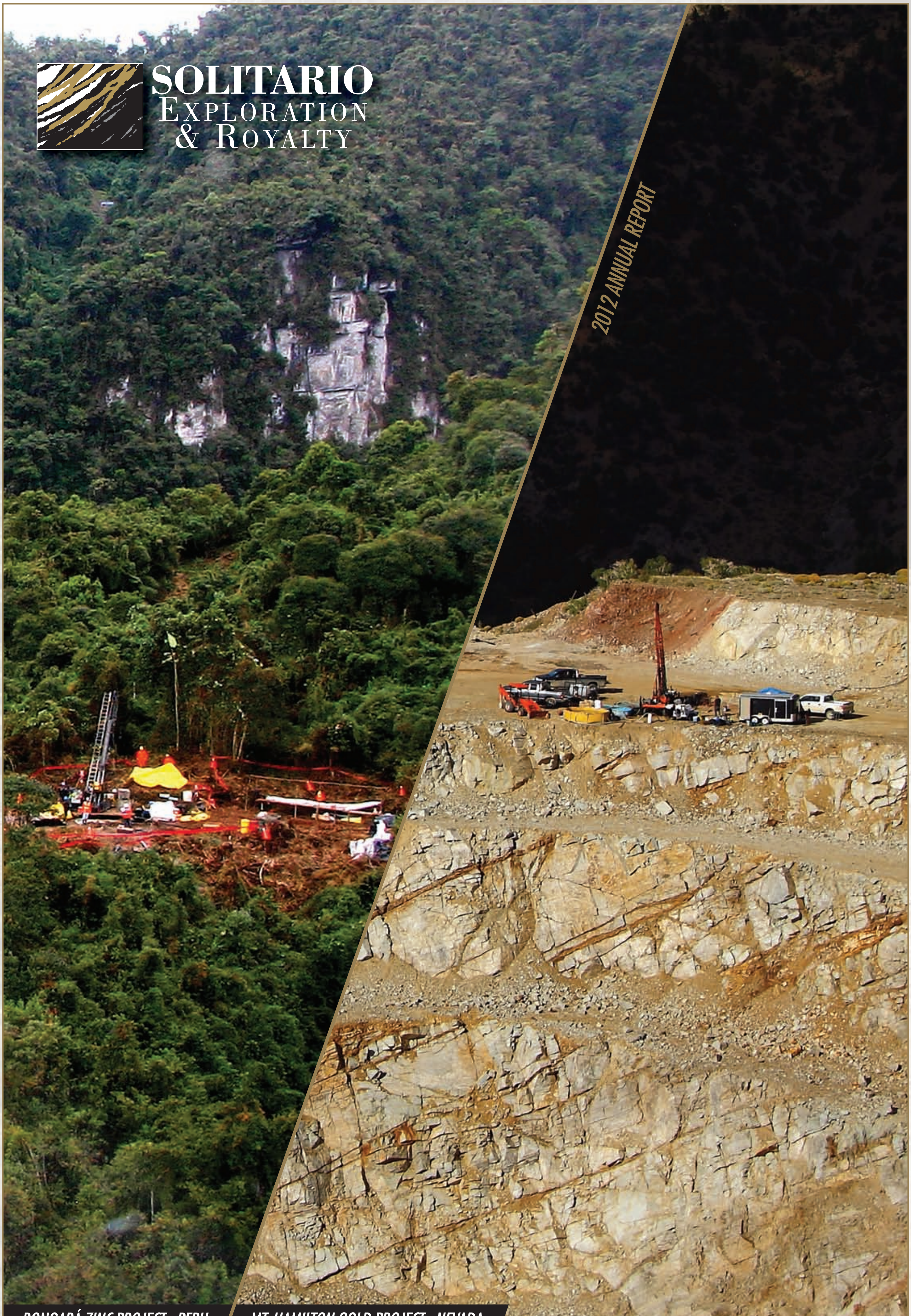
SOLITARIO EXPLORATION & ROYALTY

2012 ANNUAL REPORT



BONGARÁ ZINC PROJECT - PERU

MT. HAMILTON GOLD PROJECT - NEVADA

Projects & Properties

World Location Map

Project	Partner (% owned)	2013 Plans - Classification
Mt. Hamilton *(Gold-Silver, Nevada, US)*	**Ely Gold** *(20%)*	*Permitting, Drilling, Engineering & Metallurgical Studies - Development*
Bongará *(Zinc, Peru)*	**Votorantim** *(max 70%)*	*Development Work & Drilling - Pre-feasibility*
Pachuca Norte *(Silver-Gold, Mexico)*	**Hochschild** *(max 70%)*	*Exploration & Drilling - Early-Stage Exploration*
Pedra Branca *(PGM, Brazil)*	**Anglo Platinum** *(max 65%)*	*Geophysics - Advanced Exploration*
Peru Alliance *(Silver-Gold, Cerro Azul, Peru)*	**Newmont** *(max 75%)*	*Exploration - Early-Stage Exploration*
Yanacocha Royalty *(Gold, Peru)*	**NSR-Royalty**	*Continued Newmont Exploration, Drilling - Early-Stage Expl.*
Mercurio *(Gold, Brazil)*	**NSR-Royalty**	*Drilling - Exploration*

Letter to Shareholders - *A Year of Milestones*

2012 was a landmark year for Solitario. Our Mt. Hamilton gold project in Nevada advanced significantly towards construction. Important objectives that were met included:

- In February we completed the Mt. Hamilton Feasibility Study.
- In June and again in August we secured important financing for the project.
- In September we added new Seligman resources to the project.
- In the second half of 2012, we completed fieldwork necessary to evaluate the economic viability of the Seligman resource.
- In November we filed the Mt. Hamilton Plan of Operations with the U.S. Forest Service.

We accomplished all this on budget and only slightly behind our original schedule. We are now focused on completing all permitting activities necessary to initiate construction at Mt. Hamilton as soon as possible, which we believe could be as early as the second half of 2014.

We are also pleased to report that progress on our Bongará high-grade zinc project in Peru is accelerating through the efforts of our joint venture partner Votorantim Metais. Votorantim completed its most aggressive field program in 2012. Highlights of this program included:

- Completion of 70 underground drill holes in the San Jorge mineralized zone.
- An additional 52 surface core holes mainly in the Karen-Milagros zone.
- Further metallurgical testing on both sulfide and oxide ores.
- Advancement of the access road to the mine site.
- Continued progress on scoping and pre-feasibility level economic evaluation.

In 2013 Votorantim is transitioning from its previous exploration focus to concentrate on development work. The 2013 work program includes completing another 4.5 kilometers of access road to the mine site, 15,000 meters of underground and surface drilling to further define mineralization and to provide geotechnical and hydrologic information in critical areas where infrastructure is planned. Permitting is continuing for future tunneling at both the San Jorge and Karen-Milagros zones. All of this work is necessary to complete a pre-feasibility study on the project by the end of 2013, and to undertake a full feasibility study beginning in 2014.

Mt. Hamilton and Bongará are certainly our two core assets at this time, but there is more in the pipeline. We have a new joint venture partner, Hochschild Mining plc, on our Pachuca Norte silver-gold project in central Mexico. Hochschild is currently planning a 12-month, $1.5 million exploration program on this high potential project. At Pedra Branca, our joint venture partner, Anglo Platinum, will conduct a regional airborne geophysical survey to identify new platinum-palladium targets. If the survey is successful in identifying new targets, drilling will follow either in late 2013 or 2014.

At a time when most junior mining companies are struggling to maintain even modest programs to advance their assets, Solitario is aggressively moving towards development on its Mt. Hamilton gold-silver project. Meanwhile, Votorantim Metais, Hochschild Mining and Anglo Platinum are funding exploration and development activities on three other important Solitario projects. We look forward to updating our shareholders on all four projects during 2013.

Sincerely,

Christopher E. Herald
President & Chief Executive Officer

Mt. Hamilton Feasibility Study Highlights	2012 Feasibility Study	Optimized Scenario* (Under Review)
Production Rate (Tons/Day)	*8,500*	*10,000*
Mine Life	*8 Years*	*10 Years*
Gold / Silver Recovery	*79% Gold / 90% Sol. Silver*	*Same*
Life of Mine Stripping Ratio (T=Tons)	*2.4 T Waste : 1.0 T Ore*	*3.0 T Waste : 1.0 T Ore*
Initial Capital Cost	*$72 Million*	*$75 Million*
Sustaining Capital Cost	*$35 Million*	*$40 Million*
Operating Cash Costs (Gold-Eq.)	*$575/ounce*	*$550/ounce*
Avg. Annual Gold / Silver Production	*48,000 / 330,000 Oz*	*56,000 / 390,000 Oz*
*Avg. Annual Gold-Eq. Production***	*54,000 Oz*	*63,500 Oz*

** Seligman resource included   ** At a 52:1 silver:gold ratio*

In September of 2012, we added the Seligman deposit to our resource base for the project. We also drilled 53 holes to further define mineralization, mainly at Seligman, but also to provide samples for metallurgical testing. As a result of this work, we are evaluating the potential to increase our production rate at Mt. Hamilton from 8,500 to 10,000 tons per day.

Significant strides were made in 2012 on our Mt. Hamilton gold-silver project located in Nevada. In February we released the results of a comprehensive Feasibility Study conducted by independent and highly regarded SRK Consulting. With the completion of the Feasibility Study, Solitario earned an 80% interest in the project. The Study demonstrated that Mt. Hamilton represents a platform capable of delivering solid value to Solitario for years into the future.

Feasibility Study Projects Solid Economics

Key economic results of the Feasibility Study include:

- Average Life-of-Mine operating cash cost of $575 per gold equivalent ounce produced.
- Average annual Life-of-Mine gold equivalent production of 54,000 ounces.
- Initial capital of approximately $72 million; sustaining capital $35 million.
- NPV = $198.5 million (5% discount rate; pre-tax at $1,500 gold and $29.00 silver).
- Excellent potential to add new resources adjacent to the currently established reserves.

Importantly, the Feasibility Study only considered mining and processing ores delivered from the Centennial deposit. However, in September 2012, SRK completed an NI 43-101 compliant mineral resource estimate for the Seligman mineralization that lies only 1,500 feet north of the Centennial deposit. As a result, a 39% increase in Indicated Resources contributed to the overall global resources for the Mt. Hamilton project. Table 1 shows the Centennial reserves and resources as well as the Seligman resources.

2012 Drilling Program & 2013 Metallurgical Testing

In total, 42 reverse circulation drill holes and 11 core holes were completed in the second half of 2012, totaling 20,584 feet of drilling. The 53-hole drilling campaign was designed to upgrade the newly defined Seligman inferred resources to measured and indicated categories. Additionally, sample material was obtained to carry out metallurgical and geochemical testing and to measure geotechnical characteristics for mine planning at Seligman. Several holes were also drilled at the Centennial gold deposit to convert inferred resources to measured and indicated categories as well as to test potential extensions of mineralization to the south. Table 1 provides highlights of our drilling program.

We are now incorporating the information gathered in the 2012 drilling program to update resource estimates for both the Centennial and Seligman deposit. Metallurgical testing at an independent laboratory is underway with results expected in the third quarter of 2013. We believe there is a strong potential to increase the production rate by 15-20% and extend the mine life from approximately eight years to ten years, without the addition of significant new capital costs (see chart on opposite page).

Table 1: 2012 Drilling Highlights - Mt. Hamilton

Drill Hole [1] (Deposit)	Starting at (feet)	Interval [2] (feet/m)	Gold (gpt)	Silver (gpt)	Gold Eq. [3] (gpt)
MH-12-04 (S)	130	70 / 21.3	0.50	11.73	0.71
MH-12-07 (C)	340	120 / 36.6	1.46	11.44	1.67
MH-12-10 (C)	425	125 / 38.1	1.82	18.54	2.16
MH-12-12 (S) [4]	6	108.3 / 33.0	0.75	2.08	0.79
MH-12-15 (S)	120	80.0 / 24.4	0.80	20.66	1.18
MH-12-18 (C)	575	60 / 18.3	1.00	24.25	1.44
MH-12-22 (S)	0	40 / 12.2	0.63	1.85	0.66
	65	30 / 9.1	1.04	0.73	1.05
	110	20 / 6.1	0.66	1.45	0.69
MH-12-26 (S)	0	145 / 44.2	0.67	1.01	0.69
MH-12-35 (S) [4]	259	113.2 / 34.5	0.74	3.20	0.80
MH-12-48 (S)	305	75 / 22.9	0.63	19.56	0.99
MH-12-49 (S)	320	65 / 19.8	1.12	7.21	1.25
MH-12-51 (S)	265	90 / 27.4	0.95	10.77	1.15

[1] *(C)= Centennial; (S)=Seligman.*
[2] *True width is estimated to be approximately 80% of true width for most intervals.*
[3] *Gold Equivalent = gold grade + (silver grade ÷ 55).*
[4] *Core hole; all other reported holes in this chart are reverse circulation drill holes.*

Permitting Underway

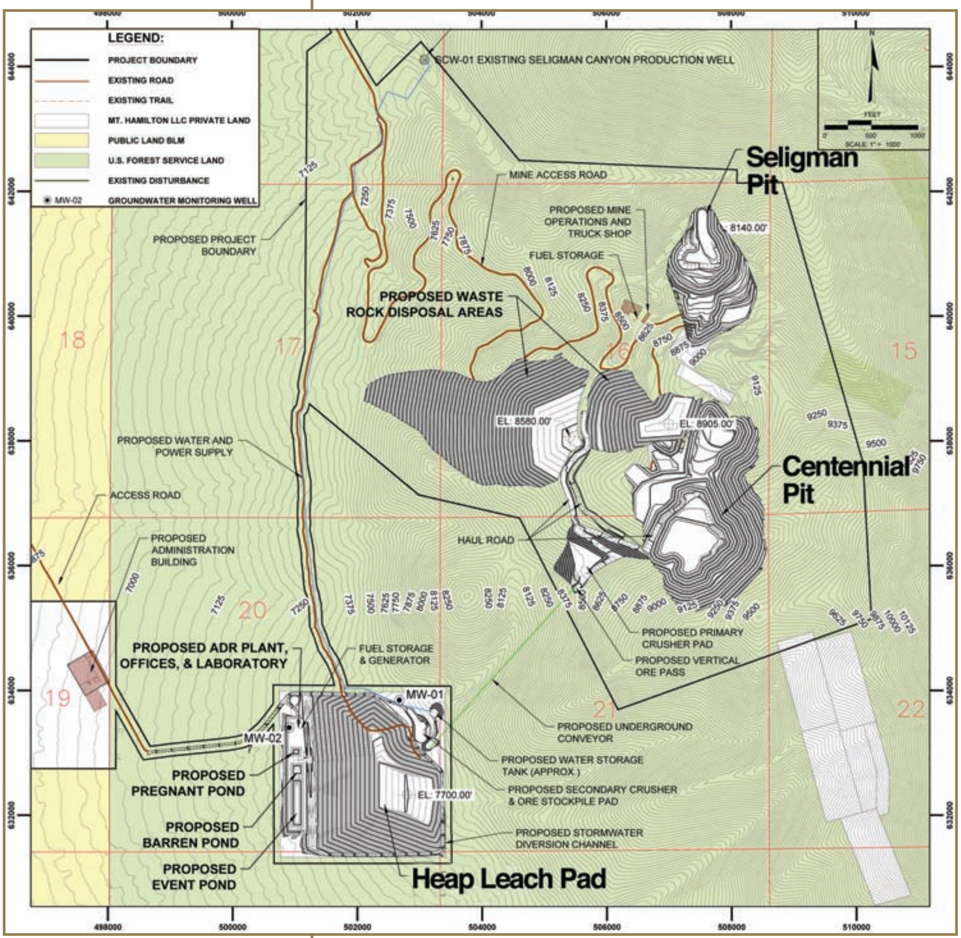
In November of 2012, we filed a Plan of Operations with the United States Forest

Service to mine and process both the Centennial and Seligman deposits. In March 2013, the Plan of Operations was deemed complete and the process to obtain both federal and state permits is ongoing. It is always difficult to estimate the time frame required to obtain all permits needed to initiate project construction, but we are hopeful that such approvals will be forthcoming by mid-2014.

