at Cdn\$0.25 per share, which expire on August 26, 2012 and warrants for the purchase of 1,666,667 shares of Ely common stock at Cdn\$0.25 per share, which expire on October 19, 2012. 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. During 2010 Solitario recorded a gain on derivative instruments of \$117,000 on the warrants received on

August 26, 2010. In accordance with ASC 815, at December 31, 2010 Solitario did not classify the warrants acquired on October 19, 2010 as derivative instruments until January 18, 2011, or 31 days prior to the underlying shares being readily convertible to cash. Prior to that time, any gains and losses on those warrants were recorded in other comprehensive income. On January 18, 2011, Solitario transferred an unrecognized gain on derivative instrument of \$114,000 for the warrants acquired on October 19, 2010 to gain on derivative instrument. In addition, as of December 31, 2011 Solitario has recorded \$74,000 for the fair value of the 3,333,333 warrants received from Ely as a current asset. Solitario recorded an unrealized loss on derivative instrument in the statement of operations of \$179,000 related to the two Ely warrants for the year ended December 31, 2011.

Variable Interest Entity

On November 12, 2010, we made an initial contribution of \$300,000 for a 10% membership interest in, upon the formation, of MH-LLC which was formed in December 2010 to joint venture the Mt. Hamilton project. 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"). MH-LLC owns 100% of the Mt. Hamilton Gold project. Pursuant to the MH Agreement, we may earn up to an 80% interest in MH-LLC, and indirectly, the Mt. Hamilton project, by completing various staged commitments. See a more complete discussion of Ely and MH-LLC below in Note 12, "Ely Gold investment and the Mt. Hamilton Joint Venture." 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 the creditors do not have recourse to Solitario.

Fair Value

FASB ASC 820, "Fair Value Measurements and Disclosures" ("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, the Kinross Collar 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

Notes | to Consolidated Financial Statements continued

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 \$10,361,000 and \$19,771,000, respectively, and cost of \$988,000 and \$1,087,000, respectively, at December 31, 2011 and 2010. Solitario has accumulated other comprehensive income for unrealized holding gains of \$9,373,000 and \$18,684,000, respectively, net of deferred taxes of \$3,496,000 and \$6,969,000, respectively, at December 31, 2011 and 2010 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 130,000 shares of its Kinross common stock during the year ended December 31, 2011 for gross proceeds of \$2,035,000. 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 has classified \$4,361,000 and \$5,214,000, respectively, of marketable equity securities as current, as of December 31, 2011 and 2010, 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 (000's):

	2011	2010	2009
Gross cash proceeds	\$ 2,035	\$ 1,301	\$ 1,852
Cost	98	306	443
Gross gain on sale included in earnings during the period	1,937	995	1,409
Unrealized holding (loss) gain arising during the period included in other comprehensive (loss) income, net of tax of \$2,793, \$534 and \$90	(4,695)	689	152
Reclassification adjustment for net gains included in earnings during the period, net of tax of \$723, \$371 and \$526	(1,214)	(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 2011, 2010 and 2009, Solitario recorded foreign exchange gain (loss) of \$(43,000), \$(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 \$325,000 and \$32,000, respectively, at December 31, 2011 and 2010.

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, 2011 and 2010. Potentially dilutive shares related to outstanding common stock options of 2,433,000 and 2,584,000 for the years ended December 31, 2011 and 2010, respectively, were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

Employee Stock Compensation Plans

In April 2010 the FASB issued ASU No. 2010-13, which 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. ASC 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 classifies its options as equity options, in accordance

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with ASU 2010-13 and no longer records a liability for the fair value of its outstanding options beginning January 1, 2011. In accordance with ASU 2010-13, this change has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000 as a cumulative effect of a change in accounting principle. The adoption of ASU 2010-13 had the effect of increasing the 2011 net loss and basic and diluted earnings per share by \$524,000 and \$0.02 per share, respectively, by no longer accounting for its options as liabilities. See Note 9, "Employee stock compensation plans," below.

Prior to the adoption of ASU 2010-13, Solitario classified its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars. Solitario recorded 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 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, 2011, 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, 2011 and 2010, Solitario has recorded \$8,821,000 and \$6,066,000, respectively, of mineral property related to its Mt. Hamilton project in Nevada.

Included in the consolidated balance sheet at December 31, 2011 and 2010 are total assets of \$598,000 and \$515,000, respectively, related to Solitario's foreign operations, located in Bolivia, Brazil, Peru and Mexico. Solitario is not aware of any foreign exchange restrictions on its subsidiaries located in foreign countries.

Recent Accounting Pronouncements

In May 2011 the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Standards in US GAAP and IFRSs," which changes the wording used

to describe the requirements in United States Generally Accepted Accounting Principles ("GAAP") for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or liabilities. In addition, the guidance expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The revised guidance is effective for interim and annual periods beginning after December 15, 2011 and early application by public entities is prohibited. Solitario does not expect the adoption of this guidance to have an impact on its consolidated financial position and results of operations.

In June 2011 the FASB issued ASU 2011-05, "Presentation of Comprehensive Income," which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. However, in December 2011 the FASB issued ASU 2011-12, which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date for ASU 2011-05. For public entities, the amendments in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The adoption of this guidance concerns disclosure only and will not have an impact on Solitario's consolidated financial position or results of operations.

2. Mineral Properties:

Solitario's mineral properties at December 31, 2011 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

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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. At December 31, 2011, 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. Subsequent to December 31, 2011, Solitario did establish that it had proven and probable reserves on its Mt. Hamilton property in Nevada. See Note 15, "Subsequent event, Mt. Hamilton feasibility study." 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.

