BONGARÁ ZINC PROJECT - PERU

SOLITARIO EXPLORATION & ROYALTY

2013 ANNUAL REPORT

MT. HAMILTON GOLD PROJECT - USA

Letter to Shareholders

2013 will go down in history as one of the most challenging years in decades for the metals industry. Solitario was able to not only successfully navigate through this difficult time period, but also to accomplish virtually all of our major goals set out for the year.

2013 Gold, Silver and Zinc Market Overview

To better understand just how noteworthy Solitario's 2013 accomplishments were, it is informative to review the major trends in the commodity space during this time period. The year began with robust gold and silver prices of approximately $1,680 and $31.00 per ounce, but finished at $1,200 and $19.50, respectively, representing a 28% decline in gold and a 37% decline in silver. This significant downturn created a near-crisis financial situation for the industry, where funding for companies and projects of all sizes became extremely difficult. Fortunately, precious metal investors, especially the Chinese, found these prices attractive and began purchasing ever larger quantities of physical metal. The intensity of the physical buying of gold appears to have turned the tide resulting in double digit gains for both gold and silver since the beginning of 2014.

Zinc was a different story, trading in a rather subdued range between $0.80 and $0.95 per pound throughout 2013, but ending the year in the upper range. The intriguing backstory for zinc in 2013 was the apparent transition from an over-supplied to an under-supplied market. We firmly believe that zinc will be one of the best performing metals over the next five years, as zinc mine closures due to reserve depletion and modest world consumption growth continue to occur.

Financing

The drop in gold and silver prices in 2013 resulted in a significant reduction in precious metal project/corporate financing. We determined that additional funding was necessary to keep our Mt. Hamilton permitting and engineering program on schedule. As a result, a $2.06 million management-led financing was successfully completed in July 2013. Company insiders funded 25% of the placement. A second financing at a 25% higher price was completed in February 2014 resulting in gross proceeds of another $1.68 million. Both financings were non-brokered and without warrants. With these two financings, plus reducing non-Mt. Hamilton project expenditures, and a series of other financial undertakings in late 2013 related to our Mt. Hamilton contract obligations, we have significantly strengthened Solitario's financial position.

Mt. Hamilton at the Forefront

Our number one priority for 2013 was to continue advancing the Mt. Hamilton gold project in Nevada toward construction where substantial progress was made on both the permitting and engineering fronts. In last year's annual report, we estimated that permitting would be completed sometime in the second half of 2014 – we remain on schedule for this timeline. Additional details of our progress, along with what remains to be completed, are provided in the Mt. Hamilton section of this year's annual.

Bongará

Our partner, Votorantim Metais, ("Votorantim") continued their aggressive exploration and development efforts on our high-grade Bongará zinc project in Peru. Additional drilling, metallurgy, road building, engineering and permitting work highlighted 2013 activities. A 43-101 compliant resource is currently in preparation and will be released upon completion.

2014 and Beyond

Our number one 2014 corporate objective is clear: Gain approval for all permits necessary to allow construction of the Mt. Hamilton gold mine. Our best estimate for acquiring these permits is sometime in the third quarter of 2014. A close second objective is to arrange project financing. Our goal here is to secure project funding within three months of final permit acquisition.

As you read Solitario's 2013 Annual Report, I hope you agree that 2014 should be a transformational year for the Company. Our expectations for Solitario have never been higher, and we remain totally committed to achieving our objectives.

With best regards,

Christopher E. Herald
President & Chief Executive Officer

Mt. Hamilton Gold Project, Nevada USA

Permitting often seems like a never-ending bureaucratic process – even to us – but it is a highly regimented process on both the federal and state levels that has a beginning, lots of intermediate steps, and finally an ending. The beginning and ending are rather brightline milestones, but it's the intermediate steps that take the longest and are generally less newsworthy as standalone landmarks. However, we are pleased to say that we are very near the end of the Mt. Hamilton permitting process.

Permitting

Mine permitting was formally initiated in November 2012 with the filing of our Mt. Hamilton Gold Mine Plan of Operations ("PoO") with the U.S. Forest Service ("USFS"), based upon our 2012 Feasibility Study completed by SRK Consulting (US), Inc. ("SRK"). Since then, we have focused on completing the permit process that will allow us to begin construction. Three important permit approvals were received during 2013. The first was a Bureau of Land Management ("BLM") right-of-way road grant to Solitario over BLM administered lands. This right-of-way is important for operational access to our mining and processing areas. The second approval was for an Environmental Assessment ("EA") that we submitted in 2011 that now allows us to build a system of drill roads to drill test the large (1.0 mile x 0.5 mile) Wheeler Ridge gold anomaly. We hope to conduct some initial drill testing of this exciting target in 2015. Finally, we were granted additional water rights that are sufficient for all foreseeable construction and operational requirements.

There are four main permits or approvals required for us to complete the permitting process at Mt. Hamilton. During 2013 and the first half of 2014, our work centered upon collecting, evaluating, and organizing all data required to submit the applications for these four important permits. We anticipate approval of all four of these permits in the second and third quarters of 2014. These are:

1. **Environmental Assessment ("EA"):** This is the major federal approval required before any construction on federal lands can take place. As part of the National Environmental Protection Act requirements, a draft EA was recently completed by a third party contractor and submitted to the USFS for their review and comments. Responses will be developed to USFS comments and then the EA will undergo public review.

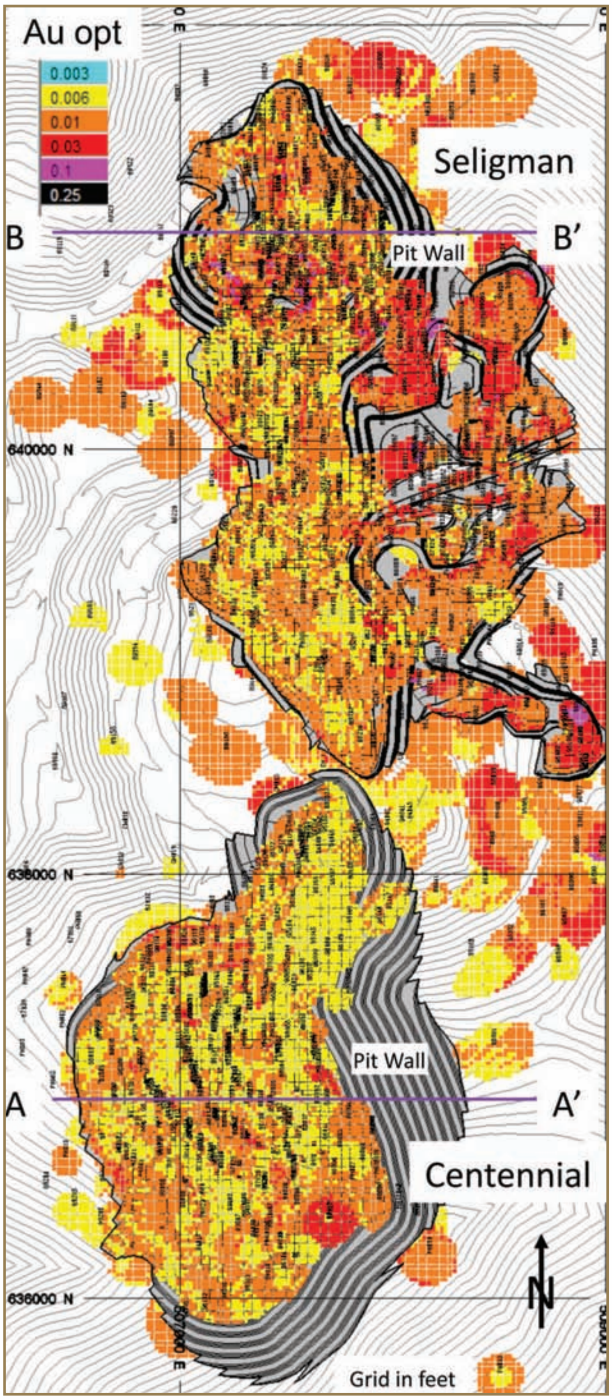
2. **Water Pollution Control Permit ("WPCP"):** This permit required by the Nevada Department of Environmental Protection ("NDEP") addresses water pollution control measures. The permit application was submitted to the NDEP in the fourth quarter of 2012. NDEP observations have been received and we are preparing responses to these comments.
3. **Nevada Reclamation Permits ("NRP"):** The approval of these permits by the NDEP addresses all planned project reclamation plans through mine closure and related remediation. The NRP permit applications were submitted to the NDEP in the second quarter of 2012. NDEP comments have been received and we have responded to these comments.
4. **Air Quality Permit ("AQP"):** This permit is the last of the three significant Nevada permits required to begin construction and also traditionally has the shortest timeline for approval. The permit application was recently submitted.