We believe our mine plan is well conceived from an environmental standpoint to minimize environmental impacts on federal lands. Significant past disturbance exists on much of the project area where mining occurred in the mid-1990's. Our processing facilities are located on private property that we own and all of our planned mining is situated above the groundwater table. Because we are using a vertical ore pass and an underground conveyor system to deliver ore from the pit to the processing facilities, we reduce the amount of dust and carbon emissions associated with hauling the ore from the pit to the heap leach pad. These innovative design elements are not only good for the environment, but also are cost effective and should help expedite our permitting timeline.

Wheeler Ridge Exploration Program

The Wheeler Ridge area located immediately south of the Centennial ore deposit represents a significant new gold exploration target that is essentially untested by drilling. In 2011 we found a soil geochemistry map apparently lost in project files dating back to the mid-1990's. Approximately 2,000 soil samples were collected over much of the existing land package that Solitario controls. The geochemical survey indicated a large zone of soils containing strongly anomalous gold and trace element geochemistry. The rock formations and associated rock alteration underlying the soil anomaly are similar to the underlying rock formations and alteration observed at the Centennial and Seligman deposits.



Based on the coincident favorable soil geochemistry and geology observed at Wheeler Ridge, Solitario initiated an Environmental Assessment study to allow for drill testing the Wheeler Ridge zone. The permitting process to allow for drill testing the Wheeler Ridge zone is nearing completion. We hope to have approval to drill at Wheeler Ridge by mid-year. Upon approval, Solitario is planning an initial 15-hole program to drill test this large anomaly.

Progress was made on a variety of fronts on our Bongará high-grade zinc project in Peru. Detailed drilling was conducted on both the San Jorge and Karen-Milagros zones. Among the more important activities during 2012 were metallurgical testing, geotechnical testing related to underground mining, resource modeling, infrastructure scoping studies and permitting.

Table 2: 2012 Drilling Highlights - San Jorge Zone
(all underground core holes)

Drill Hole Number	Intercept [1] (meters)	Zinc (%)	Lead (%)	Silver (gpt)
V-245	5.8	21.52	15.09	53.48
V-246	9.4	7.33	0.83	7.35
	3.2	20.32	3.58	28.11
V-255	15.5	12.42	4.79	41.94
V-257	31.4	9.75	1.11	31.40
V-258	5.7	12.54	1.70	25.28
	22.9	11.76	0.84	14.07
V-270	20.8	10.14	0.31	10.32
	14.6	11.33	0.02	5.90
V-278	22.1	8.72	2.28	17.73
V-292	22.2	12.45	0.97	17.23
V-297	56.6	22.69	1.15	31.23
V-298	7.4	40.05	3.68	58.99
and	6.5	14.75	2.50	20.90
V-299	7.7	19.03	2.80	30.26
V-300	14.5	26.57	2.15	29.46
and	8.7	12.87	1.41	11.14
V-301	15.4	22.81	0.40	35.00
V-302	16.9	19.16	0.98	31.12
V-354	11.2	11.62	0.09	12.73
and	11.8	11.87	0.48	10.10

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

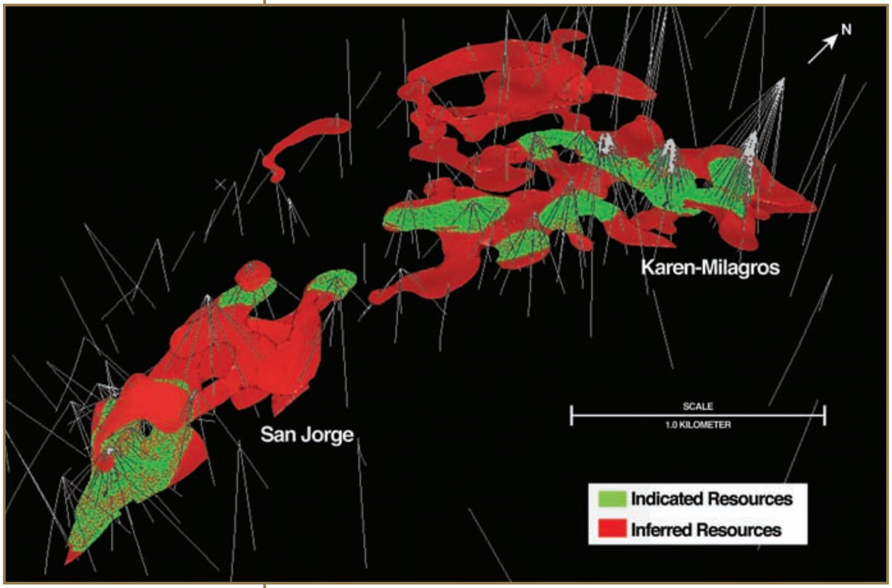
Another Year of Exceptional Drilling Results

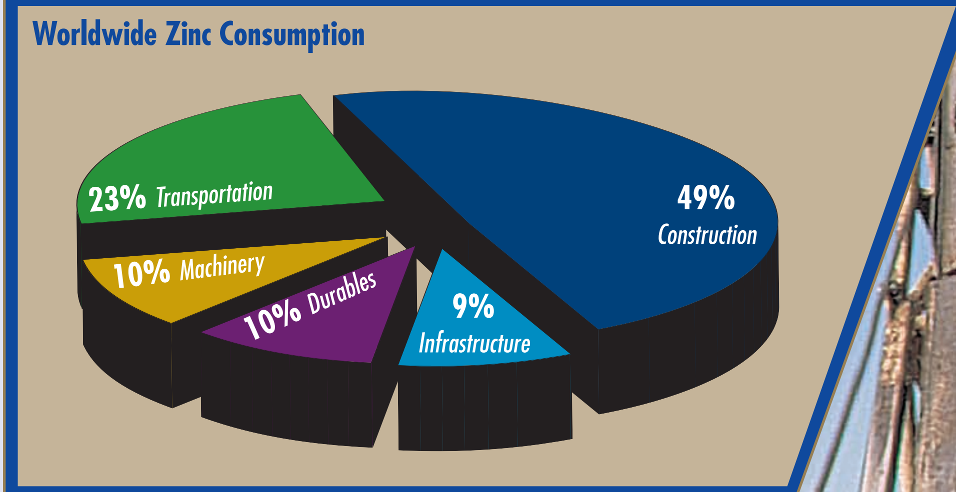
Underground drilling on the San Jorge zone and surface drilling on the Karen-Milagros zone yielded exceptional assay results. Drilling at San Jorge began in the fourth quarter of 2011 and was completed by the third quarter of 2012. During this period 70 core holes totaling 12,342 meters were completed from eight different underground drill stations. Highlights of the underground drilling program are presented in Table 2 above.

The San Jorge mineralized area, and the Florida Canyon deposit in general, remain open to expansion in all directions. Of particular importance is the discovery that zinc grades at San Jorge increase to the south. In fact, the southernmost area tested by the underground drilling program contains some of the highest zinc grades ever encountered on the property.

Based on these results, Votorantim has proposed extending the San Jorge exploration tunnel a further 300 meters to the south where high-grade mineralization remains wide open.

The Karen-Milagros zone was the focal point of surface drilling in 2012. Fifty core holes were completed in the Karen-Milagros zone in 2012 and three surface holes in the San Jorge zone. Remarkably, 46 of the 53 drill holes intersected mineralization grading in excess of 2.0% zinc + lead over at least two meters, or equivalent. The Karen-Milagros zone is open to expansion to the northeast and also to the south towards the San Jorge zone. The spatial relationship between the San Jorge and Karen Milagros zones is shown in the illustration below. Highlights of the Karen-Milagros surface drilling program are presented in Table 3 on page seven.





Although worldwide zinc production is currently in surplus, resulting in a moderately subdued zinc price in the range of $0.80 to $1.00 per pound, many base metal commodity experts are calling for a significant change in the supply profile over the next couple of years. Specifically, nine medium to large zinc mines are slated for closure in 2013-2014, resulting in nearly a 20% reduction in zinc supply, with demand forecast to increase. This situation is setting the stage for a potentially explosive market increase for the price of zinc in 2014 and beyond.

Development Activities

Engineering and other development activities were in full swing in 2012. Another substantial metallurgical study was completed by our partner and demonstrated excellent metallurgical recovery averaging 93% for zinc. Additional permitting was undertaken to allow completion of the access road to the Florida Canyon area. To date, approximately 50% of the 40-kilometer long access road has been completed.

2013 Plans - Transition from Exploration to Development

Votorantim plans on constructing approximately 4.5 additional kilometers of access road, with the balance of road construction slated for completion in 2014, representing a project milestone that will facilitate future project development. They also hope to complete permitting for a further 300 meters of tunnel at the southern end of the San Jorge zone, where exceptionally high-grade zinc was encountered, and for 700 meters of new tunnel in the Karen-Milagros zone. These tunnels will be utilized to conduct detailed underground drilling to establish proven and probable reserves.

Another 15,000 meters of underground and surface drilling will be completed to further define mineralization and to provide geotechnical and hydrologic information in critical areas where infrastructure is planned, particularly at the proposed tailings impoundment site. The geotechnical and hydrologic drilling will be incorporated into advanced engineering studies for both pre-feasibility and feasibility purposes. Resource modeling is also well underway to incorporate 2012 drilling into our new resource estimates. A variety of engineering related studies will be undertaken as part of Votorantim's effort to complete a pre-feasibility study by the end of 2013 and to initiate a full feasibility study in early 2014. Permitting and community engagement initiatives will continue to be one of the highest priorities for the project.

Table 3: 2012 Drilling Highlights - Karen-Milagros Zone
(all underground core holes)

Drill Hole Number	Intercept [1] (meters)	Zinc (%)	Lead (%)	Silver (gpt)
V-287	7.9	24.56	2.69	30.51
V-288	5.4	17.71	6.04	49.12
V-325	9.0	11.06	1.18	12.71
V-330	12.6	8.99	1.91	12.28
V-333	11.0	8.41	0.86	6.05
and	7.7	12.57	9.33	7.70
V-334	4.8	24.67	5.45	42.35
V-350	8.6	7.10	4.13	28.35
V-351	13.0	12.94	4.31	32.37
V-368	5.6	11.61	3.84	23.84

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

Our Agreement with Votorantim Metais

We must stress that 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. Considering the difficult resource financing environment that we have experienced for the past 18 months, 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 before completing a feasibility study and a production decision. After a production decision is made, Votorantim is required to finance Solitario's 30% participating interest for construction. Solitario will repay the loan facility through 50% of its net cash flow distributions.

Pachuca Norte Silver-Gold Project, Mexico

Solitario's Pachuca Norte project (formerly called Pachuca Real) is encompassed in the famed Pachuca silver-gold mining district where approximately 1.4 billion ounces of silver and over 7.0 million ounces of gold were produced, making it one of the largest historic silver-gold districts in the world.

In March 2013 we signed a binding Letter Agreement with Hochschild Mining plc on this high-potential silver-gold property in central Mexico. Hochschild Mining is a leading Latin American precious metals company with a primary focus on the exploration, mining, processing and sale of silver and gold. Hochschild has almost fifty years' experience in mining precious metal epithermal vein deposits and currently operates four underground epithermal vein mines, three located in southern Peru and one in southern Argentina, with a growing presence in Mexico. We believe Hochschild is an ideal fit to advance our Pachuca Norte project.

The joint venture emphasizes progressively accelerating work commitments from a firm initial work commitment of $1.5 million over the first 12 months. General terms are as follows:

- First 18 months – $2.0 million in expenditures
- Second 18 months – $3.0 million in expenditures
- Final 24 months – $5.0 million in expenditures

Hochschild will earn a 51% interest in the project upon completion of the aforementioned 60-month, $10.0 million work commitment. Hochschild will have the right to earn an additional 19% interest (total 70%) by completing a positive feasibility study on the project.

Upon completion of the feasibility study, both companies will fund their respective participating interests. Hochschild will be the project manager.

We have always been excited about the potential of our Pachuca Norte project, and with Hochschild as our new partner, we believe our efforts will be rewarded as the project advances with an aggressive new drilling program. Past exploration by our former partners has laid substantial groundwork for Hochschild to move rapidly forward, offsetting previously drilled holes that are strongly mineralized. The 15 best drill hole intercepts from 10 separate prospect areas are presented in Table 4 below.

Table 4: Drilling Highlights - Pachuca Norte

Vein	Drill Hole [1]	From	To	Width [2]	Gold (gpt)	Silver (gpt)	Ag Eq. [3]
San Juan Gallo	Pac-08 (N)	266.40	267.30	0.90	2.03	754.00	856
El Escribano	Pac-09 (N)	245.00	245.50	0.50	0.75	468.00	506
Investagadora	Pac-11 (N)	314.40	315.30	0.85	1.28	173.00	237
San Juan Gallo	Pac-13 (N)	156.90	158.90	1.95	0.63	144.70	176
El Escribano	Pac-18 (N)	274.70	276.10	1.40	1.00	458.40	508
Investigadora	Pan-11-12 (B)	217.75	218.60	0.85	1.95	271.47	369
Investigadora	Pan-11-18 (B)	236.25	237.00	0.75	0.97	317.00	365
San Marcial	Pan-11-19 (B)	225.15	225.60	0.45	0.75	657.00	695
La Perla	Pan-11-22 (B)	344.90	345.90	1.00	6.30	53.48	368
Santa Rosa	Pan-11-25 (B)	252.60	255.00	2.40	1.43	158.27	230
Santa Rosa	Pan-11-27 (B)	144.90	145.50	0.60	5.60	837.00	1,117
Sumbimblia	Pan-11-28 (B)	46.30	47.35	1.05	16.40	238.86	1,058
Escribano Norte	Pan-11-29 (B)	444.45	445.05	0.60	2.60	834.00	964
Escondida	Pan-11-31 (B)	250.30	251.15	0.85	8.40	283.00	703
Escribano Sur	Pan-11-34 (B)	238.85	240.40	1.55	0.90	165.00	210

[1] (N) = Newmont drilled core hole; (B) = Buenaventura drilled core hole.
[2] True widths of veins have not been estimated and could be substantially less than reported.
[3] Ag Eq. = Silver Equivalent at 1.0 g/gold = 50 g/silver.