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. During 2011 Solitario capitalized \$2,520,000 related to the Royalty Buy-down on its Mt. Hamilton project, discussed above. MH-LLC also acquired certain additional leases and property at its Mt. Hamilton project and capitalized an additional \$235,000 to mineral properties related to these initial land acquisition costs during 2011.

Pursuant to the MH Agreement, Solitario was required to fund all exploration expenditures to complete a feasibility study. MH-LLC incurred \$3,700,000 and \$1,214,000, respectively, of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2011 and 2010. In addition, MH-LLC recorded \$217,000 and \$19,000, respectively, of interest expense related to the long-term debt due to Augusta during the year ended December 31, 2011 and 2010. Solitario recorded \$3,591,000 and \$1,110,000, respectively, as a reduction in the noncontrolling interest related to Ely's 90% interest in the losses of MH-LLC for 2011 and 2010.

Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 8,500 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 pay-

ment of \$3.00 per hectare (approximately 2.477 acres per hectare) must be made by the last day of June to keep the claims in good standing. For concessions that are more than six years old, there is a \$6.00 surcharge per hectare (\$9.00 total), 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 (NSR) royalty 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 13,000 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, 2011, 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 and 2011, 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 2011) 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

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the years 2006-2011, underground tunneling and drilling in 2010-2011, and road building to the project in 2010-2011.

(b) Yanacocha Royalty Property

On January 18, 2005, we signed a letter of intent (the "Letter of Intent") with 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, Newmont Peru agreed 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.

Brazil

(a) Pedra Branca

On April 24, 2007, Solitario signed a definitive agreement, the Shareholders Agreement with Anglo Platinum Limited ("Anglo"), relating to the Pedra Branca Project in Brazil (the "Shareholders Agreement"), 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 Pedra Branca Mineracao, Ltd. ("PBM"). Pursuant to the Shareholders Agreement, Anglo earned a 51% interest in PBM on July 21, 2010. 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, 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. See Note 11, "Deconsolidation of PBM," below. As part of the Shareholders Agreement with Anglo, we entered into a Services Agreement with Anglo whereby we receive a 5% management fee for managing the project based upon total expenditures. During 2011 Solitario charged PBM management fees of \$62,000, as a credit to exploration expense. During 2010 Solitario charged PBM management fees of \$47,000, of which \$36,000 was received prior to July 21, 2010 and was eliminated in consolidation, net of \$12,000 of noncontrolling interest. In August 2011 Anglo funded \$1,500,000 to PBM for the remainder of the 2011 and the 2012 exploration programs.

(b) Mercurio

On March 9, 2010, Solitario signed a letter agreement with Regent Holdings, Ltd., a wholly-owned subsidiary of Brazilian Gold Corporation ("Regent"), related to Solitario's Mercurio property located in Brazil. In November 2010 Solitario signed a definitive agreement with Regent, whereby Regent agreed to pay to Solitario \$1,000,000 over the next four years, in annual payments in the amounts of \$50,000, \$100,000, \$200,000 and \$650,000, beginning in October

2011, when Regent paid Solitario the first annual payment of \$50,000. Solitario recorded \$42,000 of joint venture and property payments after reduction of the capitalized cost at the Mercurio project of \$8,000. As of December 31, 2011, Solitario has no remaining capitalized cost related to the Mercurio project and any further delay rental payments will be recorded as revenue. Regent is also required to make a minimum exploration expenditure totaling \$900,000 over the same four-year period. Upon receipt of the final payments, Solitario will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to two million ounces and Solitario will retain a net smelter royalty of 2.0% on all ounces of gold produced at Mercurio over two million ounces. Regent may terminate the agreement at any time and is not obligated to make any further payments.

Mexico

(a) Pachuca Real

The 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 made payments totaling \$90,000 as of December 31, 2009. The option agreement was amended in May 2009 and again in October 2011. Under the revised terms, Solitario is required to pay \$15,000 every six months, starting in May 2009, to the underlying owner to keep the option in good standing. By October 2014 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 were paid in 2011. Solitario may terminate its option at any time 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. During 2011 Buenaventura completed a 38-hole drilling program totaling 13,489 meters on the project. Buenaventura terminated the agreement in December 2011.

Discontinued Projects

During 2011 we recorded \$10,000 of mineral property write-downs related to our Paria Cruz property in Peru. During 2010 we recorded mineral property write-downs of \$55,000 related to our Santiago and Cajatambo projects in Peru and our La Noria and Palmira projects in Mexico. During 2009 we recorded mineral property write-downs of \$51,000 related to our Chonta project in Peru and our Purica project in Mexico.

Exploration Expense

The following items comprised exploration expense:

(in thousands)	2011	2010	2009
Geologic and field expenses	\$ 1,922	\$ 2,420	\$ 2,339
Administrative	324	399	1,240
Mt. Hamilton exploration	3,700	1,214	-
Total exploration expense	<u>\$ 5,946</u>	<u>\$ 4,033</u>	<u>\$ 3,579</u>

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3. Short-term Debt:

During the year ended December 31, 2011, Solitario borrowed from RBC Capital Markets, LLC ("RBC"), using Solitario's investment in Kinross held at RBC as collateral for short-term margin loans. On April 16, 2011, Solitario repaid \$1,915,000, the entire balance of its short-term margin loan with RBC, including \$10,000 of accrued interest, with proceeds from the Offering. At December 31, 2011, Solitario has no remaining short-term margin loan with RBC. During the year ended December 31, 2011, the loans carried interest at a margin loan rate of 4.25% per annum, which floats based upon the London Interbank Offered Rate. Solitario borrowed \$900,000, net, from 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. Solitario maintains its ability to borrow from RBC. The margin loan rate can be modified by RBC at any time. Interest expense related to the RBC short-term margin loans was \$21,000 and \$5,000, respectively for the year ended December 31, 2011 and 2010.