In addition to these four permits, we are also completing an Archeological Treatment Plan and Mitigation Reports prepared for the Nevada State Historical Preservation Office for their review, comment and subsequent acceptance for archeological and historical resources that occur on private lands that we control. The USFS participates in the review of these reports through a consultation process, as well as inputs from various stakeholders including Native American tribes.

Engineering

Additional engineering work conducted in 2013 advanced our preparations for construction, operation and closure of the Mt. Hamilton mine. Included in these activities was the completion in March 2014 of the design of our Adsorption-Desorption-Recovery ("ADR") processing plant for the recovery of gold and silver. This engineering was performed by Kappes Cassiday & Associates ("KCA") of Reno, Nevada, one of the world's best known ADR plant designers. Our agreement with KCA provides an option to contract with KCA for the fabrication, construction and start-up of the ADR plant at a turn-key price of $9.2 million. This price will be fixed for a period of five months after the issuance of the engineering report, and thereafter will be subject to escalation based upon CPI data.

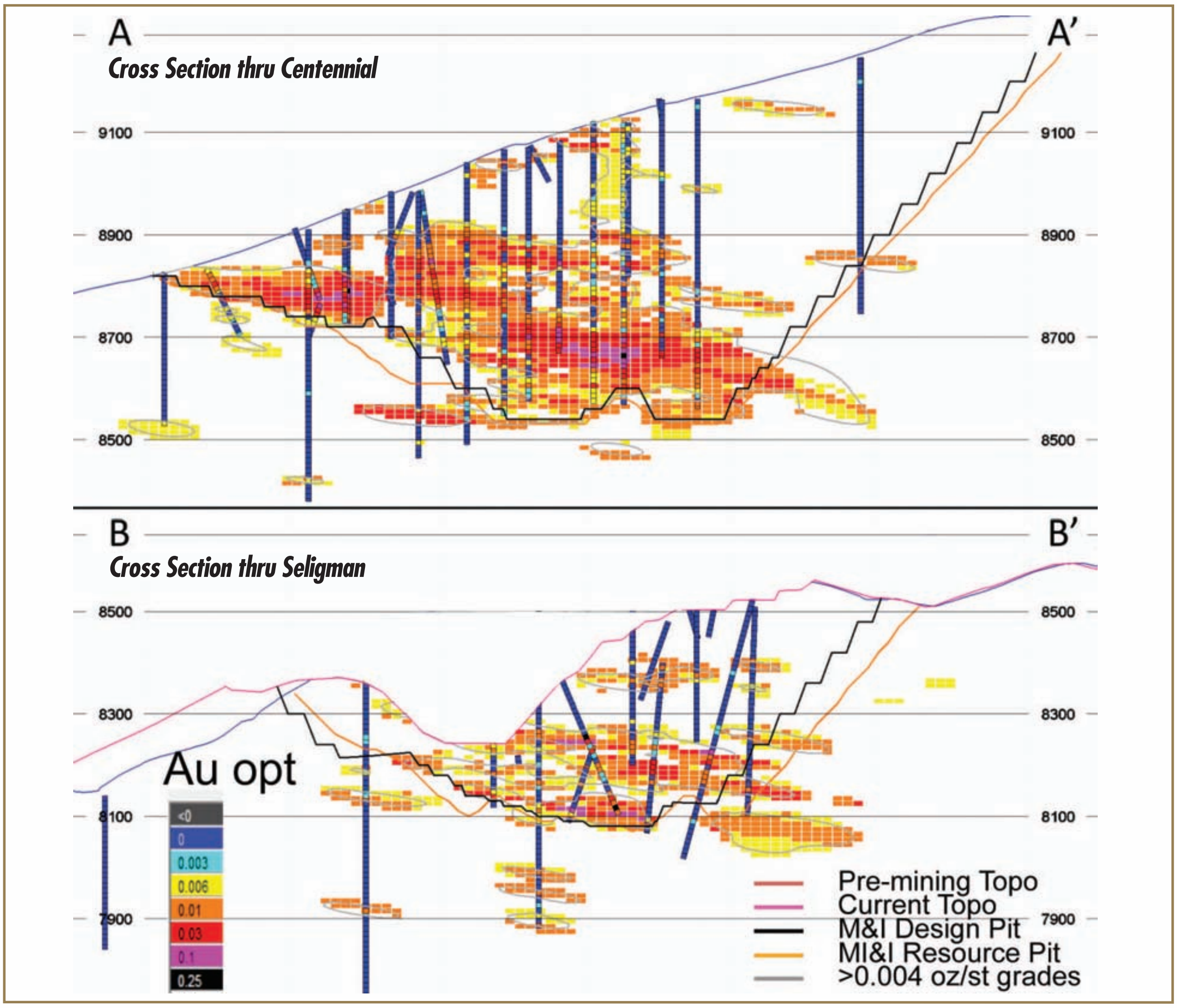
Figure 1: Mt. Hamilton Ore Reserve Block Model



In the fourth quarter of 2013 and into the second quarter of 2014, we engaged SRK, the engineering firm that completed our 2012 Feasibility Study, to develop and optimize a mine and processing plan that contemplates processing 10,000 tons per day rather than 8,500 tons per day that was the base case scenario in the Feasibility Study. Our permitting plan that has been submitted to the state and federal regulatory agencies allows us to mine at this higher rate. In addition, through our drilling efforts since the 2012 Feasibility Study was completed, we have added significant new Measured and Indicated Resources that we believe can be converted to Reserve status in the future, lengthening mine life.

The potential to add new resources at Mt. Hamilton remains high. Although we are not planning any new drilling in 2014, we have identified the area between the Centennial and Seligman open pits as having a very high potential to add resources that would have the effect of creating a single pit with reduced waste stripping, rather than two separate pits. This is an exciting new potential for the project.

Figure 2: Centennial & Seligman Cross Sections



Bongará Zinc Project, Peru

2013 was another year of steady progress on our Bongará high-grade zinc project in Peru. The focus of Votorantim's efforts, as managing and funding partner, was completion of pre-feasibility related work. This work consisted mainly of extensions of activities conducted in 2012 including additional infill drilling, metallurgical and geotechnical testing, updated resource modeling incorporating the results of the 2013 exploration program, infrastructure scoping studies and permitting.

Some of the Best Ever Drilling Results

Underground drilling on the San Jorge zone and surface drilling on the Karen-Milagros zone once again yielded exceptional drilling results. Twenty-five core holes totaling 2,817 meters were drilled from the San Jorge underground workings and 61 core holes totaling 7,545 meters were completed in the Karen-Milagros zone from the surface. Remarkably, the Bongará mineralization remains open to expansion in all directions, even after 487 drill holes totaling 117,380 meters have been completed.