Pedra Branca PGM Project, Brazil

The platinum-palladium market has once again ignited with potential global shortages of both these strategic metals forecast by many commodity analysts. This has raised the profile on our Pedra Branca project.

In 2012 Anglo Platinum, our 51% joint venture partner and largest platinum producer in the world, assumed management of the project from Solitario and is now funding and managing all exploration activities on the project. Current plans call for a regional airborne geophysical survey designed to identify magnetic ultramafic rock formations. Ultramafic rocks are iron-magnesium rich with a very high magnetic geophysical signature, and commonly host platinum-palladium mineralization in the Pedra Branca area. If the geophysical program is successful in identifying new magnetic bodies, drilling is anticipated in late 2013 or 2014.

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 a development stage company (prior to February 22, 2012 we were an exploration stage company) with a focus on developing the Mt. Hamilton gold project, 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 2012 and 2011and we recorded $100,000 and $42,000, respectively, in delay rental property payments during 2012 and 2011 related on our Mercurio project. During June 2012 we sold a royalty interest in our Mt. Hamilton project to Sandstorm Gold Ltd. ("Sandstorm") for $10,000,000 of which $6,000,000 was paid in June 2012 and $4,000,000 was paid in January 2013. 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 the sale of properties, if any, would also occur on an infrequent basis. At December 31, 2012, in addition to our Mt. Hamilton project, we had nine exploration properties in Peru, Mexico and Brazil, and one royalty property in each of Peru and Brazil. We are conducting exploration activities in all of those countries either on our own or through joint ventures operated by our partners.

In addition to our work at Mt. Hamilton, we have expertise in identifying mineral properties with promising mineral potential, acquiring these exploration 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 exploration 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, received each year for 2012 and 2011 on our Bongará property and delay rental payments of $100,000 and $50,000, respectively, on our Mercurio project in Brazil; (iii) the Sandstorm royalty sale during 2012; (iv) the sale of our investment in Kinross common stock; (v) borrowing against our RMB Facility Agreement; (vi) short-term margin borrowing secured by our investment in Kinross common stock; and (vii) 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 further 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:

Mineral Reserves Statement, Centennial Gold-Silver Deposit, White Pine County, Nevada - SRK Consulting (Inc.)

	Tons	Gold Grade		Silver Grade*		Contained	Contained
Reserve Category	(millions)	oz/ton	g/tonne	oz/ton	g/tonne	Gold (koz)**	Silver (koz)**
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.*

RMB Facility Agreement

As explained in more detail in Note 4, "Long-term Debt" to our Consolidated Financial Statements, we entered into a Facility Agreement (the "Facility Agreement") with RMB Australia Holdings Limited, an Australian corporation ("RMBAH"), and RMB Resources Inc., a Delaware corporation ("RMBR") whereby we may borrow up to $5,000,000 from RMBAH (with any amounts outstanding collectively being the "RMB Loan"). We borrowed $1,500,000 on August 21, 2012. We paid an arrangement fee of $250,000 upon initial funding. The RMB Loan matures on the earlier to occur of (i) 36 months from the date of initial funding or (ii) the date on which financing is made available to MH-LLC for purposes of placing the Mt. Hamilton project into commercial production. The RMB Loan amounts bear interest at the 90-day LIBOR rate plus 5%, payable in arrears on the last day of each quarterly interest period. The RMB Loan may be repaid at any time without penalty. Any amounts repaid may not be redrawn under the Facility Agreement. The RMB Loan is secured by a lien on our 80% interest in MH-LLC as well as a general security interest in our remaining assets.

RMB Warrants

Pursuant to the Facility Agreement, we issued 1,624,748 warrants (the "RMB Warrants") to RMBAH as partial consideration for financing services provided in connection with the Facility Agreement. Each RMB Warrant entitles the holder to purchase one share of our common stock (the "Warrant Shares") pursuant to the terms and conditions of the RMB Warrants. The RMB Warrants expire 36 months from their date of issuance and have an exercise price of $1.5387 per Warrant Share, subject to customary anti-dilution adjustments.

Sandstorm Royalty Sale

On June 11, 2012, MH-LLC completed the sale of a 2.4% net smelter returns royalty ("NSR") on the Mt. Hamilton project to Sandstorm for US$10,000,000. MH-LLC received an upfront payment of US$6,000,000 upon signing the agreement and received US$4,000,000 on January 15, 2013, which we have recorded as a current asset as of December 31, 2012. As part of the agreement, MH-LLC will have the option, for a period of 30 months from June 11, 2012 to repurchase up to 100% of the NSR for US$12,000,000, provided that MH-LLC enters into a gold stream agreement with Sandstorm that has an upfront deposit of greater than US$30,000,000. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mt. Hamilton project. Pursuant to the agreement, we are jointly and severally liable for all obligations of MH-LLC to Sandstorm. See Note 2, "Mineral Properties" to our Consolidated Financial Statements below for further discussion of the Sandstorm royalty sale.

Investment in Kinross

We have a significant investment in Kinross at December 31, 2012, which consists of 670,000 shares of Kinross common stock. During 2012 and 2011, we sold 180,000 and 130,000 shares, respectively, of Kinross common stock for proceeds of $1,591,000 and $2,035,000. As of February 28, 2013, we own 670,000 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. As of December 31, 2012 we have sold one covered call option covering 50,000 shares of Kinross stock whereby the holder could purchase the shares at $12.00 per share, which expired unexercised in February 2013. The Kinross call option is discussed below under Note 6, "Derivative Instruments" to our Consolidated Financial Statements. As of December 31, 2012, we have borrowed $1,500,000 in a margin loan against its holdings of Kinross shares. The short-term margin loan is discussed below under Note 3, "Short-term Debt" to our Consolidated Financial Statements.

Mineral Property
Solitario began capitalizing its development costs incurred at its Mt. Hamilton project subsequent to the completion of the Feasibility Study. During 2012, Solitario capitalized $3,129,000 of development costs, $325,000 of payments on mineral properties, and $300,000 of advance royalty payments to an underlying leaseholder as long-term other assets at the Mt. Hamilton project. See Note 2, "Mineral Properties" to our Consolidated Financial Statements below for further discussion of the Mt. Hamilton project.

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. 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, 2012 to the year ended December 31, 2011
We had a net loss of $3,297,000 or $0.10 per basic and diluted share for the year ended December 31, 2012 compared to a net loss of $3,377,000 or $0.10 per basic and diluted share for the year ended December 31, 2011. As explained in more detail below, the primary reasons for the decrease in net loss during 2012 compared to the net loss during 2011 were (i) a decrease in exploration costs to $301,000 on our Mt. Hamilton project compared to $3,700,000 during 2011; (ii) a decrease in other exploration expense to $1,685,000 during 2012 compared to $2,246,000 during 2011 and (iii) a decrease in our non-stock option general and administrative expense to $1,948,000 during 2012 compared to $2,160,000 during 2011. Partially offsetting these decreases in costs were (i) a loss on warrant liability of $488,000 during 2012; (ii) an increase in our interest expense, net of $318,000 during 2012 compared to interest expense, net of $163,000 during 2011; (iii) a decrease in the credit for net loss attributable to noncontrolling interest to $301,000 during 2012 compared to a credit of $3,591,000 during 2011 and (iv) a decrease in the gain on sale of marketable equity securities to $1,528,000 during 2012 compared to $1,937,000 during 2011. Each of these items is discussed in greater detail below.

Our primary activities during 2012 and 2011 have been the (i) exploration and development activities to advance the Mt. Hamilton property toward future production, (ii) exploration on our mineral properties to delineate deposits to enable us to sell or joint venture the mineral properties and (iii) reconnaissance exploration to locate and acquire new mineral properties. During 2012 we increased our development efforts related to our Mt. Hamilton project and spent $3,730,000 in direct development costs, of which we capitalized $3,129,000 of mineral property development costs, discussed above and capitalized a $300,000 advance royalty payment. During 2011 we incurred $3,700,000 including $3,400,000 in direct exploration expenditures and a $300,000 advance royalty payment, all of which were expensed as incurred related to Mt. Hamilton. We recorded a credit of $301,000 and $3,591,000, respectively, during 2012 and 2011 for DHI-US's noncontrolling interest in the expenditures of MH-LLC, related to our expenditures prior to the SRK feasibility study, which were included in our statement of operations. We decreased our exploration expenditures at our South American and Mexico properties to $1,686,000 and $2,246,000, respectively, in 2012 and 2011 as a result of a shift in our focus to the Mt. Hamilton project. During 2012 we completed a drilling campaign at our Jaripo project in Mexico and during 2011 we completed a drilling program at our Cerro Azul project in Peru. In addition we capitalized $3,000 for initial acquisition costs at our Canta Colorado property in Peru compared to capitalization of $10,000 related to our Jaripo and Aconchi properties in Mexico.

Our 2013 exploration and development expenditure budget is approximately $3,439,000, which includes approximately $2,043,000 for development costs related to Mt. Hamilton. In addition we anticipate we will spend approximately $1,625,000 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 expenditures from 2012 to 2013 relates to the completion of our Feasibility Study and related activities, including drilling and engineering design work, which occurred during 2012, and which will not be a significant part of our planned activities during 2013. Our planned activities during 2013 relate to our intention to move the Mt. Hamilton project substantially through development activities including permitting, seeking financing for the capital required to build the project and 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 construction, none of which is currently in place. 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	2012	2011
Mt. Hamilton	$ 301	$ 3,700
Jaripo	247	26
Cerro Azul	99	715
Pachuca	32	2
Espanola	22	24
La Promesa	19	17
Canta Colorado	17	-
Mercurio	9	15
Atico	4	-
Norcan	2	3
Triunfo	1	1
Pedra Branca, net	(30)	(50)
Cajatambo	-	7
Chonta	-	4
Newmont Alliance	-	4
Excelsior	-	3
Bongará	-	3
Reconnaissance	1,263	1,472
Total exploration expense	$ 1,986	$ 5,946

We recorded a credit (reduction of expense) of $301,000 and $3,591,000, respectively, during 2012 and 2011 for DHI-US's noncontrolling interest in the losses of MH-LLC. The significant decrease during 2012 related to the capitalization of development cost of $3,129,000 and our earning an 80% interest in MH-LLC as a result of the completion of the Feasibility Study, discussed above. During 2012 and 2011 we recorded management fees of $30,000 and $50,000, respectively, to PBM as a credit to exploration expense.

We believe a discussion of our general and administrative costs should be viewed without the non-cash stock option compensation expense which is discussed below. Excluding these costs, general and administrative costs were $1,948,000 during 2012 compared to $2,160,000 during 2011. We incurred salary and benefits expense of $1,008,000 during 2012 compared to $1,207,000 during 2011, which decreased as a result of the capitalization to Mt. Hamilton property of certain salary costs during 2012. We also reduced legal and accounting costs to $224,000 during 2012 compared to $305,000 during 2011 due to the legal and accounting work during 2011 associated with setting up the administration of MH-LLC and land matters at Mt. Hamilton and the Royalty Buy-down, while during 2012 legal costs associated with the RMB Loan of $328,000 were capitalized. These decreases were mitigated by an increase in our shareholder relations costs to $397,000 during 2012 compared to $318,000 during 2011. We anticipate general and administrative costs for 2013 will be comparable to the costs incurred during 2012 as we expect less activity with regard to Mt. Hamilton and our South American operations will be offset by an increase in shareholder relations costs during 2013. We have forecast 2013 general and administrative costs to be approximately $1,941,000, excluding non-cash stock option compensation expense.

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, 2012, we recorded $732,000 of non-cash stock option expense for the amortization of grant date fair value with a credit to additional paid-in-capital compared to $697,000 of non-cash stock option compensation expense during 2011. 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 2012 we recorded a loss on derivative instruments of $30,000 compared to a loss of $137,000 during 2011. The decrease in the loss was primarily related to a reduction in unrealized loss on our investment in Ely warrants of $74,000 during 2012 compared to $180,000 during 2011. The Ely warrants expired unexercised which resulted in the loss during 2012 and prior to that, during 2011, the change in value in the Ely warrants was determined using a Black-Scholes option pricing model and was 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. These losses were partially mitigated by gains on Kinross calls we sold during 2012 and 2011 of $48,000 and $42,000, respectively. 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 have one Kinross call option outstanding at December 31, 2012; however it expired unexercised in February 2013. We do not anticipate selling a material number of covered Kinross call options during 2013. 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.

We had $61,000 of depreciation and amortization expense during 2012 compared to $46,000 in 2011 primarily as a result of an increase in furniture and fixtures at Mt. Hamilton. We amortize these assets over a three-year period. We anticipate our 2013 depreciation and amortization costs will be similar to our 2012 amount.

During 2012 we recorded interest expense, net of interest and dividend income, of $318,000 compared to $163,000 during the same period in 2011. The increase in interest expense is primarily related to an increase related to the RMB Loan where we recorded $70,000 of interest expense related to the amortization of deferred offering costs on the RMB Loan and we recorded $77,000 of interest expense related to the discount recorded on the warrants issued in connection with the RMB Loan. Both the deferred offering costs and the warrant discount are being amortized to interest expense on a straight-line basis over the expected life of the RMB Loan. In addition we paid $30,000 in interest on our outstanding RMB Loan balance during 2012. See Note 4, "Long-term Debt" to our Consolidated Financial Statements. These increases in interest expense were partially offset by reductions in our margin loan interest to $58,000 during 2012 compared to $71,000 during 2011. We recorded interest expense related to our Augusta long-term debt of $184,000 during 2012 compared to $217,000 during 2011. During 2012 we recorded dividend income of $119,000 compared to $98,000 during 2011, primarily related to dividends on our Kinross stock. Remaining interest income recorded during 2012 and 2011 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. We also anticipate dividend income will decrease during 2013 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 2012 we sold 180,000 shares of Kinross stock for proceeds of $1,591,000 and recorded a gain on sale of Kinross of $1,464,000 compared to 2011 when we sold 130,000 shares of Kinross stock for proceeds of $2,035,000 and recorded a gain on sale of $1,937,000. In addition during 2012 we sold 570,000 shares of TNR for proceeds of $73,000 and recorded a gain on sale of $64,000. We anticipate we will continue to liquidate our holdings of Kinross stock to fund our exploration activities and our 2013 budget anticipates the sale of 320,000 shares of Kinross stock for assumed proceeds of $3,200,000 during 2013. 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 2012 we recorded an income tax benefit of $648,000 compared to an income tax benefit of $635,000 during 2011. The small change in our tax benefit during 2012 is primarily related to the following factors, discussed above, which reduced our expected 2012 tax benefit compared to 2011: (a) a reduction in the gain on sale of marketable equity securities, (b) the decrease in our taxable non-stock option general and administrative expenses and (c) the decrease in our United States exploration costs; and these factors, discussed above, which increased our expected 2012 tax benefit compared to 2011: (a) our US taxable-deductible capitalized costs at Mt. Hamilton, (b) the warrant liability expense and the deferred offering cost expense incurred in connection with the RMB Loan, and (c) the increased interest expense incurred during 2012 compared with 2011. 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, 2012. We provide a valuation allowance for our foreign net operating losses, which are primarily related to our exploration activities in Peru, Mexico 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 2012 we recorded $31,000 of mineral property impairments related to our Triunfo and Espanola properties in Bolivia and our Excelsior project in Peru compared to a mineral property impairment of $10,000 related to our Paria Cruz project in Peru.