As of December 31, 2011, Solitario has borrowed \$2,000,000 from UBS Bank, USA ("UBS Bank") pursuant to a credit line agreement between Solitario and UBS Bank secured by 540,000 of Solitario's Kinross shares held in Solitario's UBS brokerage account. As of December 31, 2011, Solitario recorded accrued unpaid interest of \$1,000 on the secured line of credit, included in accounts payable. The UBS Bank credit line carries an interest rate which floats, based upon a base rate of 2.25% plus the one-month London Interbank Offered Rate ("LIBOR"), which was 0.25% as of December 31, 2011. The average base rate was approximately 0.25% for the year ended December 31, 2011. 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, 2011, the equity value in Solitario's UBS brokerage account was 67%. Solitario recorded interest expense related to the UBS credit line of \$50,000 and \$18,000, respectively, for the year ended December 31, 2011 and 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 related to Ely's acquisition of the Mt. Hamilton properties. Pursuant to the MH Agreement, as part of its earn-in, Solitario agreed to make payments to provide Ely with the funds necessary for Ely to make the loan payments due to Augusta. As of December 31, 2011, these payments total \$3,250,000. Solitario will pay DHI-US \$750,000 in cash in June 2012, and will make private placement investments totaling \$2,500,000 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 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. The following is the schedule of debt payments due to Augusta as of December 31, 2011 and 2010:

Payment date	December 31, 2011	December 31, 2010
June 1, 2011	\$ -	\$ 500,000
June 1, 2012	750,000	750,000
June 1, 2013	750,000	750,000
June 1, 2014	750,000	750,000
June 1, 2015	1,000,000	1,000,000
Unamortized discount	(448,000)	(665,000)
Total	2,802,000	3,085,000
Current portion	727,000	481,000
Long-term debt	<u>\$2,075,000</u>	<u>\$2,604,000</u>

During 2011 Solitario recorded \$217,000 for accretion of interest expense related to the Augusta note and paid \$500,000 on the long-term note. During 2010 Solitario recorded \$19,000 for accretion of interest expense related to the Augusta note which increased the outstanding long-term debt balance to \$3,085,000 at December 31, 2010 from the balance 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:

(in thousands)	2011	2010	2009
Current:			
United States	\$ -	\$ (342)	\$ 385
Foreign	14	50	-
Deferred:			
United States	\$ (458)	\$ (773)	\$ 162
Foreign	-	-	-
Operating loss and credit carryovers:			
United States	(191)	(94)	449
Foreign	-	-	-
Income tax expense (benefit)	<u>\$ (635)</u>	<u>\$ (1,159)</u>	<u>\$ 996</u>

Consolidated income (loss) before income taxes includes losses from foreign operations of \$2,657,000 and \$2,721,000 in 2011 and 2010, respectively.

During 2011 and 2010, Solitario recognized other comprehensive income related to unrealized (losses) gains on marketable equity securities of (\$7,488,000) and \$1,223,000, respectively. Other comprehensive (loss) income has been charged (\$2,793,000) and \$534,000, respectively, for the income tax (benefit) expense associated with these gains. During 2011 and 2010, Solitario transferred unrealized gain of \$1,937,000 and \$995,000, respectively, from other

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comprehensive income upon the sale of 130,000 and 70,000 shares, respectively, of Kinross common stock, less income tax of \$723,000 and \$371,000, respectively, associated with these unrealized gains.

The net deferred tax assets/liabilities in the December 31, 2011 and 2010 consolidated balance sheets include the following components:

(in thousands)	2011	2010
Deferred tax assets:		
Loss carryovers	\$ 9,887	\$ 9,387
Stock option compensation expense	648	976
Royalty	1,492	1,492
Severance	30	30
Other	381	74
Valuation allowance	(9,699)	(9,971)
Total deferred tax assets	2,739	1,988
Deferred tax liabilities:		
Unrealized gain on derivative securities	107	241
MH-LLC investment	1,083	305
Exploration costs	845	845
Unrealized gains on marketable equity securities	3,496	7,012
Other	5	4
Total deferred tax liabilities	5,536	8,407
Net deferred tax liabilities	\$ 2,797	\$ 6,419

At December 31, 2011 and 2010, Solitario has classified \$1,627,000 and \$1,945,000, respectively, of its deferred tax liability as current, primarily related to the current portion of its investment in Kinross common stock.

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

(in thousands)	2011	2010	2009
Expected income tax expense (benefit)	\$ (2,585)	\$ (2,210)	\$ (411)
Non-deductible foreign expenses	1	1	13
Non-deductible foreign stock compensation expense	16	54	(9)
Foreign tax rate differences	90	98	107
State income tax	(56)	(94)	88
Change in valuation allowance	621	798	1,205
MH-LLC investment	1,221	377	-
Permanent differences and other	57	(183)	3
Income tax expense (benefit)	\$ (635)	\$ (1,159)	\$ 996

During 2011 and 2010 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, 2011, Solitario has unused US federal Net Operating Loss ("NOL") carryovers of \$3,022,000 and unused US State NOL carryovers of \$3,929,000, both of which begin expiring 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 prescribe 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, 2011 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 Colorado, Mexico, Peru and Brazil. The tax years that remain open to examination by the United States Internal Revenue Service are years 2008 through 2011. The tax years that remain open to examination by the State of Colorado are years 2007 through 2011. The tax years that remain open to examination by Mexico are years 2008 through 2011. 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, 2010, December 31, 2011 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 sold until after December 30, 2010. Solitario recognized a \$147,000 loss on derivative instrument during 2011 and recognized a \$117,000 gain on derivative instrument during 2010 for the change in the value of the warrants received in the First Ely Investment. Solitario has recorded \$36,000 and \$182,000, respectively, as of December 31, 2011 and 2010 for the fair value of the warrants received from the First Ely Investment, based upon a Black-Scholes option pricing model. These warrants are classified as other current assets as of December 31, 2011

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and as a long-term other asset as of December 31, 2010 in the consolidated balance sheet.