This year's underground drilling at San Jorge proved to be a watershed event, not only because of the exceptionally high-grade results (see Table 1), but also because we developed a much better level of understanding of the geometry of zinc mineralization. Within the San Jorge zone, Votorantim's geologists had difficulty evaluating the 2011-2012 drilling data to establish continuity of mineralization, which is the projection of mineralization from one drill hole to another. Votorantim brought in consulting experts that studied the drill core and other geologic data in detail and recognized that mineralization was not only controlled by stratigraphy (favorable horizontal rock formations), but more importantly, it was also structurally controlled by near-vertical fault zones. Armed with this new interpretation, Votorantim designed the 2013 drilling program to test this new theory. The 2013 drilling results provided support for this interpretation and has enabled Votorantim to much more confidently project continuity and model the geometry of mineralization (see Figure 5).

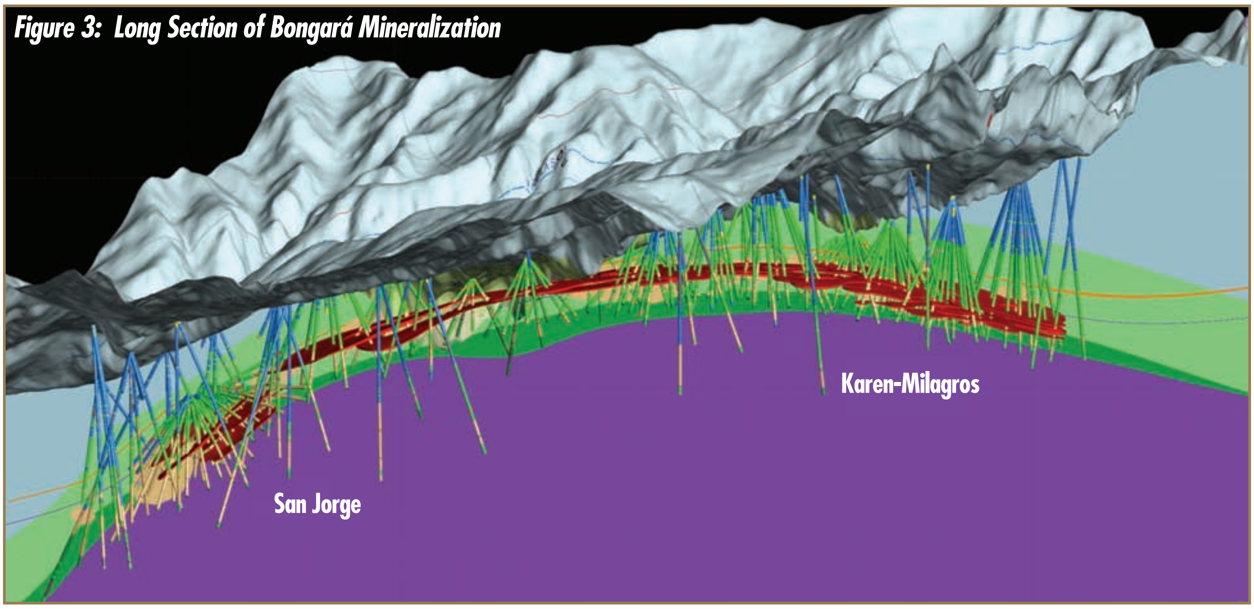
The Karen-Milagros zone was the focal point of surface drilling in 2013. Sixty-one core holes were drilled; of these, four of the holes did not reach the target depth. Of the remaining 57 drill holes, 40 holes intersected mineralization grading in excess of 2.0% zinc + lead over at least two meters, or equivalent (see Table 2). This latest round of

Table 1: 2013 Underground Drilling Highlights - San Jorge Zone

Drill Hole Number	Intercept * (meters)	Zinc (%)	Lead (%)	Zinc + Lead (%)	Silver (gpt)
V-404	6.8	19.42	0.39	19.81	22.04
V-405	7.0	15.34	1.44	16.78	24.85
and	10.2	7.15	0.18	7.33	13.35
V-407	3.6	26.31	1.59	27.90	74.87
V-410	9.9	22.94	3.09	26.04	20.61
V-431	4.3	17.24	0.25	17.50	6.21
V-432	21.1	8.31	1.71	10.02	12.11
V-433	5.0	38.22	3.89	42.12	60.76
V-456	15.7	6.50	0.46	6.96	7.21
V-458	25.5	7.22	0.55	7.77	6.21
V-465	10.7	45.60	5.25	50.84	106.71

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

Figure 3: Long Section of Bongará Mineralization



surface drilling was focused in the central portion of the Karen-Milagros zone that previously had insufficient drill density. 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 Figures 3 and 4.