(d). Liquidity and Capital Resources

Short-term Debt

As of December 31, 2012, we have borrowed $1,500,000 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. As of February 28, 2013, we have paid back $500,000, net on the UBS loan and have an outstanding balance of $1,000,000. 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, 2012. 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, 2012 and February 28, 2013, the equity balance in our account at UBS was 67% and 71%, respectively. Solitario recorded interest expense related to the UBS credit line of $36,000 and $50,000, respectively, for the year ended December 31, 2012 and 2011.

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, 2012, we have repaid all short-term margin loans previously borrowed from RBC. We estimate we have access to additional borrowing of approximately $1.0 million on our RBC margin loan borrowing capacity as of February 28, 2013, 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. We recorded $22,000 and $21,000, respectively, of interest expense related to the RBC short-term margin loans for the year ended December 31, 2012 and 2011.

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 2013, 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 2013 will not exceed our anticipated United States tax deductible expenses, and accordingly, we do not anticipate having any currently payable United States income taxes for 2013. We anticipate proceeds from the sale of shares of Kinross common stock and proceeds from borrowing from the RMB Loan and any loans against our investment in Kinross stock will provide adequate funds for our operations through the end of 2013. 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 $3,287,000, including accrued interest, during the year ended December 31, 2012. Our average short-term borrowing during the year ended December 31, 2012 was $2,665,000. Subsequent to December 31, 2012, we repaid $500,000 of short-term borrowings and as of February 28, 2013, we have a total of $1,000,000 outstanding under short-term margin loans.

Long-term Debt

RMB Facility Agreement

On August 10, 2012, we entered into a Facility Agreement with RMBAH and RMBR. Under the Facility Agreement, we may borrow up to $5,000,000 from RMBAH (with any amounts outstanding collectively being the "RMB Loan") at any time during the 24-month period commencing on August 21, 2012, the date of initial funding (the "Availability Period"), after which time any undrawn portion of the $5,000,000 commitment will be cancelled and will no longer be available for drawdown. We borrowed $1,500,000 on August 21, 2012 from which we received net proceeds of $912,000 after deducting deferred offering costs of $588,000, which included an arrangement fee of $250,000, legal costs of $328,000 and other costs of $10,000. The deferred offering costs are recorded in other long-term assets and are being amortized on a straight-line basis to interest expense over 36 months, the term of the Facility Agreement. We recorded deferred offering costs of $518,000 as of December 31, 2012 in other assets. In February 2013, we borrowed an additional $1,000,000 and at February 28, 2013, the balance of the RMB Loan is $2,500,000.

The RMB Loan matures on the earlier to occur of (i) 36 months from the date of initial funding or (ii) the date on which financing is made available to MH-LLC for purposes of placing the Mt. Hamilton project into commercial production. The RMB Loan amounts bear interest at the 90-day LIBOR rate plus 5%, payable in arrears on the last day of each quarterly interest period. All proceeds from the RMB Loan are deposited in a proceeds account (the "Proceeds Account") and are recorded as restricted cash until disbursed in accordance with the Facility Agreement. Pursuant to the Facility Agreement, funds may only be disbursed from the Proceeds Account for approved expenditures, including (i) exploration and development activities at the Mt. Hamilton project, ongoing earn-in payments at MH-LLC, general corporate purposes as set forth in a project and corporate budget approved by RMBAH and (ii) any other purpose approved by RMBAH. As of December 31, 2012, there was no cash balance in the Proceeds Account. The RMB Loan may be repaid at any time without penalty. Any amounts repaid may not be redrawn under the Facility Agreement. The RMB Loan is secured by a lien on our 80% interest in MH-LLC as well as a general security interest in our remaining assets.

As of December 31, 2012, the outstanding balance of the RMB Loan was $1,500,000. During 2012 we recorded the following interest expense related to the RMB Loan:

(in thousands)	Year ended December 31, 2012
Interest expense paid in cash	$ 30
Amortization of the RMB Warrants discount	77
Amortization of RMB deferred offering costs	70
Total interest expense related to the RMB Loan	$ 177

RMB Warrants

Pursuant to the Facility Agreement, we issued 1,624,748 warrants to RMBAH as partial consideration for financing services provided in connection with the Facility Agreement. Each RMB Warrant entitles the holder to purchase one share of Solitario common stock pursuant to the terms and conditions of the RMB Warrants. The RMB Warrants expire 36 months from their date of issuance and have an exercise price of $1.5387 per share, subject to customary anti-dilution adjustments. We recorded a discount to the RMB Loan for the fair value of the RMB Warrants of $650,000 as of August 21, 2012, based upon a Black-Scholes model using a 36-month life, volatility of 62%, and a risk-free interest rate of 0.39%. We are amortizing this discount on a straight-line basis to interest expense over the three-year term of the RMB Loan and as of December 31, 2012, the remaining unamortized warrant discount was $573,000.

Augusta 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 our earn-in, we agreed to 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 our 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, 2012 and 2011:

	December 31,	
Payment date	2012	2011
June 1, 2012	$ -	$ 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	(264,000)	(448,000)
Total	2,236,000	2,802,000
Current portion	727,000	727,000
Long-term debt	$1,509,000	$2,075,000

During 2012 and 2011 we recorded $184,000 and $217,000, respectively, for accretion of interest expense related to the Augusta note and paid $750,000 and $500,000, respectively, on the long-term note.

Joint Venture and Delay Rental Payments

In the past, we have financed our activities through the sale of our properties, joint venture arrangements, and 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 2012 and 2011 related to delay rental payments on our Bongará project, discussed above, and during 2012 and 2011 we received $100,000 and $50,000 delay rental payments, respectively, on our Mercurio project in Brazil. Receipts from joint venture payments previously occurred on an infrequent basis. Per our agreements with both Votorantim on Bongará and Brazilian Gold Corporation 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.

Sale of Mineral Property

During 2012, MH-LLC completed the sale of a 2.4% net smelter returns royalty ("NSR") on the Mt. Hamilton project to Sandstorm for $10,000,000. MH-LLC received an upfront payment of $6,000,000 upon signing the agreement and received $4,000,000 on January

15, 2013, which we have recorded as a current asset as of December 31, 2012. See Note 2, "Mineral Properties" to our Consolidated Financial Statements below for further discussion of the Sandstorm royalty sale. Previously a significant sale of mineral properties occurred in 2000 when we sold our interest in our Yanacocha property in Peru for $6,000,000 in cash. Any sales of property, whether as a royalty, gold-stream or outright sale will also occur in the future, if at all, on an infrequent basis.

MH Agreement

During 2012, MH-LLC distributed $2.5 million to its members in proportion to their interests. Solitario received $2.0 million from this distribution which was eliminated in consolidation. In addition Solitario received $500,000 from DHI-US to repay a portion of a prior loan to Solitario, and Solitario agreed to forgive $35,000 of accrued interest due from DHI-US, which represented the accrued interest on loans made to DHI-US in connection with the MH Agreement through June 30, 2012.

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, 2012 and 2011, we owned 670,000 and 850,000 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value at December 31, 2012 and 2011 of $6,512,000 and $9,690,000, respectively. In addition we own other marketable equity securities at December 31, 2012 and 2011 with a fair value of $581,000 and $671,000, respectively. Our investments in marketable equity securities are based upon market quotes on the NYSE and the TSXV. At December 31, 2012, we have classified $3,110,000 of our marketable equity securities as a short-term asset. Changes in the fair value of marketable equity securities are recorded as gains and losses in other comprehensive income in shareholders' equity. During the year ended December 31, 2012, we recorded a loss in other comprehensive income on marketable equity securities of $3,131,000, less related deferred tax expense of $1,168,000.

During the year ended December 31, 2012, we sold 180,000 shares of Kinross stock for proceeds of $1,591,000, resulting in a gain of $1,464,000 which was transferred, less related deferred tax expense of $546,000, from previously unrealized gain on marketable equity securities in other comprehensive income. We also own (i) 430,000 shares of TNR Gold Corp. that are recorded at their fair market value of $39,000 at December 31, 2012; (ii) 250,000 shares of International Lithium Corporation that are recorded at their fair market of $10,000 at December 31, 2012 and (iii) 3,333,333 shares of Ely that are recorded at their fair market value of $532,000, 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 varied from a high of $12.85 per share to a low of $7.31 per share during the year ended December 31, 2012.

Kinross Calls

Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. In September 2012, Solitario sold options covering 100,000 shares for proceeds of $68,000. In November 2012 Solitario repurchased options for 50,000 shares for $17,000, and recorded a gain on derivative instruments of $23,000. As of December 31, 2012, the remaining options for 50,000 shares were recorded in other current assets at its fair value of $3,000 and Solitario recorded a gain on derivative instruments of $25,000. This option expired unexercised in February 2013. 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 covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of its covered calls are recognized in the statement of operations in the period of the change. Solitario does not use its 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.

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 objectives. 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 calls as hedging 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.

Working Capital

We had working capital of $4,245,000 at December 31, 2012 compared to working capital of $345,000 as of December 31, 2011. Our working capital at December 31, 2012 primarily consists of our cash and equivalents, the $4,000,000 Sandstorm receivable, and the current portion of our investment in 670,000 shares of Kinross common stock of $3,110,000, less our short-term margin loan of $1,500,000, current portion of long-term debt of $727,000 and current deferred income taxes of $963,000 primarily 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 borrow pursuant to the RMB Facility Agreement and 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 320,000 shares of Kinross stock during 2013 for assumed proceeds of $3,200,000. 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 $616,000 as of December 31, 2012 compared to $432,000 at December 31, 2011. As of December 31, 2012, our cash balances along with our available credit from the RMB Facility Agreement, 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 2013 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.

Sale of Our Common Stock

On June 26, 2012, we sold 180,000 shares of common stock to Christopher Herald, President and Chief Executive Officer of Solitario, and 45,000 shares of common stock to James Maronick, Chief Financial Officer of Solitario, at a price of $1.22 per share. The purchase of the shares was unanimously approved by our Board of Directors and was also unanimously approved by our Audit Committee of the Board of Directors. The price of the shares was the last closing price of our common shares as quoted on the NYSE MKT (formerly NYSE Amex) on June 25, 2012. Solitario received total proceeds of $274,500. During 2011 we completed a public offering of 3,400,000 shares of our common stock 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 filed with the SEC on March 18, 2011, which was declared effective on March 29, 2011.

Any future sale of our common stock, if any, would be dependent on a number of factors including the market price of our stock, the availability of investors, our ability to meet necessary regulatory requirements, including possible registration of the shares to be sold with the United States Securities and Exchange Commission among other things, none of which are currently in place.

Stock-based Compensation Plans

During the year ended December 31, 2012, no options were exercised from the 2006 Plan and we granted 165,000 options from the 2006 Plan. 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. None of our outstanding options from the 2006 Plan expire during 2013. 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 our Consolidated Financial Statements for a summary of the activity for stock options outstanding under the 2006 Plan as of December 31, 2012.

Off-balance Sheet Arrangements

As of December 31, 2012 and 2011, we have no off-balance sheet arrangements.

(e). Cash Flows

Net cash used in operations during the year ended December 31, 2012 decreased to $3,504,000 compared to $7,931,000 for 2011 primarily as a result of (i) a decrease in exploration expenses to $1,986,000 in 2012 compared to $5,946,000 in 2011, primarily related to the capitalization of $3,129,000 in exploration and development costs at our Mt. Hamilton project, as discussed above and included in investing activities; (ii); a decrease in non-stock option general and administrative costs to $1,948,000 during 2012 compared to $2,160,000 during 2011 and an increase in joint venture property payments to $300,000 during 2012 compared to $242,000 during 2011. These decreased uses and increased sources of cash were partially mitigated by an increase in interest expense during 2012.

Net cash provided from investing activities increased to $3,870,000 during 2012 compared to $193,000 during 2011 primarily related to proceeds of $6,000,000 from the Sandstorm sale, discussed above. This increase was partially offset by (i) a decrease in the proceeds from the sale of marketable equity securities to $1,664,000 during 2012 compared to $2,035,000 during 2011; during 2012 we sold 180,000 shares of Kinross at an average price of $8.83 per share compared to the sale of 130,000 shares of Kinross at an average price of $15.65 per share; and (ii) the capitalization of $3,129,000 of development costs at Mt. Hamilton during the year.

Net cash provided from (used in) financing activities decreased to $(182,000) during 2012 compared to $7,692,000 during 2011. The primary reason for the decrease in cash provided from financing activities in 2011 was related to the equity offering which provided $8,937,000 in cash during 2011 and no similar financing was completed during 2012. The decrease in cash provided from (used in) financing activities during 2012 was partially offset by an increase in cash due to the RMB Loan and reductions in net cash repaid to $500,000 during 2012 compared to net cash repaid of $872,000 during 2011 for short-term borrowing.

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

Development Activities

With the completion of the Feasibility Study on February 22, 2012, we entered 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 2012 mineral and surface property rental and option payments included in exploration expense were $127,000. In 2013 we estimate our net exploration property rentals and option payments for properties we own or operate, excluding Mt. Hamilton, to be approximately $805,000, 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 pay on our behalf, or reimburse us approximately $777,000 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 initiating 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 financial position. For the years ended December 31, 2012 and 2011, we have not capitalized any costs related to environmental control facilities. We do not anticipate our non-Mt. Hamilton project exploration activities will result in any material new or additional environmental expenditures or liabilities in the near future.

Our planned Mt. Hamilton project 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, of this Form 10-K. While we anticipate the majority of our activities during 2013 at our Mt. Hamilton project will relate to obtaining required permits to develop the project, we do not expect any of these activities to result in additional environmental exposures or required environmental remediation expenditures within the next year.