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. In accordance with ASC 815, at December 31, 2010 Solitario did not classify the warrants acquired on October 19, 2010 as derivative instruments until January 18, 2011, or 31 days prior to the underlying shares being readily convertible to cash. Prior to that time, any gains and losses on those warrants were recorded in other comprehensive income. At December 31, 2010, Solitario recorded \$184,000 for the fair value of the warrants received in the Second Ely Investment in other current assets and recorded \$114,000 unrealized gain in other comprehensive income. On January 18, 2011, Solitario transferred an unrecognized gain on derivative instrument of \$114,000 for the warrants acquired on October 19, 2010 to gain on derivative instrument. Solitario recorded \$38,000 for the fair value of the 833,333 warrants received from the Second Ely Investment based upon a Black-Scholes option pricing model as other current assets as of December 31, 2011. Solitario recorded a \$146,000 unrealized loss on derivative instrument in the statement of operations for the net loss related to the 833,333 warrants received from the Second Ely Investment for the year ended December 31, 2011.

Kinross Collar

On October 12, 2007, Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS"). Under the terms of the Kinross Collar, Solitario pledged 900,000 shares of Kinross common shares to be sold (or delivered back to Solitario with any differences settled in cash). On April 12, 2011, the remaining 100,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of the final tranche of the Kinross Collar.

Solitario had 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, 2011 and December 31, 2010, Solitario

recorded no value and \$2,000, respectively, for the fair market value of the Kinross Collar in other current assets. Solitario recorded an unrealized loss of \$2,000 during the year ended December 31, 2011. Solitario recorded an unrealized loss of \$7,000 and gain of \$522,000, respectively, for the year ending December 31, 2010 and 2009 in gain on derivative instrument for the change in the fair market value of the Kinross Collar.

International Lithium Corp.

In May 2011 TNR Gold Corp. ("TNR") completed a spin-out of a new entity, International Lithium Corp. ("ILC"). Solitario owned 1,000,000 shares of TNR at the time of the spin-out and received 250,000 shares of ILC and warrants to acquire 250,000 shares of ILC (the "ILC Warrants") at a price of Cdn\$0.375 per share for a period of two years. During the year ended December 31, 2011, Solitario recorded unrealized gain on derivative instruments of \$2,000 on its ILC warrants.

Covered Call Options

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.

Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. In September 2011 Solitario sold options covering 65,000 shares for proceeds of \$57,000, which were repurchased in October 2011 for \$15,000 and Solitario recorded a gain of \$42,000 in gain/loss on derivative earnings. 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 unexercised in May 2010, and Solitario recorded a gain of \$42,000 in derivative instruments during 2010 for this call.

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

Notes | to Consolidated Financial Statements continued

The following table provides the location and amount of the fair values of Solitario's derivative instruments presented in the consolidated balance sheet as of December 31, 2011 and December 31, 2010:

(in thousands)	Balance Sheet Location	Derivatives	
		December 31, 2011	December 31, 2010
Derivatives not designated as hedging instruments under ASC 815			
Ely Investment warrants	Current other assets	\$ 74	\$ -
Ely Investment warrants	Long-term other assets	-	182
Kinross Collar	Current other assets	-	2
ILC warrants	Current other assets	4	-

The following amounts are included in loss (gain) on derivative instruments in the consolidated statement of operations for the years ended December 31, 2011, 2010 and 2009:

(in thousands)	Year ended December 31,					
	2011 ⁽¹⁾		2010 ⁽¹⁾		2009 ⁽¹⁾	
	Realized	Unrealized	Realized	Unrealized	Realized	Unrealized
(Loss) gain on derivatives not designated as hedging instruments under ASC 815						
Ely warrants	\$ -	\$ (179)	\$ -	\$ 117	\$ -	\$ -
ILC warrants	-	2	-	-	-	-
Kinross Collar	(2)	-	-	(7)	-	522
Kinross Calls	42	-	42	-	138	34
Total (gain) loss	\$ 40	\$ (177)	\$ 42	\$ 110	\$ 138	\$ 556

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

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. See Note 3, "Short-term debt," above.

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, including its investment in Kinross common stock, TNR Gold and the First and Second Ely Equity Investments, are carried at their estimated fair value primarily based on publicly available quoted market prices. The Kinross Collar and the Ely Warrants are carried at their 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 2011 Solitario reclassified the shares underlying the Second Ely Equity Investment from Level 2 to Level 1 upon the expiration of statutory holding requirements. During the year ended December 31, 2011 and 2010, there were no other reclassifications in financial assets or liabilities between Level 1, 2 or 3 categories.

Notes | to Consolidated Financial Statements continued

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, 2011:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Marketable equity securities	\$ 10,361	\$ -	\$ -	\$ 10,361
Other current assets - Ely warrants	-	74	-	74
Other current assets - ILC warrants	-	4	-	4

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
Assets				
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 warrants	-	366	-	366

Items measured at fair value on a recurring basis:

Marketable equity securities: At December 31, 2011 and 2010, the fair value of Solitario's investment in Kinross, TNR and Ely marketable equity securities is based upon quoted market prices. At December 31, 2010, the Ely shares issued on October 19, 2010 are classified as Level 2, because they were still subject to a hold period, which expired in January 2011.