Figure 4: Distribution of Mineralized Material

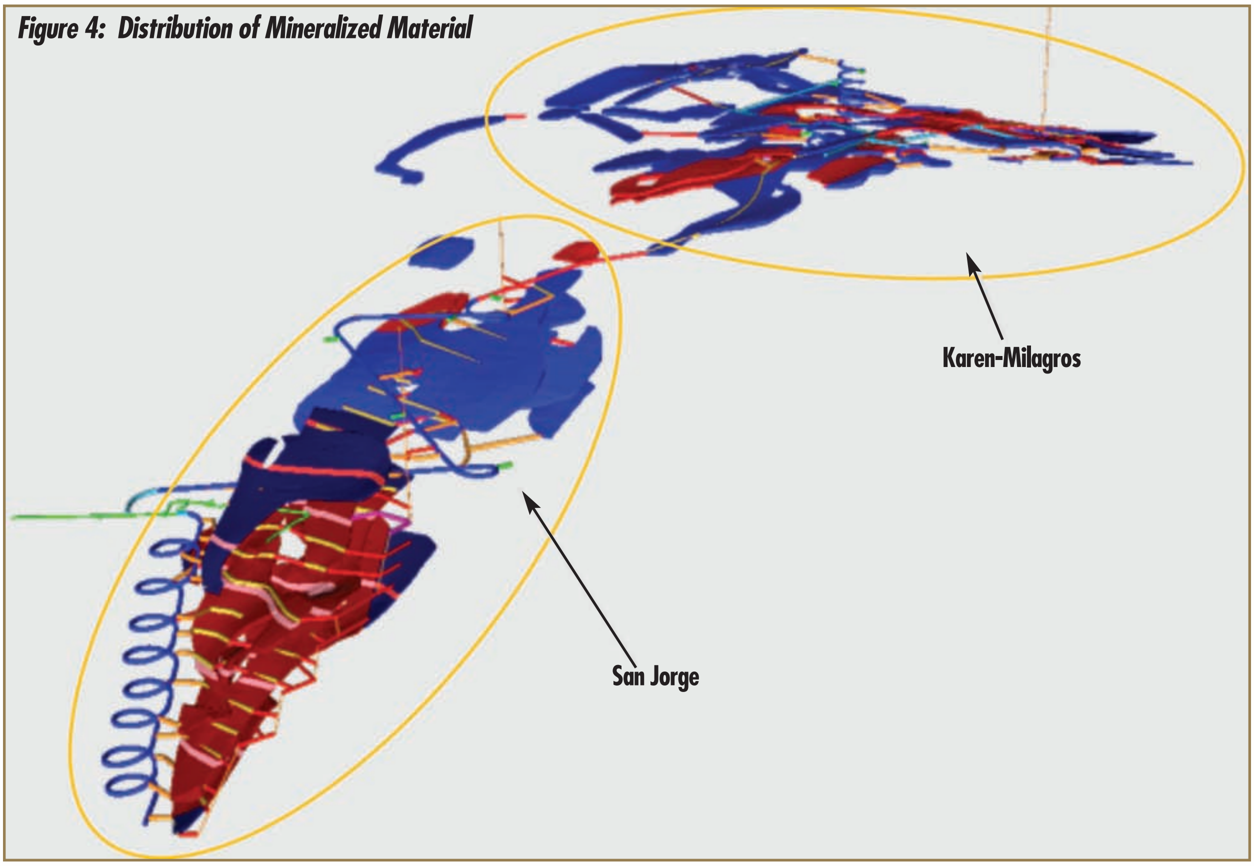


Table 2: 2013 Surface Drilling Highlights - Karen-Milagros Zone

Drill Hole Number	Intercept * (meters)	Zinc (%)	Lead (%)	Zinc + Lead (%)	Silver (gpt)
V-378	7.7	14.62	2.11	16.73	15.69
V-386	16.2	10.70	1.71	12.41	11.13
V-394	3.5	21.72	7.08	28.79	48.69
V-397	2.4	33.00	21.33	54.33	133.96
V-401	12.7	7.38	1.78	9.16	13.29
V-412	5.5	17.17	0.94	18.11	8.49
V-424	17.2	5.83	0.26	6.09	2.36
V-427	15.1	12.06	2.75	14.81	17.59
V-436	17.0	11.74	1.08	12.81	18.48
and	6.0	15.51	2.52	18.04	29.74
V-451	30.7	13.06	4.97	18.03	32.64
V-452	19.4	7.66	0.73	8.38	7.33
V-453	22.0	13.70	1.54	15.24	14.47

* *True thickness has not been estimated for each individual intercept but is generally thought to be about 75-90% of the actual drill thicknesses.*

Bongará Development Activities – Includes First Resource Report

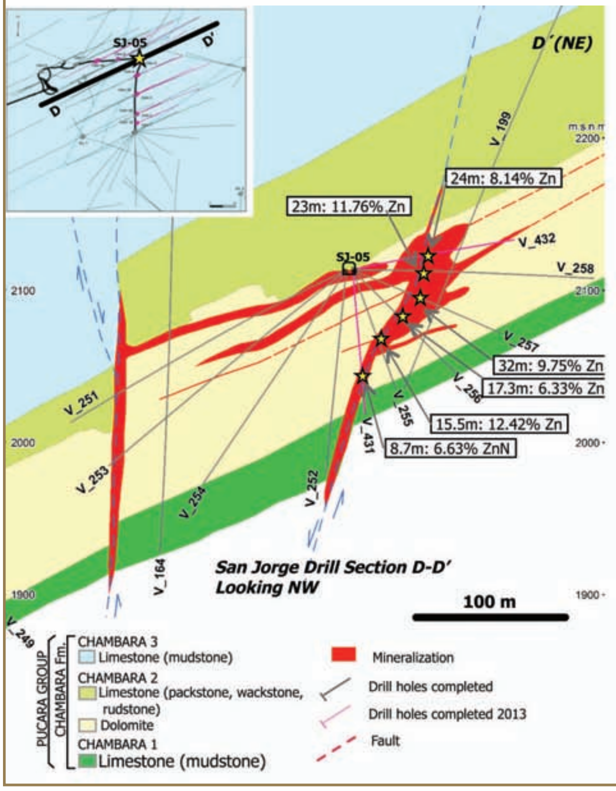
Engineering and other development activities that started in 2012 continued throughout much of 2013. Work was concentrated in four areas:

1. **Resource Modeling:** We believe we now have enough drill data to produce a NI 43-101 compliant resource estimate for the San Jorge and Karen-Milagros mineralized zones. We will rely heavily upon Votorantim's work in modeling the mineralization delineated to date. We will release the results of this effort when it is completed.
2. **Metallurgy:** Additional detailed metallurgical studies were conducted on both the San Jorge and Karen-Milagros mineralized samples. Although metallurgical work remains an ongoing work in progress, substantial advances have been made in understanding the metallurgy and defining the optimal processing options. Currently, Votorantim believes that a standard floatation process is the most efficient path for recovering both zinc and lead.
3. **Geotechnical/Hydrologic Drilling:** Sixteen core holes were completed to provide baseline data regarding the geotechnical characteristics of bedrock and the hydrology/water quality of the ground water in the Florida Canyon and surrounding areas.
4. **Road Construction:** Nearly 5.0 kilometers of the access road were completed in 2013, bringing the total length of road constructed to date to over 25 kilometers.

2014 Objective – Complete a Pre-feasibility Report

Votorantim's main goal for 2014 is to complete a pre-feasibility study for the Bongará project by year end. Included in these plans are completion of all hydrologic and geotechnical studies and pre-feasibility level project design for construction and operations. In addition, construction of another 4.0 kilometers of access road is planned, bringing the total length of completed access road to approximately 30 kilometers. Finally, a further 6,000 meters of surface drilling is planned in the Karen-Milagros (75%) and San Jorge (25%) zones. The mine permitting process, which has already begun, is expected to be 20% completed by year's end. Mine permitting is expected to take approximately two years, with the completion date estimated in the first half of 2016. Votorantim will also continue its highly successful community engagement activities throughout 2014.

Figure 5: San Jorge Cross Section



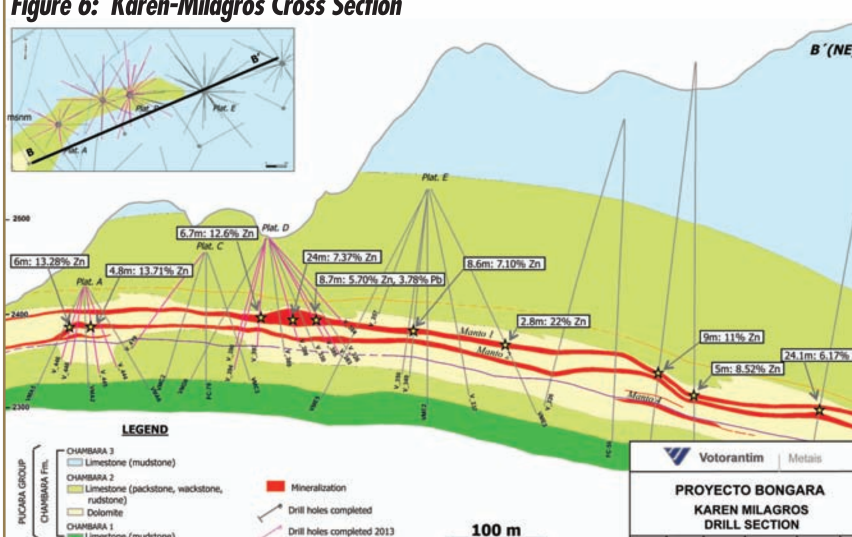
Drill Hole	From (meters)	To (meters)	Interval (meters)	Mineralization (assay results)
V-431 Station 5	8,70	14,00	5,30	14.02% Zn, 0.21% Pb, 5.09 g/t Ag.
	47,30	49,00	1,70	27.59% Zn, 7.09% Pb, 94.18 g/t Ag.
	58,40	61,70	3,30	6.42% Zn, 4.98% Pb, 19.37 g/t Ag.
	70,70	79,40	8,70	6.63% Zn, 0.24% Pb, 6.86 g/t Ag.
V-432 Station 5	14,10	15,80	1,70	19.08% Zn, 0.31% Pb, 9.49 g/t Ag.
	18,10	21,00	2,90	10.73% Zn, 0.81% Pb, 5.88.40 g/t Ag.
	31,20	33,60	2,40	3.44% Zn, 0.47% Pb, 5.46 g/t Ag.
	35,40	59,40	24,00	8.14% Zn, 1.54% Pb, 12.45 g/t Ag.
	62,60	67,80	5,20	4.17% Zn,0.03% Pb, 1.06 g/t Ag.
	100,00	102,00	2,00	6,36% Zn, 0.07% Pb, 1.08 g/t Ag.
V-251 Station 5	57,10	60,80	3,70	8.26% Zn, 0.82% Pb, 9.13 g/t Ag.
	63,10	66,10	3,00	4.49% Zn, 0.05% Pb, 4.47g/t Ag.
V-253 Station 5	6,70	10,10	3,40	5.01% Zn, 1.04% Pb, 6.96g/t Ag.
	13,10	15,10	2,00	7.1% Zn, 0.09% Pb, 1.20 g/t Ag.
	100,80	106,40	5,60	7.00% Zn, 1.69% Pb, 7.40 g/t Ag.
	114,40	117,80	3,40	4.70 % Zn, 0.01% Pb, 8.56 g/t Ag.
V-255 Station 5	8,10	12,10	4,00	4.77% Zn, 0.01% Pb, 3.29 g/t Ag.
	43,70	59,20	15,50	12.42% Zn, 4.79% Pb, 41.94 g/t Ag.
	65,20	70,40	5,20	7.94% Zn, 1.05% Pb, 16.24 g/t Ag.
	73,70	76,40	2,70	9.11% Zn, 1.91% Pb, 30.40 g/t Ag.
V-256 Station 5	6,00	15,00	9,00	6.13% Zn, 0.11% Pb, 1.91 g/t Ag.
	27,30	30,00	2,70	4.53% Zn, 0.00% Pb, 1.46 g/t Ag.
	38,60	55,90	17,30	6.33% Zn, 0.79% Pb, 11.41 g/t Ag.
V-257 Station 5	17,30	23,20	5,90	6.55% Zn, 0.22% Pb, 6.44 g/t Ag.
	35,30	66,70	31,40	9.75% Zn, 1.11% Pb, 31.40 g/t Ag.
V-258 Station 5	12,30	18,00	5,70	12.54% Zn, 1.70% Pb, 25.28 g/t Ag.
	27,50	37,30	9,80	4.90% Zn, 0.12% Pb, 3.52 g/t Ag.
	45,60	68,50	22,90	11.76% Zn, 0.84% Pb, 14.07 g/t Ag.