Contractual Obligations

The following table provides an analysis of our contractual obligations at December 31, 2012:

(in thousands)	**As of December 31, 2012 – Payments due by period**				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 98	$ 65	$ 33	$ -	$ -
Short-term margin loan [1]	1,500	1,500	-	-	-
Land holding costs [2]	28	28	-	-	-
Mt. Hamilton land holding costs [3]	1,814	279	758	518	259
Mt. Hamilton cash earn-in payments [4]	1,000	500	500	-	-
Mt. Hamilton earn-in payments in stock of Solitario [4][5]	336	168	168	-	-
Mt. Hamilton advance royalty and royalty buy-down payments [4][6]	6,800	300	5,600	600	300
Augusta long-term debt [4][7]	2,500	750	1,750	-	-
RMB long-term debt [8]	1,500	-	1,500	-	-
Total	$ 15,576	$ 3,590	$ 10,309	$ 1,118	$ 559

(1) *The short-term margin loan is due on demand and includes $1,000 of accrued interest at December 31, 2012.*

(2) *Excluding Mt. Hamilton, discussed below, our other land holding contractual obligations, net of expected joint venture reimbursements of $777,000. 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 include $44,000 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, 2017 and 2018, valued at $1,664 per ounce, the closing price of an ounce of gold at December 31, 2012, 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 the $2,500,000 payments to Ely discussed below in (7) to DHI-US, to enable Ely to make payments in satisfaction of the Augusta long-term debt and (ii) make payments totaling $500,000 and deliver100,000 shares of Solitario common stock to DHI-US by August 23, 2013, of which $250,000 was paid and 50,000 shares of our stock were delivered in February 2013. We have further agreed to (i) make payments totaling $500,000 to DHI-US and deliver 100,000 shares of Solitario common stock to DHI-US by August 23, 2014. Finally, we have agreed to (i) buy down the existing 6% net smelter return ("NSR") royalty to a 1% NSR royalty by paying the underlying royalty holder $5,000,000 on or before commercial completion of the Mt. Hamilton project. If we fail to make any of the payments due to DHI-US, described above, or fail to make the annual advanced royalty payments discussed below or fail to pay down the existing royalty, discussed below, 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 $1.68 per share, the December 31, 2012 ending stock price as quoted on the NYSE MKT.*

(6) *The minimum annual advance royalty payments of $300,000 per year have been included in this table through December 2017. In addition the $5,000,000 royalty buy-down discussed above is due on or before commercial completion, which is estimated to occur in November 2014 for purposes of this schedule only. The actual date of commercial completion is not currently known and is dependent upon obtaining permits, financing and other factors, none of which are currently in place and may be delayed for a number of reasons beyond our control. Please see "Risk Factors," above.*

(7) *Includes unamortized discount as of December 31, 2012; see "Long-term debt" above. These payments of $2,500,000 will be made to Ely, in the form of private placements for Ely common stock, of $750,000 in May 2013, $750,000 in or before May 2014, and $1,000,000 in or before May 2015, as further discussed below in Note 10 to our Consolidated Financial Statements, "Ely Gold investment and the Mt. Hamilton Joint Venture."*

(8) *The RMB Loan is a three-year term loan and is estimated to be paid in full for the purpose of this schedule on or before August 2015 and this payment schedule does not include $1,000,000 borrowed pursuant to the RMB Facility Agreement in February 2013.*

(g). Mt. Hamilton Development Project

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 2013. 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, the limited liability company that holds the Mt. Hamilton project assets. During 2012 upon completion of the Feasibility Study we earned an 80% interest in MH-LLC. During 2012 Solitario, Ely and DHI-US revised the MH Agreement to require the royalty reduction payments to be made as described in the Contractual Obligations table above. Previously, the MH Agreement obligated Solitario to make the continuing payment obligations to CMC of $3,500,000 on or before November 13, 2013 and $1,500,000 on or before November 13, 2014. In addition, Solitario, Ely and DHI-US revised the LOI to clarify the timing and pricing of the payments due to Ely under the private placement as further described in Note 10, "Ely Gold Investment and the Mt. Hamilton Joint Venture" to our Consolidated Financial Statements.

We are the manager of all project activities. Our focus for 2013 is to advance environmental permitting for the project. The most important component of permitting will be approval of the Plan of Operations. The Plan of Operations is currently being reviewed by the USFS to determine its completeness, and then to develop and manage the appropriate permitting path and activities for the project. There can be no assurance as to when permitting will be completed as it is dependent on a number of factors over which we have no control. 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, local communities, county, state, and federal regulatory agencies, and Native American input. Other planned activities for 2013 are additional drilling south of the Centennial reserves in an area called Wheeler Ridge, metallurgical testing of Seligman mineralization to determine gold and silver recoveries, additional reserve and resource modeling of both the Centennial and Seligman deposits incorporating the 2012 drilling and 2013 metallurgical results, and an update of the project's economic model.

We have budgeted approximately $3,668,000 for permitting activities, planned development, land and earn-in payments for 2013 at Mt. Hamilton.

(h). Exploration Joint Ventures, Royalty and Other Properties

The following discussion relates to an analysis of our anticipated property exploration plans as of December 31, 2012. Please also see Note 2, "Mineral Properties" to our Consolidated Financial Statements, for a more complete discussion of all of our mineral properties.

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. The Bongará project hosts the Florida Canyon zinc deposit, where high-grade zinc mineralization has been encountered in drill holes over an area approximately 2.5 kilometers by 1.3 kilometers in dimension.

Votorantim is funding and managing all work conducted on the project. Votorantim's work plans for 2013 will focus on activities necessary to complete a prefeasibility study by mid-year and then to transition to feasibility-level work in the second half of the year. As part of this program, construction of a new 700-meter long tunnel to provide underground access and drilling platforms in the Karen-Milagros zone of the Florida Canyon deposit is planned, as well as extending the existing San Jorge tunnel a further 300 meters to the south to test for the continuation of high-grade mineralization. Detailed drilling from both these tunnels will provide feasibility-level reserve information. Construction of these new tunnels will begin upon permit approval, which is expected in the first half of 2013. A total of 25,000 meters of both surface and underground drilling is scheduled this year. Other work scheduled includes additional metallurgical testing, more detailed engineering of site infrastructure, update of the deposit model incorporating the results of the 2012 drilling program, additional hydrologic and geotechnical studies that began in 2012, and completing the 32-kilometer access road to the mine site. Permitting and social development activities with surrounding communities will also continue throughout 2013.

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 record our share of any exploration expense as our equity interest in the gains and losses of PBM against its investment in PBM. As part of the Shareholders Agreement, Anglo is the manager of the project and is paid a management fee of 5% of the incurred costs at PBM.

Anglo has indicated the 2013 exploration program will consist 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. If the geophysical program is successful in identifying new ultramafic bodies, Anglo has indicated PBM may drill test these areas in late 2013 or the first half of 2014.

Pachuca Norte

The Pachuca Norte project (formerly referred to as "Pachuca-Real") 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 March 2013 we signed a binding Letter of Intent ("LOI") with Minera Hochschild Mexico S.A. de C.V. ("Hochschild"), a wholly owned subsidiary of Hochschild Mining plc. The LOI provides for Hochschild to earn a 51% interest in the property by funding $10,000,000 in exploration commitments over the next five years from the date of signing a definitive agreement. Hochschild will have the option to earn an additional 19% (total interest 70%) by funding all project expenditures necessary to complete a positive feasibility study. Hochschild will manage the operations and has the right to terminate the joint venture at any time. Currently, we and Hochschild are working on negotiating a definitive joint venture agreement. There can be no assurance that such an agreement will ultimately be signed. Assuming a definitive agreement is signed, Hochschild has committed to a firm $1.5 million exploration work commitment over the first 12-month period. Hochschild has indicated that their exploration plans for 2013 include drilling core holes that offset well-mineralized previous drill holes to determine the trend of mineralization.

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.

Other Properties

For Peru and Mexico, we have budgeted approximately $1,396,000 in 2013 for exploration on our wholly owned exploration projects and project generation activities for 2013. These activities include mapping, sampling, geophysical and geochemical analysis, and potentially acquisitions of new properties. We are not planning on drilling any of these early stage projects in 2013.

(i). Discontinued Projects

During 2012 we abandoned our Triunfo and Espanola properties in Bolivia and our Excelsior project in Peru and we recorded mineral property impairments of $31,000. During 2011 we abandoned the Paria Cruz project and recorded a mineral property write-down of $10,000.

(j). Significant Accounting Policies

See Note 1, "Business and Summary of Significant Accounting Policies" to our Consolidated Financial Statements for a discussion of our Significant Accounting Policies.

(k). Related Party Transactions

On June 26, 2012, Christopher Herald, our President and Chief Executive Officer, and James Maronick, our Chief Financial Officer, purchased shares of our common stock at a price of $1.22 per share, with Mr. Herald purchasing 180,000 shares and Mr. Maronick purchasing 45,000 shares. The purchase of the shares was unanimously approved by our Board of Directors and was also unanimously approved by our Audit Committee of the Board of Directors. The price of the shares was the last closing price of our common shares as quoted on the NYSE MKT on June 25, 2012. We received total proceeds of $275,000.

(l). Recent Accounting Pronouncements

There are no recently issued accounting standards for which the Company expects a material impact on our Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
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, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solitario Exploration & Royalty Corp. as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

EKS+H LLLP

EKS&H LLLP
March 7, 2013
Denver, Colorado

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

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 616	$ 432
Investments in marketable equity securities, at fair value	3,110	4,361
Royalty sale receivable	4,000	-
Prepaid expenses and other	210	488
Total current assets	7,936	5,281
Mineral properties	9,327	8,901
Investments in marketable equity securities, at fair value	3,983	6,000
Equity method investment	1,165	1,653
Other assets	1,072	219
Total assets	$ 23,483	$ 22,054
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 398	$ 482
Short-term margin loan	1,500	2,000
Current portion long-term debt	727	727
Deferred income taxes	963	1,627
Other	103	100
Total current liabilities	3,691	4,936
Long-term debt, net of discount	2,437	2,075
Deferred income taxes	-	1,170
Deferred gain on sale of mineral property	7,000	-
Warrant liability	1,138	-
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, 2012 and 2011)	-	-
Common stock, $0.01 par value, authorized, 100,000,000 shares (34,479,958 and 34,204,958, respectively, shares issued and outstanding at December 31, 2012 and 2011)	345	342
Additional paid-in capital	47,107	49,015
Accumulated deficit	(42,678)	(39,381)
Accumulated other comprehensive income	3,914	5,877
Total Solitario shareholders' equity	8,688	15,853
Noncontrolling interest	529	(1,640)
Contra-noncontrolling interest	-	(340)
Total shareholders' equity	9,217	13,873
Total liabilities and shareholders' equity	$ 23,483	$ 22,054

On behalf of the Board:

Christopher E. Herald
Director

John Hainey
Director

See Notes to Consolidated Financial Statements.

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

	For the year ended December 31, 2012	2011
Property and joint venture revenue		
Joint venture property payments	**$ 300**	$ 242
Costs, expenses and other:		
Exploration expense	**1,986**	5,946
Depreciation and amortization	**61**	46
General and administrative	**2,680**	2,857
Loss on derivative instruments	**30**	137
Property abandonment and impairment	**31**	10
Gain on sale of assets	**(8)**	-
Interest expense and dividend income (net)	**318**	163
Total costs, expenses and other	**5,098**	9,159
Other income (expense)		
Gain on sale of marketable equity securities	**1,528**	1,937
Loss on warrant liability	**(488)**	-
Equity in net loss of equity method investment	**(488)**	(623)
Total other income (expense)	**552**	1,314
Loss before income tax	**(4,246)**	(7,603)
Income tax benefit	**648**	635
Net loss	**(3,598)**	(6,968)
Less net loss attributable to noncontrolling interest	**301**	3,591
Net loss attributable to Solitario shareholders	**$ (3,297)**	$ (3,377)
Loss per common share attributable to Solitario shareholders:		
Basic and diluted	**$ (0.10)**	$ (0.10)
Weighted average shares outstanding:		
Basic and diluted	**34,351**	32,807

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss) | in thousands of U.S. dollars

	For the year ended December 31, 2012		2011	
Net loss for the period, before comprehensive loss	**$**	**(3,598)**	$	(6,968)
Unrealized loss on marketable equity securities, net of deferred taxes		**(1,963)**		(5,909)
Comprehensive loss	**$**	**(5,561)**	$	(12,877)
Comprehensive loss attributable to Solitario shareholders	**$**	**(5,260)**	$	(9,286)
Comprehensive loss attributable to noncontrolling interests		**(301)**		(3,591)
Comprehensive loss	**$**	**(5,561)**	$	(12,877)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity | in thousands of U.S. dollars, except share amounts

For the years ended December 31, 2012 and 2011

	Solitario Shareholders'								
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Solitario Shareholders' Equity	Non-Controlling Interest	Contra-Non-Controlling Interest	Total Shareholders' Equity
	Shares	Amount							
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)
Net loss	-	-	-	(3,377)	-	(3,377)	(3,591)	-	(6,968)
Net unrealized (loss) on marketable equity securities (net of tax of $3,516)	-	-	-	-	(5,909)	(5,909)	-	-	(5,909)
Balance at 12/31/11	**34,204,958**	**$ 342**	**$ 49,015**	**$ (39,381)**	**$ 5,877**	**$ 15,853**	**$(1,640)**	**$ (340)**	**$ 13,873**
Issuance of shares and $300 of cash to noncontrolling shareholder for future earn-in	50,000	1	70	-	-	71	(180)	(191)	(300)
Noncontrolling interest contribution (net)	-	-	-	-	-	-	198	-	198
Disproportionate share entry on earn-in to MH-LLC	-	-	(2,983)	-	-	(2,983)	2,983	-	-
Reversal of contra-noncontrolling interest on earn-in	-	-	-	-	-	-	(531)	531	-
Stock option expense	-	-	732	-	-	732	-	-	732
Issuance of shares in private placement	225,000	2	273	-	-	275	-	-	275
Net loss	-	-	-	(3,297)	-	(3,297)	(301)	-	(3,598)
Net unrealized (loss) on marketable equity securities (net of tax of $1,168)	-	-	-	-	(1,963)	(1,963)	-	-	(1,963)
Balance at 12/31/12	**34,479,958**	**$ 345**	**$ 47,107**	**$ (42,678)**	**$ 3,914**	**$ 8,688**	**$ 529**	**$ -**	**$ 9,217**

See Notes to Consolidated Financial Statements.

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

	For the year ended December 31, 2012	2011
Operating activities:		
Net loss	$ (3,598)	$ (6,968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on derivative instruments	30	137
Depreciation and amortization	61	46
Loss on equity method investment	488	623
Property abandonment and impairment	31	10
Employee stock option expense	732	697
Deferred income taxes	(648)	(635)
Loss on warrant liability	488	-
Amortization of interest on debt discounts	332	217
Gain on asset and equity security sales	(1,536)	(1,937)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	200	(2)
Accounts payable and other current liabilities	(84)	(119)
Net cash used in operating activities	(3,504)	(7,931)
Investing activities:		
Additions to mineral properties	(3,457)	(1,765)
Additions to other assets	(397)	(119)
Sale of derivative instrument, net	51	42
Proceeds from sale of mineral property	6,000	-
Proceeds from sale of marketable equity securities	1,664	2,035
Proceeds from sale of other assets	9	-
Net cash provided by investing activities	3,870	193
Financing activities:		
Short-term borrowing	2,665	1,075
Repayment of short-term borrowing	(3,165)	(1,947)
Repayment of long-term debt	(750)	(500)
Proceeds from issuance of debt, net	912	-
Proceeds from issuance of common stock, net	275	8,937
Proceeds from exercise of options	-	247
Payment to noncontrolling interest	(300)	(200)
Noncontrolling interest contribution, net	181	80
Net cash provided by (used in) financing activities	(182)	7,692
Net increase (decrease) in cash and cash equivalents	184	(46)
Cash and cash equivalents, beginning of year	432	478
Cash and cash equivalents, end of year	$ 616	$ 432
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 87	$ 71
Supplemental disclosure of non-cash flow investing and financing activities:		
Royalty sale receivable	$ 4,000	$ -
Transfer of contra-noncontrolling interest to noncontrolling interest upon earn-in	$ 531	$ -
Disproportionate share entry from noncontrolling interest to additional paid-in capital upon earn-in	$ 2,983	$ -
Debt financing costs	$ 588	$ -
Issuance of stock to noncontrolling interest	$ 71	$ 140
Acquisition of mineral properties for stock	$ -	$ 1,000
Loan to noncontrolling interest	$ -	$ 504
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

See Notes to Consolidated Financial Statements.