Ely and ILC warrants: The Ely warrants are not traded on any public exchange. Solitario determines the fair value of the Ely warrants using a Black-Scholes pricing 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 as of December 31, 2011 and 2010. The ILC warrants are not traded on a public exchange. Solitario estimates the value of the ILC warrants using a Black-Scholes model and inputs that were readily available from public markets, and has classified these as a Level 2 input as of December 31, 2011.

Kinross Collar: The Kinross Collar between Solitario and UBS was a contractual hedge that was not traded on any public exchange. Solitario determined the fair value of the Kinross Collar using a Black-Scholes model using inputs, including the price of a share of Kinross common stock and the 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 were classified as Level 2 inputs. See Note 6, "Derivative instruments," above.

Items measured at fair value on a nonrecurring basis:

Mt. Hamilton long-term debt: In 2010 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 issued by

mining companies traded on public markets, what Solitario was borrowing 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: In 2010 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: In 2010 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.

During the year ended December 31, 2011, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

Notes | to Consolidated Financial Statements continued

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 2012 property rentals and option payments, excluding the Augusta long term-debt, discussed above and certain earn-in payments to DHI-US discussed below in Note 12, "Ely Gold investment and the Mt. Hamilton joint venture," for properties we own or operate to be approximately \$860,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties; approximately \$655,000 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 Nevada, Peru and Mexico as well as Brazil, prior to the deconsolidation of PBM. The total rent expense for these offices during 2011, 2010 and 2009 was approximately \$55,000, \$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 total minimum rent payments through October 2012 of \$30,000.

As a result of completion of the Mt. Hamilton feasibility study, Solitario is committed to make certain earn-in payments to DHI-US, excluding payments for the Augusta debt, discussed above in Note 4, "Long-term debt," as contemplated in the MH Agreement: (1) payment of \$300,000 in cash for an advance minimum royalty due to an underlying royalty holder, payment of \$300,000 in cash and delivery of 50,000 shares of Solitario common stock by August 23, 2012; (2) payment of \$300,000 in cash for an advance minimum annual royalty due to an underlying royalty holder; payment of \$500,000 in cash and delivery of 100,000 shares of Solitario common stock by August 23, 2013; (3) payment of \$300,000 in cash for an advance minimum annual royalty due to an underlying royalty holder; payment of \$500,000 in cash; delivery of 100,000 shares of Solitario common stock and buy down of the existing 6% net smelter royalty to a 1% net smelter royalty by paying \$5,000,000 to an underlying royalty holder by November 19, 2014. See Note 12, "Ely Gold investment and the Mt. Hamilton joint venture," below.

9. Employee Stock Compensation Plans:

a.) The 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 accounts for its stock options under the provisions of ASC 718, "Compensation – Stock Compensation." Pursuant to ASC 718, as of January 1, 2011, Solitario classifies its stock options as equity options in accordance with ASU 2010-13. Previously, Solitario had classified its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars and Solitario's

common stock trades on both the NYSE Amex Equities ("NYSE-Amex") and the Toronto Stock Exchange ("TSX"). Prior to January 1, 2011, Solitario recorded a liability for the fair value of the vested portion of outstanding options based upon a Black-Scholes option pricing model.

During the year ended December 31, 2011, options for 150,600 shares were exercised at prices between Cdn\$1.55 and Cdn\$2.40 per share for cash proceeds of \$247,000. There were no options exercised during 2010 or 2009. There were no options forfeited during 2011 or 2010.

During 2009 Solitario attempted to acquire Metallic Ventures, Inc. ("Metallic Ventures"). On October 13, 2009, concurrent with the signing of an amendment to an agreement with Metallic Ventures, Inc., 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

b.) Stock Option Compensation

Solitario's outstanding options on the date of grant have a five-year term, and vest 25% on date of grant and 25% on each of the next three anniversary dates. Solitario recognizes stock option compensation expense on the date of grant for 25% of the grant date fair value, and subsequently, based upon a straight line amortization of the unvested grant date fair value of each of its outstanding options. 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. Solitario recorded \$697,000 of stock option expense during 2011 for the amortization of grant date fair value with a credit to additional paid-in capital.

Prior to January 1, 2011, Solitario recorded a 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 the percent vested of the option on the measurement date. Solitario recognized \$2,513,000 in stock option compensation expense during 2010 and Solitario recognized a \$269,000 stock option compensation benefit during 2009 for the change in the estimated fair value of outstanding options. At December 31, 2010, 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.

Notes | to Consolidated Financial Statements continued

Fair Value at December 31, 2010

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

c.) Stock Option Compensation

The following table summarizes the activity for stock options outstanding under the 2006 Plan as of December 31, 2011, with exercise prices equal to the stock price, as defined, on the date of grant and no restrictions on exercisability after vesting:

	Shares Issuable on Outstanding Options	Weighted Average Exercise Price (Cdn\$)	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value ⁽¹⁾
2006 Plan				
Outstanding, beginning of year	2,584,000	\$ 2.23		
Granted	-	-		
Exercised	(150,600)	\$ 1.60		
Forfeited	-	-		
Outstanding at December 31, 2011	<u>2,433,400</u>	\$ 2.27	<u>3.2</u>	\$ -
Exercisable at December 31, 2011	<u>1,271,150</u>	\$ 2.24	<u>3.1</u>	\$ -

⁽¹⁾The intrinsic value at December 31, 2011 based upon the quoted market price of Cdn\$1.36 per share for our common stock on the TSX and an exchange ratio of 0.9804 Canadian dollars per United States dollar.