Our Agreement with Votorantim Metais

The cornerstone of our agreement with Votorantim is that our 30% interest is 100% funded through commencement of commercial production. 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 our industry has been in for the past two years, it is clear that our underlying agreement with Votorantim makes this great project even better for Solitario and its shareholders.

Votorantim has the option to earn up to a 70% interest in the project by committing to place the project into production based upon a Feasibility Study. Solitario does not have to pay back Votorantim for any of its expenditures prior to completion of the 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 our net cash flow distributions.

Figure 6: Karen-Milagros Cross Section



Pedra Branca Project, Brazil – Drill Testing New Targets to Commence

Platinum and palladium ("PGM") mineralization and associated mines are even more rare than gold mines in terms of worldwide distribution. Moreover, South Africa and Russia are the largest producers of PGM's and their capacity to continue current production rates is in question. These are some of the reasons why the PGM market is forecast to stay strong for years to come by most precious metal commodity experts. It is also why we believe that Pedra Branca could become an important development project for Solitario in the future.

In 2013 Anglo Platinum, the largest platinum producer in the world and our 51% joint venture partner, completed a major regional airborne geophysical survey designed to identify buried magnetic ultramafic rock formations. Ultramafic rocks are iron-magnesium rich, often with a very high magnetic geophysical signature. Ultramafic rock formations commonly host platinum-palladium mineralization not only in the Pedra Branca area, but in many of the major PGM producing regions throughout the world.

The geophysical program was successful in identifying new magnetic bodies. Anglo Platinum is planning a 7,000-8,000 meter core drill program to drill test a number of these newly identified drill targets.

Pachuca Norte – 2013-2014 Drilling Program Nearly Complete

Solitario's Pachuca Norte project area surrounds the famed Pachuca-Real del Monte silver-gold mining district in central Mexico. Historically, the district produced about 1.4 billion ounces of silver and over 7.0 million ounces of gold, making it one of the largest historic silver-gold districts in the world.

In June 2013 we signed a definitive Pachuca Norte joint venture agreement with Hochschild Mining. The joint venture terms include progressively accelerating work commitments by Hochschild totaling $10 million over 60 months, with a firm initial work commitment of $2.0 million over the first 18 months to earn a 51% interest in the project. 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 is the project manager and can terminate its funding obligations at any time after completing its firm initial $2.0 million work commitment.

To date, Hochschild completed and received assay drilling results for 13 core holes. Three targets were tested. The best five drill hole intercepts for which results have been received are presented in the Table 3 below.

Table 3: 2013 Pachuca Norte Drilling Highlights

Drill Hole Number	Intercept * (meters)	Gold (gr/tonne)	Silver (gr/tonne)	Silver Equivalent ** (gr/tonne)
DDHPA13-02	0.60	6.21	520.0	892.6
DDHPA13-05	1.10	0.83	64.3	114.1
DDHPA13-10	0.28	0.61	79.2	115.8
DDHPA13-11	0.30	1.01	88.0	148.6
DDHPA13-13	0.80	6.57	392.0	786.2

* *True thickness has not been estimated for each individual intercept.*
** *Ag Eq. = Silver Equivalent at 1.0 g/gold = 50 g/silver.*

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 development financing capital, none of which is currently in place. The Mt. Hamilton project is discussed below under "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 exploration 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 ("Crown"). 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 2013 and 2012 and we recorded $100,000 of delay rental payments each year during 2013 and 2012 related to 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, 2013, in addition to our Mt. Hamilton project, we had six exploration properties in Peru and Mexico, and one royalty property in each of Peru and Brazil. We are conducting limited exploration activities in 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 discussed above; (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. In 2012 and 2013, we significantly reduced our level of expenditures in our foreign exploration and administrative activities to just the care and maintenance of existing 100%-owned properties. 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.*

Augusta long-term debt

On November 22, 2013, we entered into a letter agreement, (the "Letter Agreement") between us, Ely Gold and Minerals, Inc. ("Ely") and DHI Minerals (US) Ltd. ("DHI"). Under the Letter Agreement, Solitario subscribed for $1,300,000 of shares of common stock of Ely at a price of Cdn$0.10 and upon approval by Ely and other regulatory approvals we received 13,571,354 shares of Ely common stock. Ely used the $1,300,000 from the subscription to pay Augusta Resource Corporation ("Augusta") $1,300,000 pursuant to the terms of an agreement between Ely and Augusta dated November 20, 2013. Ely's receipt of the $1,300,000 and payment of those funds to Augusta fully satisfied Solitario's prior obligations to subscribe for an aggregate of US$1,750,000 of shares of Ely common stock (US$750,000 on or before May 1, 2014 and US$1,000,000 on or before May 1, 2015) and paid off Solitario's Augusta debt which was deemed fully paid upon receipt by Augusta of the $1,300,000 from Ely. Solitario recorded a gain on early retirement of debt of $313,000 during 2013 as a result of the payoff of the Augusta long-term debt.

Investment in Mt. Hamilton

On November 22, 2013, Solitario and DHI entered into the second amendment (the "Second Amendment") to the Limited Liability Company Operating Agreement of Mt. Hamilton LLC, as amended (the "MH Agreement"). Pursuant to the terms of the Second Amendment, the parties agreed to modify Solitario's payment obligation of US$250,000 and 50,000 shares of Solitario common stock due to DHI on August 21, 2014 to a payment of 327,000 shares of Solitario common which was paid on December 20, 2013.