1. Business and Summary of Significant Accounting Policies:

Business and Company Formation

Solitario Exploration & Royalty Corp. ("Solitario") is a development stage company at December 31, 2012 (but not a company in the "Development Stage") as a result of the completion of a feasibility study on its Mt. Hamilton project (the "Feasibility Study") prepared by SRK Consulting (US), Inc. of Lakewood, Colorado ("SRK"). Solitario intends to develop the Mt. Hamilton project. However, Solitario has never developed a mineral property. In addition Solitario has 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.

Solitario has been actively involved in mineral exploration since 1993. Although Solitario records joint venture property payments as revenue for standby delay rental payments, Solitario's last significant revenues were recorded in 2000 upon the sale of the Yanacocha property for $6,000,000. During 2012 Solitario sold a royalty on its Mt. Hamilton project for $10,000,000 and recorded a deferred gain on that sale of $7,000,000. Future revenues from the sale of properties, if any, would also occur on an infrequent basis in the future. At December 31, 2012, in addition to its Mt. Hamilton project, Solitario had nine mineral exploration properties in the United States, Peru, Mexico and Brazil and its Yanacocha and Mercurio royalty properties in Peru and Brazil, respectively. 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

In December 2010 Solitario signed the Limited Liability Company Operating Agreement of Mt. Hamilton LLC, (the "MH Agreement"), with Ely Gold and Minerals, Inc. ("Ely") and formed Mt. Hamilton LLC ("MH-LLC"), the owner of the Mt. Hamilton project. Solitario announced on February 22, 2012 the completion of the Feasibility Study. As a result of the completion of the Feasibility Study, pursuant to the MH Agreement, Solitario earned an 80% interest in MH-LLC and reported mineral reserves at its Mt. Hamilton project. See Note 2, "Mineral Properties," below.

RMB Facility Agreement

As explained in more detail in Note 4, "Long-term debt," Solitario entered into a Facility Agreement (the "Facility Agreement") with RMB Australia Holdings Limited, an Australian corporation ("RMBAH"), and RMB Resources Inc., a Delaware corporation ("RMBR") whereby Solitario may borrow up to $5,000,000 from RMBAH (with any amounts outstanding collectively being the "RMB Loan"). Solitario borrowed $1,500,000 on August 21, 2012. Solitario paid an arrangement fee of $250,000 upon initial funding. The RMB Loan matures on the earlier to occur of (i) 36 months from the date of initial funding or (ii) the date on which financing is made available to MH-LLC for purposes of placing the Mt. Hamilton project into commercial production. The RMB Loan amounts bear interest at the 90-day LIBOR rate plus 5%, payable in arrears on the last day of each quarterly interest period. The RMB Loan may be repaid at any time without penalty. Any amounts repaid may not be redrawn under the Facility Agreement. The RMB Loan is secured by a lien on Solitario's 80% interest in MH-LLC as well as a general security interest in Solitario's remaining assets.

RMB Warrants

Pursuant to the Facility Agreement, Solitario issued 1,624,748 warrants (the "RMB Warrants") to RMBAH as partial consideration for financing services provided in connection with the Facility Agreement. Each RMB Warrant entitles the holder to purchase one share of Solitario common stock (the "Warrant Shares") pursuant to the terms and conditions of the RMB Warrants. The RMB Warrants expire 36 months from their date of issuance and have an exercise price of $1.5387 per Warrant Share, subject to customary anti-dilution adjustments.

Sandstorm Royalty Sale

On June 11, 2012, MH-LLC completed the sale of a 2.4% net smelter returns royalty ("NSR") on the Mt. Hamilton project to Sandstorm Gold, Ltd ("Sandstorm") for US$10,000,000. MH-LLC received an upfront payment of US$6,000,000 upon signing the agreement and received US$4,000,000 on January 15, 2013, which Solitario has recorded as a current asset as of December 31, 2012. As part of the agreement, MH-LLC will have the option, for a period of 30 months from June 11, 2012 to repurchase the NSR for US$12,000,000, provided that MH-LLC enters into a gold stream agreement with Sandstorm that has an upfront deposit of greater than US$30,000,000. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mt. Hamilton project. Pursuant to the Agreement, Solitario is jointly and severally liable for all obligations of MH-LLC to Sandstorm. See Note 2, "Mineral Properties," below for further discussion of the Sandstorm royalty sale.

Investment in Kinross

Solitario has a significant investment in Kinross Gold Corporation ("Kinross"), which consisted of the following at December 31, 2012 and December 31, 2011:

(in thousands)	Year ended December 31, 2012	2011
Shares	670	850
Fair value		
Current assets	$ 3,110	$ 4,361
Long-term assets	$ 3,402	$ 5,329

The current assets represent Solitario's estimate of the portion of marketable equity securities that will be liquidated within one year. Solitario sold the following shares of Kinross during 2012 and 2011:

(in thousands)	Year ended December 31, 2012	2011
Shares sold	180	130
Proceeds	$ 1,591	$ 2,035
Gain on sale	$ 1,464	$ 1,937

As of December 31, 2012 and 2011, Solitario has borrowed $1,500,000 and $2,000,000, respectively, in short-term margin loans, which are primarily secured by its investment in Kinross. The short-term margin loan is discussed below under Note 3, "Short-term debt." As of February 28, 2013, Solitario owns 670,000 shares of Kinross common stock which have a value of approximately $5.1 million based upon the market price of $7.62 per Kinross share. 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 Solitario's liquidity and capital resources.

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 $300,000 and $242,000, respectively, in joint venture and property payments for the years ended December 31, 2012 and 2011. 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 without reserves are recognized as revenue. Payments received on the sale of properties with reserves are recognized as revenue to the extent the proceeds exceed the proportionate basis in the assets sold. Gain on the sale of a mineral property revenue stream is deferred to the extent there is a guarantee for the future revenue stream until such time as the potential funding obligation for the guarantee is reduced or released to the extent Solitario no longer has any involvement of obligations.

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 other marketable equity securities; (v) the fair value of Solitario's liability for the RMB warrants.

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, 2012 and 2011, 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 began capitalization of all of its expenditures on its Mt. Hamilton project, subsequent to the completion of the Feasibility Study. 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.

Derivative Instruments

Solitario accounts for its derivative instruments in accordance with ASC 815, "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815"). Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. Solitario also owned certain warrants issued by Ely, which expired unexercised during 2012. Solitario issued the RMB Warrants during 2012. Solitario has not designated its covered calls as hedging instruments and any changes in the fair market value of the covered calls and its warrants are recognized in the statement of operations in the period of the change. See Note 6, "Derivative instruments" below.

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 and the Kinross calls are carried at their estimated fair value based on quoted market prices. See Note 7, "Fair value of financial instruments" below.

Marketable Equity Securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within shareholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statements of operations. The following tables summarize Solitario's marketable equity securities and accumulated other comprehensive income related to its marketable equity securities:

(in thousands)	December 31, 2012	December 31, 2011
Marketable equity securities at fair value	$ 7,093	$ 10,361
Cost	851	988
Accumulated other comprehensive income for unrealized holding gains	6,242	9,373
Deferred taxes on accumulated other comprehensive income for unrealized holding gains	2,328	3,496
Accumulated other comprehensive income	$ 3,914	$ 5,877

The following table represents changes in marketable equity securities:

(in thousands)	Year ended December 31, 2012	Year ended December 31, 2011
Gross cash proceeds	$ 1,664	$ 2,035
Cost	136	98
Gross gain on sale included in earnings during the period	1,528	1,937
Deferred taxes on gross gain on sale included in earnings	(571)	(722)
Reclassification adjustment to unrealized gain in other comprehensive income for net gains included in earnings	(957)	(1,215)
Gross unrealized holding loss arising during the period included in other comprehensive loss	(1,603)	(7,488)
Deferred taxes on unrealized holdings loss included in other comprehensive loss	597	2,794
Net unrealized holding gain (loss)	(1,006)	(4,694)
Other comprehensive income (loss) from marketable equity securities	$ (1,963)	$ (5,909)

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, Peru and Mexico, a portion of the payments under the land, leasehold and exploration agreements of Solitario are 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 2012 and 2011, Solitario recorded foreign exchange losses of $32,000 and $43,000, 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 $36,000 and $325,000, respectively, at December 31, 2012 and 2011.

Equity Method Investments

Solitario accounts for its investment in Pedra Branca do Mineracao, Ltd. ("PBM") under the equity method as of July 21, 2010, when Anglo Platinum Limited ("Anglo") earned a 51% interest in PBM. Solitario elected not to record its investment in PBM at fair value after July 21, 2010, and during 2012 and 2011 recorded a reduction of $488,000 and $623,000, respectively, in its equity method investment for Solitario's share of the loss of PBM during 2012 and 2011.

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, 2012 and 2011. Potentially dilutive shares related to outstanding common stock options of 2,598,400 and 2,433,400 for the years ended December 31, 2012 and 2011, respectively, and RMB warrants of 1,624,748 for the year ended December 31, 2012 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. 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. Beginning January 1, 2011, 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. 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.

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 based upon the grant date fair value of the awards and as the stock options vest by multiplying the estimated grant date 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

With the completion of the Feasibility Study on February 22, 2012, Solitario now operates in two segments, (i) mineral exploration and (ii) mining development and operations. Solitario is capitalizing Mt. Hamilton development and operations costs subsequent to February 22, 2012. At December 31, 2012, Solitario's Mt. Hamilton project is located in Nevada and all of Solitario's remaining operations are located in Peru, Brazil and Mexico as further described in Note 2 to these consolidated financial statements. Included in the consolidated balance sheet at December 31, 2012 and 2011 are total assets of $1,433,000 and $2,251,000, respectively, related to Solitario's foreign operations including its investment in PBM, located in Brazil, Peru and Mexico. Solitario is not aware of any foreign exchange restrictions on its subsidiaries located in foreign countries.

Recent Accounting Pronouncements

There are no recently issued accounting standards for which Solitario expects a material impact on its consolidated financial statements.

2. Mineral Properties:

The following table details Solitario's investment in Mineral Property:

(in thousands)	December 31, 2012	2011
Development (United States)		
Mt. Hamilton	$ 9,275	$ 8,821
Exploration		
Cerro Azul (Peru)	3	3
La Promesa (Peru)	5	5
Atico (Peru)	5	5
Pachuca (Mexico)	20	20
Norcan (Mexico)	6	6
Aconchi (Mexico)	5	5
Canta Colorado (Mexico)	3	-
Jaripo (Mexico)	5	5
Excelsior (Peru)	-	6
Triunfo (Bolivia)	-	20
Espanola (Bolivia)	-	5
Total exploration	52	80
Total mineral property	$ 9,327	$ 8,901

Mt. Hamilton

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 contribution was valued at $3,000,000 for its 90% interest and MH-LLC assumed $3,066,000 for the fair value of the Augusta Resources Corporation ("Augusta") debt, discussed below in Note 4, "Long-term debt."

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 earned an 80% interest in MH-LLC, and intends 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.

MH Agreement

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 be obligated to make any unpaid payments of cash and stock to DHI-US, investments into Ely and any unpaid payments to the underlying royalty holder by the due dates prescribed in the MH Agreement, or will be subject to dilution of its interest in MH-LLC. If Solitario fails to make any of the remaining required payments due after December 31, 2012, Solitario will be diluted from its current 80% ownership interest, to a 49% interest in MH-LLC and DHI-US will increase its ownership interest to 51%. Furthermore, the MH Agreement provides that all costs for development at Mt. Hamilton after completion of the Feasibility Study will be shared by Solitario and DHI-US pro rata. Upon completion of the feasibility study, DHI-US notified Solitario that it had exercised its option of having Solitario contribute DHI-US's share of costs through commercial completion as a loan, with such loan, plus interest at 8%, being repaid to Solitario from 80% of DHI-US's share of distributions from MH-LLC. During 2012, Solitario loaned DHI-US $127,000 for its share of costs subsequent to the completion of the Feasibility Study. However, subsequently, DHI-US repaid Solitario $131,000 for the remaining balance due on the loan from Solitario, including interest, and has no balance due to Solitario as of December 31, 2012.

During 2012, MH-LLC distributed $2.5 million to its members in proportion to their interests. Solitario received $2 million from this distribution which was eliminated in consolidation. In addition Solitario received $500,000 from DHI-US to repay a portion of a prior loan to Solitario, and Solitario agreed to forgive $35,000 of accrued interest due from DHI-US, which represented the accrued interest on loans made to DHI-US in connection with the MH Agreement through June 30, 2012. Including accrued interest of $17,000 prior to the repayment of the DHI-US loan, Solitario recorded a net decrease to interest income of $18,000 for the interest earned and forgiven during 2012.

During 2012, Solitario and DHI-US agreed to modify the terms of the MH Agreement whereby certain continuing payment obligations of Solitario pursuant to the MH Agreement totaling $5,000,000 to buy down the production royalty payable to Centennial Minerals Company LLC ("CMC") will now be payable on or prior to the date of commencement of commercial production at the Mt. Hamilton project. Previously, the MH Agreement obligated Solitario to make the continuing payment obligations to CMC of $3,500,000 on or before November 13, 2013 and $1,500,000 on or before November 13, 2014.

Sandstorm Royalty Sale

In June 2012, MH-LLC completed the sale of a 2.4% NSR on its Mt. Hamilton project to Sandstorm for $10 million. MH-LLC received an upfront payment of US$6 million upon signing the agreement and received US$4 million on January 15, 2013, which Solitario has recorded as a current asset as of December 31, 2012. In determining the initial fair value of the Sandstorm receivable, Solitario has classified the receivable from Sandstorm as a Level 3 asset, in as much as there were no observable independent inputs to determine the fair value. Solitario recorded a deferred gain as a long-term liability on the sale of the Sandstorm royalty of $7,000,000 during 2012. In determining the gain on sale of the Sandstorm royalty, Solitario determined the basis in the property sold primarily based upon the purchase of a 2% royalty on the same property in May of 2011 for consideration of $2,500,000. In addition Solitario reviewed the relative fair values of the royalty sold to the assets retained, and applied that percentage to its existing capitalized costs at Mt. Hamilton. Solitario considers the basis of $3,000,000 for the royalty sold reasonable based upon this analysis. The Sandstorm royalty agreement provides that in the event Sandstorm does not receive $10 million in royalty proceeds by December 31, 2022, MH-LLC will make up any shortfall. As a result of this guarantee, Solitario believes it is appropriate to defer the gain on sale, until such time as the potential funding obligation under the guarantee is reduced or eliminated.