The activity in the 2006 Plan for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011		2010		2009	
	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)
2006 Plan						
Outstanding, beginning of year	2,584,000	\$ 2.23	519,000	\$ 1.55	2,135,000	\$ 3.28
Granted	-	-	2,065,000	\$ 2.40	519,000	\$ 1.55
Exercised	(150,600)	\$ 1.60	-	-	-	-
Cancelled	-	-	-	-	(1,935,000)	\$ 3.30
Forfeited	-	-	-	-	(200,000)	\$ 3.12
Outstanding, end of year	<u>2,433,400</u>	\$ 2.27	<u>2,584,000</u>	\$ 2.23	<u>519,000</u>	\$ 1.55
Exercisable, end of year	<u>1,271,150</u>	\$ 2.24	<u>775,750</u>	\$ 2.12	<u>129,750</u>	\$ 1.55

d.) Stock Option Compensation – Change in Accounting Principle

On January 1, 2011, Solitario changed its accounting for stock options to equity accounting from liability accounting in accordance with ASU 2010-13. In accordance with ASU 2010-13, this change in accounting principle has been made on a prospective basis as of January 1, 2011 with a reduction to stock option liability of \$2,775,000, an increase to additional paid-in capital of \$1,240,000 and a reduction in accumulated deficit of \$992,000, net of deferred taxes of \$543,000. The newly adopted accounting principle is preferable because it improves consistency in financial reporting by eliminating diversity in accounting practice.

Solitario has estimated that if it had not adopted the change in accounting principle it would have recorded a reduction in stock option compensation expense of \$835,000 and would have reduced net loss by \$524,000 or \$0.02 per share for the year ended December 31, 2011.

10. Stockholders' Equity and Noncontrolling Interest:

During the year ended December 31, 2011, Solitario's only noncontrolling interest related to MH-LLC, for which there were no changes in Solitario's ownership percentage and current activity is presented on the accompanying consolidated statement of equity.

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The following provides a reconciliation of the beginning and ending balances noncontrolling interest in PBM and MH-LLC for the year ended December 31, 2010.

(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

During the year ended December 31, 2009, Solitario's only noncontrolling interest related to its Pedra Branca project, for which there were no changes in Solitario's ownership percentage.

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 noncontrolling 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.

As of July 21, 2010, Solitario records its equity interest in the gains and losses of PBM against its investment in PBM and has elected not to record its equity method investment in PBM at fair value after July 21, 2010. Solitario recorded a reduction of \$623,000 and \$220,000, respectively, in its equity method investment in PBM for the year ended December 31, 2011 and 2010 for its equity share in the loss of PBM since July 21, 2010. Solitario has determined that its investment and activities of PBM as of and for the years ended December 31, 2011 do not qualify for separate reporting of financial information of a significant equity method subsidiary.

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

On August 26, 2010, Solitario signed a letter of intent (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. The terms of the joint venture are set forth in the Limited Liability Company Operating Agreement of Mt. Hamilton LLC ("MH-LLC") between us and DHI-US (the "MH Agreement").

a.) Ely Gold Investment

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 twenty consecutive trading days Ely may give notice to Solitario that the warrants will expire in ten days from the date of the notice, to effectively force Solitario to exercise the warrants. Ely's common stock has not traded

Notes | to Consolidated Financial Statements continued

above Cdn\$0.35 for twenty consecutive days since Solitario acquired the Ely warrants and at December 31, 2011, Ely common stock was quoted on the TSXV at Cdn\$0.18 per share. 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. During the year ended December 31, 2011, Solitario recognized an unrealized loss on marketable equity securities of \$129,000, net of deferred taxes of \$77,000. Solitario has recorded marketable equity securities of \$294,000 and \$500,000, respectively, as of December 31, 2011 and 2010 for the fair market value of the Ely shares acquired on August 30, 2010.

Ely Warrants from the First Tranche

Solitario classified the warrants received on August 30, 2010 as derivative instrument and has recorded a loss on derivative instruments in the statement of operations of \$147,000 for the year ended December 31, 2011 compared to a gain of \$117,000 on derivative instrument for the year ended December 31, 2010 for the fair value of the Ely warrants received on August 30, 2010. The fair value of the warrants was calculated based upon a Black-Scholes option pricing model at each period end date. See Note 6, "Derivative instruments," above.

Second Tranche Equity Investment in Ely

On October 19, 2010, Solitario acquired an additional 1,666,666 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. During the year ended December 31, 2011, Solitario recognized an unrealized loss on marketable equity securities of \$129,000, net of deferred taxes of \$77,000. Solitario has recorded marketable equity securities of \$294,000 and \$500,000, respectively, as of December 31, 2011 and 2010 for the fair market value of the Ely shares 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 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. During 2011 Solitario transferred \$114,000 of unrealized gain in other comprehensive income to gain on derivative instruments in the statement of operations, when the warrants were reclassified as derivative instruments in accordance with ASC 815 in January 2011. Solitario recorded a net loss of \$32,000 on derivative instruments during 2011, including the transfer of \$114,000 of unrealized gain, discussed above, for the change in the fair value of the warrants received on October 19, 2010. The fair value of the warrants was calculated based upon a Black-Scholes option pricing model at each period end date. See Note 6, "Derivative instruments," above.