Investment in Kinross

We have a significant investment in Kinross at December 31, 2013, which consists of 600,000 shares of Kinross common stock. During 2013 and 2012, we sold 70,000 and 180,000 shares, respectively, of Kinross common stock for proceeds of $358,000 and $1,591,000. As of February 28, 2013, we own 530,000 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, 2013, we have sold two covered options covering 200,000 shares of Kinross stock whereby the holder could purchase 100,000 shares at $7.00 per share and purchase 100,000 shares at $8.00 per share, both of which expired unexercised in February 2014. The Kinross call option is discussed below under Note 7, "Derivative instruments" in the Consolidated Financial Statements of this Annual Report. As of December 31, 2013, we have borrowed $802,000 in a margin loan against our holdings of Kinross shares. The short-term margin loan is discussed below under Note 4, "Short-term debt" to the Consolidated Financial Statements of this Annual Report.

Investment in Ely

During 2013 we sold 6,303,563 shares of Ely common stock for proceeds of $481,000. As part of the Letter Agreement, discussed above, we received 13,571,354 shares of Ely common stock and as of December 31, 2013 we own 15,732,274 shares of Ely common stock, representing approximately 19.5% of the outstanding shares of Ely. We have classified our holdings of Ely common stock as marketable equity shares available for sale and gains and losses on our holdings of Ely are recorded in other comprehensive income in the shareholders' equity section of our Consolidated Balance Sheets.

Mineral property

Solitario began capitalizing its development costs incurred at its Mt. Hamilton project subsequent to the completion of the Feasibility Study. During 2013, Solitario capitalized $2,784,000 of mineral property to Mt. Hamilton, including $1,884,000 of development costs, $174,000 of payments on mineral properties and $726,000 of interest. In addition, Solitario capitalized $11,000 of net bonding costs and $300,000 of advance royalty payments to an underlying leaseholder as other assets. See Note 2, "Mineral Properties," in the Consolidated Financial Statements of this Annual Report for further discussion of the Mt. Hamilton project.

Cancellation of options

On January 28, 2014, holders of option awards from the 2006 Stock Option Incentive Plan (the "2006 Plan") voluntarily cancelled awards for 1,797,000 options with an option price of Cdn$2.40 with an expiration date of May 5, 2015 to allow us to have additional financial flexibility. No consideration was given or received by the holders of the options to cancel the awards.

Private placement
On February 28, 2014, we closed a private placement of 1,600,000 shares of Solitario common stock priced at $1.05 per share for total proceeds of $1,680,000 (the "2014 Offering"). We retained a placement agent in connection with the portion of the Offering conducted in Canada and paid the placement agent a fee of $50,000 for the sale effected to the single Canadian investor that participated in the 2014 Offering.

(c). Results of Operations

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012
We had a net loss of $2,052,000 or $0.06 per basic and diluted share for the year ended December 31, 2013 compared to a net loss of $3,297,000 or $0.10 per basic and diluted share for the year ended December 31, 2012. As explained in more detail below, the primary reasons for the decrease in net loss during 2013 compared to the net loss during 2012 were (i) cessation of exploration activities in February 2012 at Mt. Hamilton after the completion of the Feasibility Study, resulting in the capitalization of development expenditures, compared to exploration costs of $301,000 on our Mt. Hamilton project during 2012; (ii) a decrease in other exploration expense to $797,000 during 2013 compared to $1,685,000 during 2012; (iii) recording of a gain on early termination of debt on the payoff of our Augusta debt of $313,000 during 2013; (iv) the recording of a gain on our warrant liability of $998,000 during 2013 from the decrease in the value of the RMB warrants compared to a loss on warrant liability of $488,000 during 2012; (v) a decrease in our interest expense and dividend income, net, to a credit of $57,000 compared to interest expense, net of $318,000 during 2012 as a result of capitalizing interest expense to mineral property related to the development of Mt. Hamilton during 2013; and (vi) a decrease in our non-stock option general and administrative expense to $1,824,000 during 2013 compared to $1,948,000 during 2012. Partially offsetting these decreases in net loss were (i) a reduction in our gain on the sale of marketable equity securities to $142,000 during 2013 compared to gain on sale of marketable equity securities of $1,528,000 during 2012; (ii) recording a reduction in the net income at our MH-LLC subsidiary attributable to noncontrolling interest of $47,000 during 2013 for the net income attributable to the noncontrolling interest, compared to reduction in the net loss, during 2012 of $301,000 for the net loss attributable to noncontrolling interest; (iii) an increase in the net loss of our equity method investment to $1,012,000 during 2013 compared to $488,000 during 2012 and (iv) a decrease in income tax benefit to $176,000 during 2013 compared to an income tax benefit of $648,000 during 2012. Each of these items is discussed in greater detail below.

Our primary activities during 2013 and 2012 have been the (i) engineering and permitting activities to advance the Mt. Hamilton property toward future production, and to a lesser extent the monitoring of the exploration and development activities of our joint venture partners. During 2013 we continued our development efforts related to our Mt. Hamilton project capitalizing $2,784,000 in mineral property costs including $1,884,000 in direct development costs, property payments of $174,000 and capitalization of interest costs of $726,000. In addition we recorded an increase in other assets during 2013 of $311,000 including bonding costs of $11,000 and $300,000 of advance royalty payment. During 2012 we capitalized $3,454,000 of mineral property, including $3,129,000 in direct development costs and $325,000 of property payments. In addition we capitalized $35,000 of bonding costs and $300,000 of advanced royalty payment to other assets. The expenditures were greater during 2012 as we were preparing our Feasibility Study and subsequently completing permitting and engineering work related to the development of the Mt. Hamilton project and filing of our Plan of Operations with the United States Forest Service as part of the permitting process at Mt. Hamilton. We decreased our exploration expenditures at our South American and Mexico properties to $797,000 during 2013 compared to $1,685,000 in 2012 as a result of a shift in our focus to the Mt. Hamilton project. We did no drilling on any of our exploration projects in South America or Mexico during 2013 compared to 2012 when we completed a drilling campaign at our Jaripo project in Mexico.

Our 2014 exploration and development expenditure budget is approximately $1,130,000, which includes approximately $956,000 for development costs related to Mt. Hamilton. In addition we anticipate we will spend approximately $765,000 for payments on leases to landowners, advance minimum royalty payments and payments to DHI pursuant to the MH Agreement. The primary factor in the reduction in Mt. Hamilton exploration and development expenditures in 2014 compared to 2013 relates to the planned completion of our primary permitting activities during 2014, with reductions in engineering design work and project management pending obtaining all necessary permits and obtaining financing to begin construction of the project. 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. During 2014 we plan to significantly curtail our early-stage planned exploration activities on our other properties and our reconnaissance exploration activities as we focus on the development of Mt. Hamilton. 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	2013	2012
Cerro Azul	$ 71	$ 99
Pachuca	14	32
La Promesa	8	19
Norcan	5	2
Mercurio	4	9
Canta Colorado	2	17
Jaripo	1	247
Mt. Hamilton	-	301
Espanola	-	22
Atico	-	4
Triunfo	-	1
Pedra Branca, net	-	(30)
Reconnaissance	692	1,263
Total exploration expense	$ 797	$ 1,986

During 2013 as a result of the payoff of the Augusta debt, discussed above under recent developments, we recorded a gain on early termination of debt for the difference between (i) $1,613,000, the discounted fair value of the Augusta debt on the date of payoff and (ii) $1,300,000 used by Ely to fully pay the Augusta debt.

We recorded an increase in our consolidated loss of $47,000 during 2013 for DHI's noncontrolling interest in the net income, as a result of the gain on retirement of debt of $313,000, at MH-LLC. We recorded a credit (reduction of expense) of $301,000, during 2012 for DHI's noncontrolling interest in the losses of MH-LLC. The change from a loss in 2012 to income in 2013 is related to the capitalization of direct development costs of $1,884,000 and the capitalization of $726,000 of interest during 2013 coupled with the gain on early retirement of debt, discussed above. During 2012 we recorded management fees of $30,000, as a credit to exploration expense prior to Anglo Platinum, Ltd., the 51% owner of our PBM subsidiary taking over as manager of PBM.