As part of the agreement, MH-LLC will have the option, for a period of 30 months from the date of the agreement to repurchase the NSR for $12 million, provided that MH-LLC enters into a gold stream agreement with Sandstorm that has an upfront deposit of greater than $30 million. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mt. Hamilton project. Pursuant to the agreement, Solitario is jointly and severally liable for all obligations of MH-LLC to Sandstorm.

Capitalized Costs

Solitario began capitalizing its development costs incurred at its Mt. Hamilton project subsequent to the completion of the Feasibility Study. During 2012, Solitario capitalized $3,129,000 of development costs at the Mt. Hamilton project. In addition, during 2012, Solitario capitalized $325,000 of lease payments to mineral properties related to Mt. Hamilton. Also during 2012, Solitario capitalized $300,000 of advance royalty payments to an underlying leaseholder as long-term other assets.

Exploration Property

Solitario's exploration mineral properties at December 31, 2012 consist of use rights related to exploration stage properties, and the value of such assets is primarily driven by the nature and amount of economic mineral ore believed to be contained, or potentially contained, in such properties. The amounts capitalized as mineral properties include concession and lease or option acquisition costs. Capitalized costs related to a mineral property represent its fair value at the time it was acquired. At December 31, 2012, none of Solitario's exploration properties have production (operating) or contain proven or probable reserves. Solitario's exploration 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.

In addition to its capitalized exploration properties, Solitario has an interest in its Bongará and Pedra Branca exploration concessions, which are currently subject to joint venture agreements. Solitario records joint venture property payment revenue received in excess of capitalized costs. At December 31, 2012 and 2011, neither of these properties have any remaining capitalized costs.

Solitario also sold its mineral interests in its Yanacocha and Mercurio exploration projects and retained a royalty interest in each. Solitario has no capitalized costs related to these royalty interests.

Discontinued Projects

During 2012, Solitario recorded $31,000 of mineral property mineral property write-downs related to its Excelsior, Triunfo and Espanola projects. During 2011, Solitario recorded $10,000 of mineral property write-downs related to its Paria Cruz property.

Exploration Expense
The following items comprised exploration expense:

(in thousands)	2012	2011
Geologic and field expenses	$ 1,307	$ 1,922
Administrative	378	324
Mt. Hamilton exploration	301	3,700
Total exploration expense	$ 1,986	$ 5,946

3. Short-term Debt:

Solitario entered into a secured credit line agreement with UBS Bank, USA ("UBS Bank"). At December 31, 2012, the credit line is secured by all of Solitario's assets held in its UBS brokerage account, consisting primarily of 460,000 Kinross shares. 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 is 0.27% as of December 31, 2012. The average interest rate was approximately 2.49% and 2.48%, respectively, for 2012 and 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, 2012, the equity value in Solitario's UBS brokerage account was 67%.

Solitario also maintains a short-term margin account with RBC Capital Markets, LLC ("RBC"). At December 31, 2012, the credit line is secured by all of Solitario's assets held in its RBC brokerage account, consisting primarily of 210,000 of Solitario's Kinross shares. Solitario has utilized short-term margin loans from RBC, using Solitario's investment in Kinross held at RBC as collateral for the short-term margin loans. During 2012, the loans carried interest at a margin loan rate of 4.25% per annum, which floats based upon the London Interbank Offered Rate. The margin loan rate can be modified by RBC at any time. The margin loans are callable by RBC at any time. Per the terms of the margin loans, Solitario is required to maintain a minimum equity value in the account of 35%, based upon the value of its Kinross shares and any other assets held at RBC, less any short-term margin loan balance and any other balances owed to RBC. The equity value percentage may be modified by RBC at any time. If the equity value in Solitario's account at RBC falls below the minimum, RBC may call the loan, or may sell enough Kinross shares held in Solitario's brokerage account or liquidate any other assets to restore the minimum equity value. At December 31, 2012, Solitario had no outstanding borrowing on the RBC margin account and the equity balance in Solitario's account at RBC was 100%.

The following tables summarize Solitario's short-term debt:

(in thousands)	December 31, 2012	December 31, 2011
UBS short-term credit line		
Beginning balance	$ 2,000	$ 1,918
Borrowing	1,200	82
Repayments	(1,700)	-
Ending balance	1,500	2,000
RBC short-term margin loan		
Beginning balance	-	905
Borrowing	1,465	1,000
Repayments	(1,465)	(1,905)
Ending balance	-	-
Total short-term margin loans	$ 1,500	$ 2,000

(in thousands)	Year ended December 31, 2012	Year ended December 31, 2011
Interest expense UBS short-term credit line	$ 36	$ 50
Interest expense RBC short-term margin loan	22	21
Total interest expense, short-term margin loans	$ 58	$ 71

4. Long-term Debt:

Augusta 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 private placement investments totaling $2,500,000 in Ely common stock, all to provide Ely with the funds necessary for DHI-US to make the loan payments due to Augusta as discussed below in Note 10, "Ely Gold investment and the Mt. Hamilton joint venture." 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, 2012 and 2011:

Payment date	December 31, 2012	December 31, 2011
June 1, 2012	$ -	$ 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	(264,000)	(448,000)
Total	2,236,000	2,802,000
Current portion	727,000	727,000
Long-term debt	$1,509,000	$ 2,075,000

During 2012 and 2011 Solitario recorded $184,000 and $217,000, respectively, for accretion of interest expense related to the Augusta note and paid $750,000 and $500,000, respectively, on the long-term note.

RMB Facility Agreement

On August 10, 2012, Solitario entered into a Facility Agreement with RMBAH and RMBR. Under the Facility Agreement, Solitario may borrow up to $5,000,000 from RMBAH (with any amounts outstanding collectively being the "RMB Loan") at any time during the 24-month period commencing on August 21, 2012, the date of initial funding (the "Availability Period"), after which time any undrawn portion of the $5,000,000 commitment will be cancelled and will no longer be available for drawdown. Solitario borrowed $1,500,000 on August 21, 2012 from which it received net proceeds of $912,000 after deducting deferred offering costs of $588,000, which included an arrangement fee of $250,000, legal costs of $328,000 and other costs of $10,000. The deferred offering costs are recorded in other long-term assets and are being amortized on a straight-line basis to interest expense over 36 months, the term of the Facility Agreement. Solitario has recorded deferred offering costs of $518,000 as of December 31, 2012 in other long-term assets. The proceeds from the initial funding were used to pay the balance due on the facility arrangement fee of $175,000, to pay certain legal expenses related to the Facility Agreement, and to reduce outstanding short-term margin loans.

The Facility Agreement was subject to a $250,000 arrangement fee, of which $75,000 had been paid prior to initial funding. The RMB Loan matures on the earlier to occur of (i) 36 months from the date of initial funding or (ii) the date on which financing is made available to MH-LLC for purposes of placing the Mt. Hamilton project into commercial production. The RMB Loan amounts bear interest at the 90-day LIBOR rate plus 5%, payable in arrears on the last day of each quarterly interest period. The RMB Loan interest rate was 5.36% at December 31, 2012. All proceeds from the RMB Loan are to be deposited in a proceeds account (the "Proceeds Account") and are recorded as restricted cash until disbursed in accordance with the Facility Agreement. Pursuant to the Facility Agreement, funds may only be disbursed from the Proceeds Account for approved expenditures, including (i) exploration and development activities at the Mt. Hamilton project, ongoing earn-in payments at MH-LLC, general corporate purposes as set forth in a project and corporate budget approved by RMBAH and (ii) any other purpose approved by RMBAH. As of December 31, 2012, there was no cash balance in the Proceeds Account. The RMB Loan may be repaid at any time without penalty. Any amounts repaid may not be redrawn under the Facility Agreement. The RMB Loan is secured by a lien on Solitario's 80% interest in MH-LLC as well as a general security interest in Solitario's remaining assets.

As of December 31, 2012, the outstanding balance under the RMB Loan was $1,500,000. Solitario borrowed an additional $1,000,000 during February 2013 pursuant to the RMB Facility Agreement and at February 28, 2013, the balance due on the RMB Loan is $2,500,000. During 2012 Solitario recorded the following interest expense related to the RMB Loan:

(in thousands)	Year ended December 31, 2012
Interest expense paid in cash	$ 30
Amortization of the RMB Warrants discount	77
Amortization of RMB deferred financing costs	70
Total interest expense related to the RMB Loan	$ 177

RMB Warrants

Pursuant to the Facility Agreement, the Company issued 1,624,748 warrants to RMBAH as partial consideration for financing services provided in connection with the Facility Agreement. Each RMB Warrant entitles the holder to purchase one of Solitario common stock pursuant to the terms and conditions of the RMB Warrants. The RMB Warrants expire 36 months from their date of issuance and have an exercise price of $1.5387 per Warrant Share, subject to customary anti-dilution adjustments. Solitario recorded a discount to the RMB Loan for the fair value of the RMB Warrants of $650,000 as of August 21, 2012, based upon a Black-Scholes model using a 36-month life, volatility of 62%, and a risk-free interest rate of 0.39%. Solitario is amortizing this discount on a straight-line basis to interest expense over the three-year term of the RMB Loan and as of December 31, 2012, the remaining unamortized warrant discount was $573,000.

5. Income Taxes:

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

(in thousands)	2012	2011
Current:		
United States	$ -	$ -
Foreign	18	14
Deferred:		
United States	$ (853)	$ 407
Foreign	-	-
Operating loss and credit carryovers:		
United States	187	(1,056)
Foreign	-	-
Income tax expense (benefit)	$ (648)	$ (635)

Consolidated income (loss) before income taxes includes losses from foreign operations of $1,944,000 and $2,657,000 in 2012 and 2011, respectively.

See Note 1, "Business and Summary of Significant Accounting Policies" for a detail of the deferred taxes associated with the sale of marketable equity securities and the deferred taxes associated with unrealized gains and losses associated with other comprehensive income related to marketable equity securities.

The net deferred tax assets/liabilities in the December 31, 2012 and 2011 consolidated balance sheets include the following components:

(in thousands)	2012	2011
Deferred tax assets:		
Loss carryovers	$ 10,118	$ 9,887
Deferred gain	1,253	-
Stock option compensation expense	900	648
Royalty	1,492	1,492
Earnings in unconsolidated subsidiary	496	314
Severance	30	30
Unrealized loss on derivative securities	79	-
Other	106	67
Valuation allowance	(10,328)	(9,699)
Total deferred tax assets	4,146	2,739
Deferred tax liabilities:		
Unrealized gain on derivative securities	-	107
MH-LLC investment	1,932	1,083
Exploration costs	845	845
Unrealized gains on marketable equity securities	2,328	3,496
Other	4	5
Total deferred tax liabilities	5,109	5,536
Net deferred tax liabilities	$ 963	$ 2,797

At December 31, 2012 and 2011, Solitario has classified $963,000 and $1,627,000, 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)	2012	2011
Expected income tax expense (benefit)	$ (1,444)	$ (2,585)
Non-deductible foreign expenses	1	1
Non-deductible foreign stock compensation expense	20	16
Foreign tax rate differences	72	90
State income tax	(82)	(56)
Change in valuation allowance	629	621
MH-LLC investment	102	1,221
Permanent differences and other	54	57
Income tax expense (benefit)	$ (648)	$ (635)

During 2012 and 2011 the valuation allowance was increased primarily as a result of increases in Solitario's 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, 2012, Solitario has unused US federal Net Operating Loss ("NOL") carryovers of $2,502,000 and unused US State NOL carryovers of $3,409,000 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, 2012 or December 31, 2011, 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, States of Colorado and Nevada, Mexico, Peru and Brazil. The tax years that remain open to examination by the United States Internal Revenue Service are years 2009 through 2012. The tax years that remain open to examination by the State of Colorado are years 2008 through 2012. The tax years that remain open to examination by Mexico are years 2009 through 2012. 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, 2011 or December 31, 2012, or for the years then ended.

6. Derivative Instruments:

RMB Warrants

Because the Facility Agreement requires Solitario to be current in its filings with the United States Securities and Exchange Commission, Solitario has determined the warrants could be cash settled in accordance with ASC 815-40, "Derivatives and Hedging, Contracts in Entity's Own Equity." Accordingly Solitario has classified its RMB Warrants as a liability and adjusts the fair value of the warrants at each balance sheet date, with changes in value recorded in other income/expense in the statement of operations. Solitario recorded a loss on the RMB Warrants of $488,000 during 2012, based upon a Black-Scholes model using a 35-month life, a volatility of 62%, a stock price of $1.68 per share and a risk free interest rate of 0.35%.

Covered Call Options

Beginning in December 2008, Solitario sold covered calls covering its shares of Kinross common stock. In September 2012, Solitario sold options covering 100,000 shares for proceeds of $68,000. In November 2012 Solitario repurchased options for 50,000 shares for $17,000, and recorded a gain on derivative instruments of $23,000. As of December 31, 2012, the remaining options for 50,000 shares were recorded in other current assets at their fair value of $3,000 and Solitario had recorded a gain on derivative instruments of $25,000. 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 covered calls as hedging instruments as described in ASC 815 and any changes in the fair market value of its covered calls are recognized in the statement of operations in the period of the change. Solitario does not use its 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.

Ely Warrants

During 2010, in connection with the acquisition of Mt. Hamilton and the formation of MH-LLC, Solitario made a series of equity investments in Ely. Solitario acquired 3,333,333 shares of Ely and warrants to purchase 1,666,666 shares of Ely stock for Cdn$0.25 per share, with warrants for 833,333 shares that expired on August 30, 2012 and warrants for 833,333 shares that expired on October 19, 2012. Solitario has recorded gains and losses on the Ely warrants in its gain (loss) on derivative instruments in the statement of operations as detailed below. Solitario has no remaining value for its investment in the Ely warrants in the consolidated balance sheet at December 31, 2012. Solitario's fair value for its investment in the Ely warrants at December 31, 2011, based upon a Black-Scholes option pricing model, was recorded as a current asset as detailed below.

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.

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. Solitario has written-down its investment in the ILC Warrants and has no value recorded for the ILC warrants as of December 31, 2012.

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, 2012 and 2011:

(in thousands)	Derivatives		
	Balance Sheet Location	December 31, 2012	2011
Derivatives not designated as hedging instruments under ASC 815			
RMB warrants	Long-term liabilities	$ 1,138	$ -
Ely investment warrants	Current other assets	-	74
ILC warrants	Current other assets	-	4

The following amounts are included in loss on derivative instruments in the consolidated statement of operations for the years ended December 31, 2012 and 2011:

(in thousands)	Year ended December 31, 2012	2011
Loss on derivatives not designated as hedging instruments under ASC 815		
Ely warrants	$ (74)	$ (179)
ILC warrants	(4)	2
Kinross Collar	-	(2)
Kinross Calls	48	42
Total loss	$ (30)	$ (137)

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, the Sandstorm royalty sale receivable, 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 Ely equity investments are carried at their estimated fair value primarily based on publicly available quoted market prices.