Additional Tranches of Ely Common Stock for Payment of MH-LLC Long-term Debt

The MH Agreement 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 "WMAV") on or before June 1, 2013 (the "Third Tranche"), the entire amount of which Ely is required to utilize to make the \$750,000 payment due to Augusta for the long-term debt in Note 4 above; (ii) \$750,000 in shares of Ely common stock at a price equal to the WMAV on or before June 1, 2014 (the "Fourth Tranche"), the entire amount of which Ely is required to utilize to make the \$750,000 payment due to Augusta for the long-term debt in Note 4 above; and (iii) \$1,000,000 in shares of Ely common stock at the WMAV on or before June 1, 2015 (the "Fifth Tranche"), the entire amount of which Ely is required to utilize to make the \$1,000,000 payment due to Augusta for the long-term debt in Note 4 above. Although the MH Agreement 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, as a

Notes | to Consolidated Financial Statements continued

result of the completion of the Feasibility Study, Solitario intends to develop the Mt. Hamilton project and would lose its entire interest in MH-LLC or be subject to dilution to a 49% interest in MH-LLC if it does not complete all of the payments to DHI-US and the subscription of Ely required in the MH Agreement.

b.) Investment in Mt. Hamilton LLC

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. Pursuant to the MH Agreement, the fair value of the DHI-US contributions was valued at \$3,000,000 for its 90% interest and MH-LLC assumed \$3,066,000 for the fair value of the Augusta debt, discussed above in Note 4, "Long-term debt." Upon formation of MH-LLC whereby Solitario had the right to earn up to an 80% interest in MH-LLC by completing various staged commitments, Solitario determined its interest in MH-LLC was a controlling interest. As a result of its controlling interest in MH-LLC, Solitario has consolidated MH-LLC. See Note 15, "Subsequent event, Mt. Hamilton feasibility study," below.

Pursuant to the MH Agreement, Solitario is required to fund all exploration expenditures to complete a feasibility study. MH-LLC incurred \$3,700,000 and \$1,214,000, respectively, of exploration expenditures at Mt. Hamilton, which are included in exploration expense for 2011 and 2010. In addition, MH-LLC recorded \$217,000 and \$19,000, respectively, of interest expense related to the long-term debt due to Augusta during the year ended December 31, 2011 and 2010. Solitario recorded a \$3,591,000 and \$1,110,000, respectively, for reduction in the noncontrolling interest related to Ely's 90% interest in the losses of MH-LLC for 2011 and 2010.

MH-LLC owns certain mineral claims, which are subject to a security interest held by Augusta. MH-LLC has recorded a note payable for this security interest of \$2,802,000 and \$3,085,000, respectively, as of December 31, 2011 and 2010; see Note 4, "Long-term debt," above.

c.) Earn-in Payments Due to DHI-US

Pursuant to the MH Agreement, as of December 31, 2011, and prior to the completion of the Feasibility Study, the MH Agreement provided that Solitario could earn up to an 80% interest in MH-LLC by completing the following staged commitments: (1) In order to earn an additional 41% interest in MH-LLC, to a total of 51%, Solitario must (i) make the Augusta note payment of \$750,000 due on June 1, 2012; and (ii) make cash payments totaling \$300,000 to DHI-US, and deliver 50,000 shares of Solitario common stock to DHI-US by August 23, 2012 (the "Phase I earn-in"). (2) 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 cash payments totaling \$500,000 to DHI-US and deliver 150,000 shares of Solitario common stock to DHI-US by August 23, 2013 (the "Phase II earn-in"). (3) In order to earn an additional 10% interest in MH-LLC, to a total of 80%, Solitario is required to (i) invest \$300,000 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; (iii) buy down the existing 6% net smelter return ("NSR") royalty to a 3.5% NSR royalty by paying the underlying royalty holder \$3,500,000 by November 19, 2013; and (iv) buy down the existing 3.5% net smelter return ("NSR") royalty to a 1% NSR royalty by paying the underlying royalty holder \$1,500,000 by November 19, 2014 (the "Phase III earn-in"). The MH Agreement further provides that if Solitario did not make all of the Phase I payments, its entire interest in MH-LLC would be forfeited. After the completion of the 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 or Phase III is not achieved.

Pursuant to the MH Agreement, Solitario upon completion of the Feasibility Study, discussed below in Note 15, "Subsequent event, Mt. Hamilton feasibility study," has earned an 80% interest in MH-LLC. However, the MH Agreement provides that if Solitario completes a bankable feasibility study and earns an 80% interest in MH-LLC, as of that date, Solitario 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. The MH Agreement requires Solitario to fund all expenditures until completion of the Feasibility Study. Pursuant to the MH Agreement, upon completion of the Feasibility Study, all costs will be shared by Solitario and DHI-US prorate. 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.

d.) Other Land Payments Due by MH-LLC

During 2011, MH-LLC entered into leases to acquire additional mineral properties at Mt. Hamilton for which MH-LLC will be required to make certain additional payments on these properties totaling \$210,000 in 2012, \$235,000 in 2013 and \$310,000 in 2014. These lease payments are at the option of MH-LLC and may be cancelled if MH-LLC chooses not to proceed with the development of the Mt. Hamilton project. In addition, MH-LLC exercised its option for the acquisition of a mineral lease property acquired in the formation of MH-LLC for a payment of \$115,000 in January 2012.

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 \$54,000 and \$190,000, respectively, at December 31, 2011 and 2010. Christopher E. Herald, our CEO, was a member of the Board of Directors of TNR until June 3, 2009.