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 $1,824,000 during 2013 compared to $1,948,000 during 2012. We incurred salary and benefits expense of $880,000 during 2013 compared to $1,008,000 during 2012, which decreased as a result of the full-year capitalization to Mt. Hamilton property of certain salary costs during 2013 compared to 2012. In addition, travel and investor relation costs were reduced to $394,000 during 2013 compared to $463,000 during 2012. These decreases were mitigated by an increase in legal, accounting and other costs to $284,000 during 2013 compared to $224,000 during 2012 partially as a result of certain costs incurred with regard to our investment in Ely and our early termination of the Augusta debt during 2013. We anticipate general and administrative costs for 2014 will be slightly lower than the costs incurred during 2013 as we expect less activity with regard to Mt. Hamilton and our South American operations and we have targeted reductions in salary costs during 2014. We have forecast 2014 general and administrative costs to be approximately $1,522,000, 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, 2013, we recorded $420,000 of non-cash stock option expense for the amortization of grant date fair value with a credit to additional paid-in capital compared to $732,000 of non-cash stock option compensation expense during 2012. See Note 10, "Employee stock compensation plans" in our Consolidated Financial Statements of this Annual Report 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 2013 we recorded a gain on derivative instruments of $90,000 compared to a loss of $30,000 during 2012. The gain was primarily related to the sale of two Kinross calls during 2013 for $90,000 which expired unexercised in February 2014. We recorded a loss during 2012 primarily related to the remaining value attributed to Ely warrants we received in 2010 in connection with the formation of MH-LLC, which expired during 2012. We have sold covered calls on a limited portion of our Kinross common stock that we intend to sell within one year, to enhance our return on Kinross common stock in exchange for some potential upside in those covered Kinross shares. We do not anticipate selling a material number of covered Kinross call options during 2014. See Note 7, "Derivative instruments" to our Consolidated Financial Statements of this Annual Report 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 $56,000 of depreciation and amortization during 2013, of which we capitalized $30,000 to mineral property in connection with the development of Mt. Hamilton, compared to $61,000 in 2012. The decrease is primarily as a result of certain equipment being fully amortized during 2013, which was partially offset by a small increase in furniture and fixtures at Mt. Hamilton. We amortize these assets over a three-year period. We anticipate our 2014 depreciation and amortization costs will be similar to our 2013 amount.

During 2013 we incurred $726,000 of interest costs, including (i) $165,000 paid in cash on the RMB Loan; (ii) $22,000 paid on our UBS margin loans; (iii) $195,000 for the amortization of our deferred offering costs on the RMB Loan and $217,000 of interest costs associated with the amortization of the discount associated with the RMB warrants issued in connection with the RMB Loan and (iv) $127,000 of interest costs during 2013 related to the accretion of interest on the Augusta debt prior to the payoff of the loan in November 2013. As discussed above, we capitalized all of our interest costs during 2013 to mineral property associated with the development of the Mt. Hamilton project. See Note 2, "Mineral properties" and Note 5 "Long-term debt" to our Consolidated Financial Statements of this Annual Report. During 2012 we recorded interest expense, net of interest and dividend income, of $318,000 which included (i) $70,000 of interest expense related to the amortization of deferred offering costs on the RMB Loan; (ii) $77,000 of interest expense related to the discount recorded on the warrants issued in connection with the RMB Loan; (iii) $30,000 interest paid in cash on the RMB Loan; (iv) $58,000 of interest paid in cash on our outstanding margin loans and (v) $184,000 of interest expense related to the accretion of discount on our Augusta long-term debt. 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. We recorded dividend income of $57,000 during 2013 compared to $98,000 during 2012, primarily related to dividends on our Kinross stock. Interest income during 2013 and 2012 was not significant as our interest bearing accounts were kept to a minimum to reduce borrowing costs. We anticipate our interest cost will decrease in 2014 as a result of the payoff of the Augusta debt, mitigated by an increase in the outstanding balance on the RMB Loan anticipated during 2014 compared to 2013. We also anticipate dividend income will decrease during 2014 as we sell our Kinross common stock to fund our operations. See Note 4, "Short-term debt" and Note 5, "Long-term debt" to our Consolidated Financial Statements of this Annual Report for additional discussion of our interest expense related to our short and long-term debt.

During 2013 we sold 70,000 shares of Kinross stock for proceeds of $358,000 and recorded a gain on sale of Kinross of $308,000 compared to 2012 when we sold 180,000 shares of Kinross stock for proceeds of $1,591,000 and recorded a gain on sale of $1,464,000. In addition during 2013 we sold 6,303,563 shares of Ely for gross proceeds of $481,000 and recorded a loss on sale of marketable equity securities of $166,000 compared to 2012 when 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 2014 budget anticipates the sale of 360,000 shares of Kinross stock for assumed proceeds of $1,800,000 during 2014. Although we have not budgeted any sales of shares of Ely for 2014, we may also sell some shares of Ely to meet our cash and liquidity needs. See "Liquidity and Capital Resources" below. Any proceeds we may receive from sales of marketable equity securities are significantly dependent on the quoted market price of the securities sold on the date of sale and may be at prices significantly below our projected price.

During 2013 we recorded an income tax benefit of $176,000 compared to an income tax benefit of $648,000 during 2012. The change in our tax benefit during 2013 is primarily related to the following factors, discussed above, which reduced our expected 2013 tax benefit compared to 2012: (a) the decrease in our taxable non-stock option general and administrative expenses; (b) the gain on warrant liability compared to the loss on warrant liability in 2012; (c) the decrease in direct development and exploration expenses at our Mt. Hamilton project and (d) the decrease in our United States exploration costs. The following factors, discussed above, partially mitigated the decrease in our deferred tax expense in 2013 compared to 2012: (a) a reduction in the gain on sale of marketable equity securities; (b) our reduction in US taxable-deductible capitalized costs at Mt. Hamilton and (c) the decrease in interest expense incurred during 2013 compared with 2012, discussed above. See Note 6, "Income taxes" to our Consolidated Financial Statements of this Annual Report for additional discussion of our income tax expense and deferred income tax liability at December 31, 2013. 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 2013 we recorded $13,000 of mineral property impairments related to our Cerro Azul and Atico properties in Peru and our Jaripo property in Mexico compared to $31,000 of mineral property impairments related to our Triunfo and Espanola properties in Bolivia and our Excelsior project in Peru during 2012.

(d). Liquidity and Capital Resources

Short-term debt

As of December 31, 2013, we have borrowed $802,000 from UBS Bank, USA ("UBS Bank") pursuant to a secured credit line agreement between us and UBS Bank including $2,000 of accrued interest. As of February 28, 2014, we have borrowed an additional $100,000, net of interest, on the UBS loan and have an outstanding balance of $906,000. 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 0.17% as of December 31, 2013. 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, 2013 and February 28, 2014, the equity balance in our account at UBS was approximately 69% and 67%, respectively. Solitario incurred interest costs related to the UBS credit line of $22,000 and $36,000, respectively, for the years ended December 31, 2013 and 2012.

We also had 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, 2013, we have repaid all short-term margin loans previously borrowed from RBC and have closed our RBC brokerage accounts and no longer have short-term borrowing capacity at RBC. We had no short-term borrowing from RBC during 2013. We recorded $22,000 of interest expense related to the RBC short-term margin loans for the year ended December 31, 2012.