Solitario applies 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 a portion of its investment in Ely shares from Level 2 to Level 1 upon the expiration of statutory holding requirements. During the years ended December 31, 2012 and 2011, there were no other reclassifications in financial assets or liabilities between Level 1, 2 or 3 categories.

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2012:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Marketable equity securities	$ 7,093	$ -	$ -	$ 7,093
Liabilities				
RMB warrants	-	1,138	-	1,138

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

Items Measured at Fair Value on a Recurring Basis:
Marketable equity securities: At December 31, 2012 and 2011, the fair value of Solitario's investment in Kinross, TNR and Ely marketable equity securities is based upon quoted market prices.

RMB warrants: The RMB warrants issued by Solitario are not traded on any public exchange. Solitario determines the fair value of the RMB warrants using a Black-Scholes pricing model, using inputs, including share price, volatility of Solitario common stock and discount rates that include an assessment of performance risk, that are readily available from public markets therefore they are classified as Level 2 inputs as of December 31, 2012.

Ely and ILC warrants: The Ely and ILC warrants are not traded on any public exchange. Solitario determines the fair value of the Ely and ILC 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 therefore they are classified as Level 2 inputs as of December 31, 2011.

Items Measured at Fair Value on a Nonrecurring Basis:
RMB long-term debt: In 2012 the long-term debt associated with the RMB Facility Agreement was discounted for the fair value of the RMB warrants, discussed above. The RMB warrants are not traded on any public exchange. Solitario determined the fair value of the RMB warrants, associated with the discount to the RMB Loan, using a Black-Scholes pricing model, using inputs, including share price, volatility of Solitario common stock and discount rates that include an assessment of performance risk, that are readily available from public markets and therefore they were classified as Level 2 inputs. See Note 4, "Long-term debt."

During the year ended December 31, 2012, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

8. Commitments and Contingencies:

In acquiring its interests in mineral claims and leases, Solitario has entered into lease agreements, which may be canceled at its option without penalty. Solitario is required to make minimum rental and option payments in order to maintain its interests in certain claims and leases. See Note 2, "Mineral properties," above. Solitario estimates its 2013 property rentals and option payments, excluding the Augusta long-term debt, discussed above and certain earn-in payments to DHI-US discussed below, for properties we own or operate to be approximately $805,000, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties; approximately $777,000 of these annual payments are paid or 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. The total rent expense for these offices during 2012 and 2011 was approximately $61,000 and $55,000, 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 of 2015 of $73,000.

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) annual cash payments of $300,000 for an advance minimum royalty due to an underlying royalty holder; (2) payment to DHI-US of $500,000 in cash and delivery of 100,000 shares of Solitario common stock by August 23, 2013; (3) payment of $500,000 in cash; delivery of 100,000 shares of Solitario common stock by August 23, 2014; and (4) buy down a portion of an existing 6% net smelter royalty to a 1% net smelter royalty by paying $5,000,000 to an underlying royalty holder on or before commercial completion of the Mt. Hamilton project.

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 MKT 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. During 2012 there were no shares exercised from the 2006 Plan. There were no options forfeited during 2012 or 2011.

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. The following table shows the grant date fair value of Solitario's options grants as of the date of grant.

Grant date fair value

Grant Date	**12/16/12**	**5/5/10**	**5/19/09**
Option – grant date price (Cdn$)	$ 1.49	$ 2.40	$ 1.55
Options outstanding	165,000	2,065,000	519,000
Expected life years	5.0	5.0	5.0
Expected volatility	68%	56%	56%
Risk free interest rate	0.7%	2.2%	1.9%
Weighted average fair value	$ 0.84	$ 1.19	$ 0.65
Grant date fair value	$ 139,000	$2,449,000	$ 339,000

Solitario recorded $732,000 and $697,000, respectively, of stock option expense during 2012 and 2011 included in general and administrative expense, for the amortization of grant date fair value with a credit to additional paid-in capital.

c.) Stock Option Activity

The following table summarizes the activity for stock options outstanding under the 2006 Plan as of December 31, 2012, with exercise prices equal to the stock price, as defined, on the date of grant and no restrictions on exercisability after vesting:

The activity in the 2006 Plan for the years ended December 31, 2012 and 2011 is as follows:

	2012			**2011**		
	Options	**Weighted Average Exercise Price (Cdn$)**	**Aggregate Intrinsic Value (1)**	**Options**	**Weighted Average Exercise Price (Cdn$)**	**Aggregate Intrinsic Value (1)**
2006 Plan						
Outstanding, beginning of year	2,433,400	$ 2.27		2,584,000	$ 2.23	
Granted	165,000	$ 1.49		-	-	
Exercised	-	-		(150,600)	$ 1.60	
Cancelled	-	-		-	-	
Forfeited	-	-		-	-	
Outstanding, end of year	2,598,400	$ 2.22	$ 1,650	2,433,400	$ 2.27	$ -
Exercisable, end of year	1,958,400	$ 2.22	$ 413	1,271,150	$ 2.24	$ -

(1) The intrinsic value at December 31, 2012 and 2011 based upon the quoted market price of Cdn$1.50 and Cdn$1.36, respectively, per share for our common stock on the TSX and an exchange ratio of 1.0312 and 0.9804, respectively, Canadian dollars per United States dollar.

10. 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 property investments are described above in Note 2, "Mineral property." The terms of the joint venture are set forth in the MH Agreement of MH-LLC between us and DHI-US.

Initial Investment in Ely

During 2010, in connection with the acquisition of Mt. Hamilton and the formation of MH-LLC, Solitario paid $500,000 in cash for a series of equity investments in Ely. Solitario acquired 3,333,333 shares of Ely (the "Ely Shares") and warrants to purchase 1,666,666 shares of Ely stock for Cdn$0.25 per share, with warrants for 833,333 shares that expired on August 30, 2012 and warrants for 833,333 shares that expired on October 19, 2012. Solitario allocated its investment in Ely based upon the fair values of the assets purchased using quoted market prices for the Ely Shares and a Black-Scholes option pricing model for the Ely warrants. As of December 31, 2012 and 2011, the Ely Shares are recorded at their fair value based upon quoted prices of $532,000 and $588,000, respectively, with an unrealized gain included in other comprehensive income of $174,000 and $231,000, respectively, net of deferred taxes of $65,000 and $86,000, respectively.

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

The LOI, as amended, provides that Solitario subscribe for three additional tranches of shares of Ely: (i) $750,000 in shares of Ely common stock on May 1, 2013 at a price equal to the greater of (a) the 20-day weighted moving average price on the TSXV (the "WMAP") immediately preceding May 1, 2013 and (b) the price of Ely's shares on the TSXV on the day before May 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 on or before May 1, 2014 at a price equal to the greater of (a) the WMAP immediately preceding the date that Solitario subscribes for such shares and (b) the price of Ely's shares on the TSXV on the trading day immediately preceding the date that Solitario subscribes for such shares (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 on or before May 1, 2015 at a price equal to the greater of (a) the WMAP immediately preceding the date that Solitario subscribes for such shares and (b) the price of Ely's shares on the TSXV on the trading day immediately preceding the date that Solitario subscribes for such shares (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 result of the completion of the Feasibility Study, Solitario intends to develop the Mt. Hamilton project and would 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 LOI.

11. Related Party Transactions:

On June 26, 2012, Christopher Herald, President and Chief Executive Officer of Solitario, and James Maronick, Chief Financial Officer of Solitario, purchased shares of the Company's common stock at a price of $1.22 per share, with Mr. Herald purchasing 180,000 shares and Mr. Maronick purchasing 45,000 shares. The purchase of the shares was unanimously approved by Solitario's Board of Directors and was also unanimously approved by Solitario's Audit Committee of the Board of Directors. The price of the shares was the last closing price of Solitario's common shares as quoted on the NYSE MKT (formerly NYSE Amex) on June 25, 2012. Solitario received total proceeds of $275,000.

12. Segment Reporting:

With the completion of the Feasibility Study on February 22, 2012, Solitario now operates in two segments, (i) mineral exploration and (ii) mining development and operations. Solitario is capitalizing Mt. Hamilton development and operations costs subsequent to February 22, 2012, as detailed above in Note 2, "Mineral properties." The following summarizes Solitario segment information for the year ended December 31, 2012:

(in thousands)	**Year ended December 31, 2012**			
	Mt. Hamilton	**Exploration**	**Corporate and Other**	**Consolidated**
Exploration expense	$ 301	$ 1,685	$ -	$ 1,986
Interest expense	184	-	234	418
Other (1)	58	798	986	1,842
Pre-tax loss	$ 543	$ 2,483	$ 1,220	$ 4,246
Total assets (2)(3)	$ 14,236	$ 1,467	$ 7,780	$ 23,483
Capital expenditures	$ 3,789	$ 3	$ 62	$ 3,854

(1) Corporate and other includes gain on sale of marketable equity securities of $1,528.

(2) Exploration total assets include equity method investment of $1,165.

(3) Corporate and other total assets include investment in marketable equity securities of $7,093.

13. Subsequent Event:

In March 2013 Solitario signed a binding Letter of Intent ("LOI") related to its Pachuca project in Mexico with Minera Hochschild Mexico S.A. de C.V. ("Hochschild"), a wholly owned subsidiary of Hochschild Mining plc. The LOI provides for Hochschild to earn a 51% interest in the Pachuca project by funding the following exploration commitments from the signing of a definitive agreement:

Due Dates	Expenditures (US$)
18 months	$ 2,000,000
36 months	$ 3,000,000
60 months	$ 5,000,000
Total	$10,000,000

Hochschild will have the option to earn an additional 19% (total interest 70%) in the project by funding all project expenditures necessary to complete a positive feasibility study. Hochschild will manage the operations and has the right to terminate the joint venture at any time. Currently, we are working on negotiating a definitive joint venture agreement with Hochschild. There can be no assurance that such an agreement will ultimately be signed.

Corporate Information - *Officers & Directors*

Corporate Offices

4251 Kipling Street, Suite 390

Wheat Ridge, Colorado 80033

Telephone: 303-534-1030

Fax: 303-534-1809

www.solitarioXRcom

Legal Counsel

Polsinelli Shugart PC

Denver, Colorado

Fogler, Rubinoff LLP

Toronto, Ontario

Auditors

EKS&H, LLLP

Denver, Colorado

Transfer Agent

Computershare Investor Services

100 University Avenue

Toronto, Ontario M5J2Y1 Canada

800-564-6253

Notice of Annual Meeting of Shareholders

The Annual Meeting will be at 10 a.m. MDT on Tuesday, June 18, 2013 at the Company's corporate offices.

Stock Exchange Listings

NYSE MKT: 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 MKT (formerly the NYSE Amex) 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.

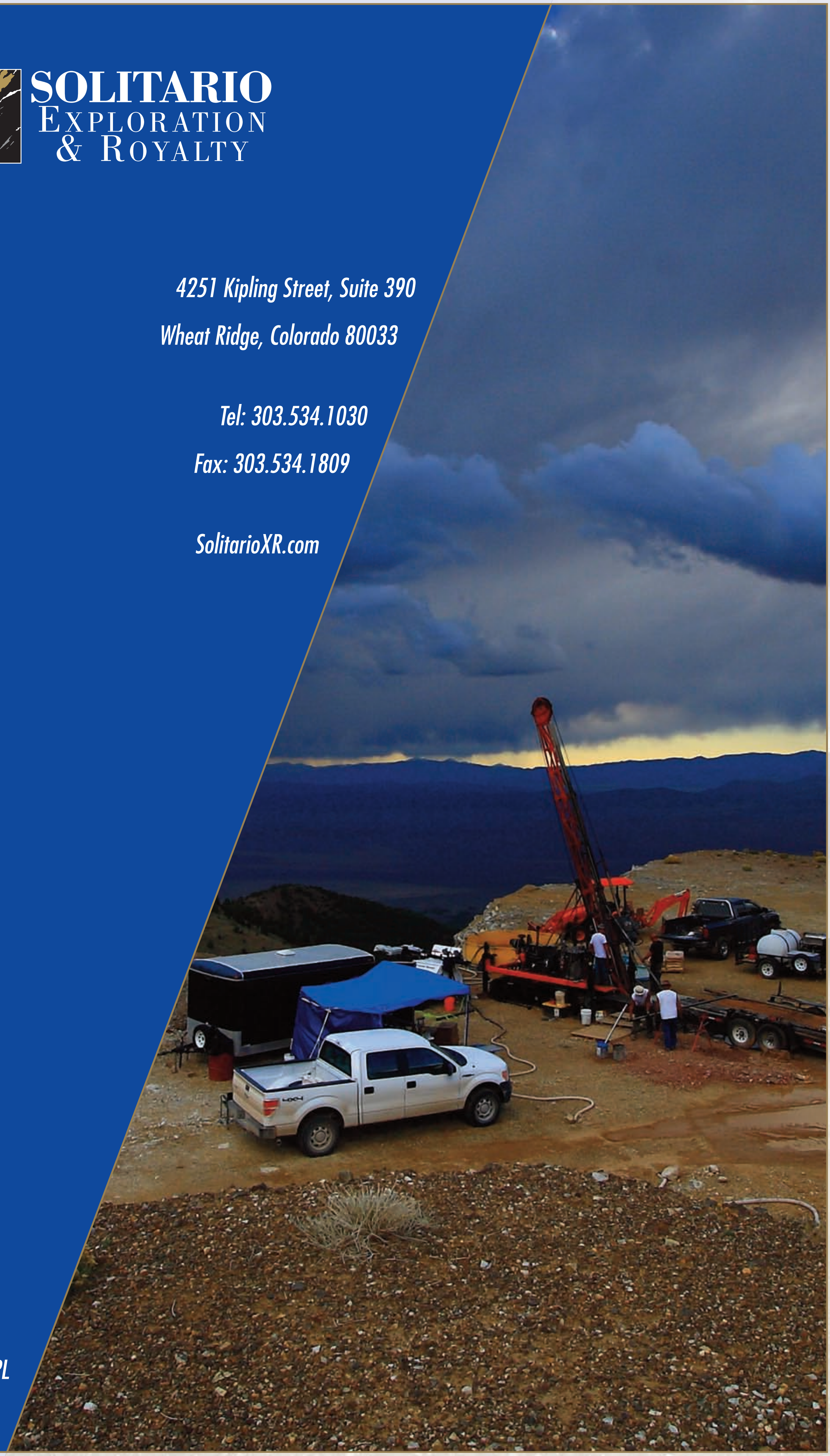
Photography: Walter H. Hunt
Design: www.PiteCreative.com

SOLITARIO
EXPLORATION
& ROYALTY

4251 Kipling Street, Suite 390
Wheat Ridge, Colorado 80033

Tel: 303.534.1030
Fax: 303.534.1809

SolitarioXR.com



NYSE MKT: XPL
TSX: SLR