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14. Selected Quarterly Financial Data (Unaudited):

(in thousands)

	2011			
	March 31, ⁽¹⁾⁽³⁾	June 30, ⁽¹⁾⁽³⁾	Sept. 30, ⁽¹⁾⁽²⁾⁽³⁾	Dec. 31, ⁽¹⁾⁽³⁾
Revenue	\$ -	\$ -	\$ 200	\$ 42
Net income (loss)	\$ (161)	\$ (849)	\$ (906)	\$ (1,461)
Earnings (loss) per share:				
Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Weighted shares outstanding:				
Basic and diluted	29,769	33,027	34,163	34,205

(in thousands)

	2010			
	March 31, ⁽⁶⁾⁽⁷⁾⁽⁸⁾	June 30, ⁽⁶⁾⁽⁷⁾⁽⁸⁾	Sept. 30, ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	Dec. 31, ⁽⁶⁾⁽⁷⁾⁽⁸⁾
Revenue	\$ -	\$ -	\$ 200	\$ -
Net income (loss)	\$ (905)	\$ (1,292)	\$ 7	\$ (1,876)
Earnings (loss) per share:				
Basic and diluted	\$ (0.03)	\$ (0.04)	\$ 0.00	\$ (0.10)
Weighted shares outstanding:				
Basic and diluted	29,750	29,750	29,750	29,750

Fluctuations for 2011

⁽¹⁾ During 2011 Solitario sold 105,000 shares of Kinross common stock in the first quarter for proceeds of \$1,648,000 and a gain of \$1,568,000; sold 20,000 shares of Kinross stock in the second quarter for proceeds of \$316,000 and a gain of \$302,000 and sold 5,000 shares of Kinross in the fourth quarter for proceeds of \$71,000 and a gain of \$67,000. Solitario did not sell any Kinross shares in the second quarter of 2011, which contributed to the larger loss in the second, third and fourth quarters and the smaller loss in the first quarter.

⁽²⁾ In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru, which reduced the loss in the third quarter.

⁽³⁾ Exploration expense was \$841,000, \$921,000, \$1,724,000 and \$2,460,000, respectively, in the first, second, third and fourth quarters of 2011, which contributed to the fluctuation in the losses in the respective quarters.

Fluctuations for 2010

⁽⁴⁾ During the third quarter of 2010, Solitario recorded a gain on the deconsolidation of its PBM subsidiary of \$724,000, which contributed to the net income for the third quarter of 2010.

⁽⁵⁾ In the third quarter Solitario received a payment of \$200,000 in joint venture revenue on its Bongará project in Peru, which contributed to the net income for the third quarter of 2010.

⁽⁶⁾ Exploration expense was \$775,000, \$953,000, \$584,000 and \$1,721,000, respectively, in the first, second, third and fourth quarters of 2010, which contributed to the fluctuation in the net losses and net income in the respective quarters.

⁽⁷⁾ During 2010 Solitario sold 40,000 shares of Kinross common stock in the second quarter for proceeds of \$730,000 and a gain of \$553,000 and sold 30,000 shares of Kinross common stock in the fourth quarter for proceeds of \$571,000 and a gain of \$442,000. Solitario did not sell any Kinross shares in the first and third quarters.

⁽⁸⁾ Solitario recognized stock option compensation expense of \$9,000, \$645,000, \$851,000 and \$1,008,000, respectively, in the first, second, third and fourth quarters of 2010, which contributed to the increasing losses from the first, second and fourth quarters and mitigated the gains from deconsolidation joint venture payments and reduced exploration expenditures in the third quarter, discussed above.

15. Subsequent Event, Mt. Hamilton Feasibility Study:

On February 22, 2012, Solitario announced the completion of the Feasibility Study on its Mt. Hamilton project prepared by SRK. As a result of the completion of the Feasibility Study, Solitario has earned an 80% interest in MH-LLC, owner of the Mt. Hamilton project, and we intend to develop the Mt. Hamilton project, subject to a number of factors including obtaining necessary permits and availability of required capital, none of which is currently in place.

As a result of the completion of the Feasibility Study and our intention to develop the Mt. Hamilton project, Solitario became a development stage company (but not a company in the "Development Stage"). The Feasibility Study reported the following proven and probable reserves at Solitario's Mt. Hamilton project:

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Mineral Reserves Statement, Centennial Gold-Silver Deposit

Reserve Category	Tons	Gold Grade		Silver Grade*		Contained Gold (koz)**	Contained Silver (koz)**
	(millions)	oz/ton	g/tonne	oz/ton	g/tonne		
Proven	0.923	0.032	1.10	0.155	5.31	29,300	142.7
Probable	21.604	0.021	0.72	0.134	4.59	457,800	2,884.3
Proven + Probable	22.527	0.022	0.75	0.136	4.66	487,100	3,028.2

*Reported silver grade is cyanide soluble. **Some numbers may not add due to rounding

The MH Agreement provides that if Solitario completes a bankable feasibility study and earns an 80% interest in MH-LLC, as of that date, Solitario 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, pursuant to the LOI, Solitario will be obligated to make any uncompleted investment Tranches due to

Ely by the due dates described above. Upon completion of the Feasibility Study, the MH Agreement provides that all costs for development at Mt. Hamilton 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.

Corporate Information

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Transfer Agent

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Notice of Annual Meeting of Shareholders

The Annual Meeting will be at 10 a.m. MDT on Thursday, June 14, 2012 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

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 the United States Securities and Exchange Commission, the Canadian Securities Commissions and other regulatory authorities.

Cautionary Note to U.S. Investors concerning estimates of Resources: This annual report uses the terms "Measured, Indicated and Inferred Resources." The Company advises U.S. investors that while these terms are recognized and required by Canadian regulations, the SEC does not recognize the terms. U.S. and Canadian investors are further cautioned not to assume that all of Measured or Indicated Mineral Resources will ever be converted into Reserves. Inferred Resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. U.S. investors are cautioned not to assume that any part or all of a measured, indicated or inferred resource exists, or is economically or legally minable. 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



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