We are using 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 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 2014, 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 2014 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 2014. We anticipate proceeds from the sale of shares of Kinross common stock less any repayment of outstanding short-term margin loans, and proceeds from borrowing from the RMB Loan will provide adequate funds for our operations through the end of 2014. 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 during 2014. Our maximum amount of short-term borrowing was $1,710,000, including accrued interest, during the year ended December 31, 2013. Our average short-term borrowing during the year ended December 31, 2013 was $863,000.

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 have recorded deferred offering costs of $322,000 and $518,000, respectively as of December 31, 2013 and 2012 in other assets. We borrowed an additional $2,000,000 during 2013 and at December 31, 2013, the balance of the RMB Loan is $3,500,000.

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, 2013 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.

The following table details the interest costs associated with the RMB Loan:

(in thousands)	Year ended December 31, 2013	2012
Interest expense paid in cash	$ 165	$ 30
Amortization of the RMB Warrants discount	217	77
Amortization of RMB deferred offering costs	195	70
Total interest related to the RMB Loan	$ 577	$ 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 the remaining unamortized warrant discount was $356,000 and $573,000, respectively, as of December 31, 2013 and 2012.

Augusta long-term debt

In connection with the formation of MH-LLC, the Mt. Hamilton properties contributed by DHI 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 were non-interest bearing. Accordingly, upon formation and the contribution of the mineral properties by DHI to MH-LLC, MH-LLC recorded the 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.

As discussed above under recent developments, on November 22, 2013, we subscribed for 13,571,354 shares of Ely common stock for $1,300,000 and, pursuant to the Letter Agreement Ely used the funds to fully pay off the Augusta long-term debt. We recorded a gain on early retirement of debt of $313,000 during 2013 as a result of the payoff of the Augusta long-term debt. At December 31, 2012, we had three payments remaining on the Augusta long-term debt totaling $2,500,000, less $264,000 of unamortized discount for total Augusta debt of $2,236,000, of which $727,000 was recorded as current.

In April 2013 Ely exercised its right to reduce to $500,000 Solitario's required subscription of $750,000 for Ely common stock, funds from which Ely was required to pay the June 1, 2013 payment due to Augusta. Ely agreed to pay the remaining $250,000 due to Augusta from its own funds, for a total payment of $750,000 which was done in June 2013. As a result, we received 5,131,150 shares of Ely common stock and recorded the fair market value of the Ely stock received as marketable equity securities and an increase in additional paid-in capital. Ely's payment of the $250,000 portion of the Augusta debt was recorded as an increase in noncontrolling interest in the equity section of Solitario's balance sheet and is shown as a noncontrolling interest contribution, net as well as a repayment of long-term debt in the statement of cash flows.

During 2013 and 2012 we recorded $127,000 and $184,000, respectively, for accretion of interest related to the Augusta long-term debt and paid $2,050,000, including the contribution of $250,000 from noncontrolling interest, discussed above and $750,000, respectively, in cash on the long-term note. All interest accreted on the Augusta long-term debt during 2013 was capitalized to mineral property. See Note 2, "Mineral properties," to our Consolidated Financial Statements of this Annual Report.

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 2013 and 2012 related to delay rental payments on our Bongará project from Votorantim Metais Cajamarquilla, S.A., a wholly-owned subsidiary of Votorantim Metais (both companies referred to as "Votorantim"), our joint venture partner. In addition, we received $100,000 delay rental payments, respectively, on our Mercurio project in Brazil from Brazilian Resources, Inc., our joint venture partner during 2013 and 2012. Receipts from joint venture payments previously occurred on an infrequent basis. Per our agreements with both Votorantim on our Bongará project and Brazilian Resources, Inc. on our Mercurio project, 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 return 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 recorded as a current asset as of December 31, 2012. See Note 2, "Mineral Properties," to the Consolidated Financial Statements of this Annual Report 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 2013 MH-LLC distributed $250,000 to its members in proportion to their interests. Solitario received $200,000 from this distribution which was eliminated in consolidation. During 2012, MH-LLC distributed $2.5 million to its members in proportion to their interests. Solitario received $2,000,000 from this distribution which was eliminated in consolidation. In addition during 2012 Solitario received $500,000 from DHI to repay a portion of a prior loan to Solitario, and Solitario agreed to forgive $35,000 of accrued interest due from DHI, which represented the accrued interest on loans made to DHI in connection with the MH Agreement through June 30, 2012.

Solitario and DHI entered into the Second Amendment whereby the parties agreed to modify Solitario's payment obligation of US$250,000 and 50,000 shares of Solitario common stock due to DHI on August 21, 2014 as previously contemplated under the terms of the MH Agreement to a payment of 327,000 shares of Solitario common stock which was paid on December 20, 2013.

Investment in marketable equity securities

Our investments in marketable equity securities are based upon market quotes on the NYSE MKT and the TSXV. At December 31, 2013, we have classified $1,577,000 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, 2013, we recorded a loss in other comprehensive income on marketable equity securities of $3,454,000, net of related deferred tax expense of $770,000.

Kinross common stock

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, 2013 and 2012, we owned 600,000 and 670,000 shares of Kinross common stock, respectively. The Kinross shares are recorded at their fair market value at December 31, 2013 and 2012 of $2,628,000 and $6,512,000, respectively.

During 2013 we sold 70,000 shares of Kinross stock for proceeds of $358,000 and recorded a gain on sale of Kinross of $308,000. During 2012 we sold 180,000 shares of Kinross stock for proceeds of $1,591,000 and recorded a gain on sale of marketable equity securities of $1,464,000 in the consolidated statement of operations. The gain on sale was transferred, less related deferred tax expense, from previously unrealized gain on marketable equity securities in other comprehensive income. 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 $9.87 per share to a low of $4.28 per share during the year ended December 31, 2013.

Ely common stock

During 2013 we sold 6,303,563 shares of Ely for gross proceeds of $481,000 and recorded a loss on sale of marketable equity securities of $166,000 in the consolidated statement of operations. The loss on sale was transferred, less related deferred tax expense, from previously unrealized gain on marketable equity securities in other comprehensive income. As part of the Letter Agreement, discussed above, we received 13,571,354 shares of Ely common stock. As of December 31, 2013 we own 15,732,274 shares of Ely common stock, representing approximately 19.5% of the outstanding shares of Ely that are recorded at their fair market value of $1,324,000 at December 31, 2013. We have classified our holdings of Ely common stock as marketable equity shares available for sale, and gains and losses on our holdings of Ely are recorded in other comprehensive income in the shareholders' equity section of our Consolidated Balance Sheet.

Other common stock

We also own 430,000 shares of TNR Gold Corp. that are recorded at their fair market value of $16,000 at December 31, 2013 and 250,000 shares of International Lithium Corporation that are recorded at their fair market of $5,000 at December 31, 2013.

Working capital

We had working capital of $2,531,000 at December 31, 2013 compared to $4,245,000 at December 31, 2012. Our working capital at December 31, 2013 primarily consists of our cash and equivalents and our investment in 360,000 shares of Kinross common stock of $1,577,000, which we plan to sell in the next year, less our accounts payable of $367,000 and our short-term margin loan of $802,000. We also intend to borrow pursuant to the RMB Facility Agreement and to repay our UBS Bank secured credit line margin loan. We will continue to monitor our exposure to Kinross as a single asset, taking into consideration our cash and liquidity requirements, tax implications, the market price of gold and the market price of Kinross stock. We have budgeted the anticipated sale of 360,000 shares of Kinross stock during 2014 for assumed proceeds of $1,800,000. 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 $2,092,000 as of December 31, 2013 compared to $616,000 as of December 31, 2012. As of December 31, 2013, 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 2014 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 February 28, 2014, we announced the sale of 1,600,000 shares of our common stock in a private placement at a price of $1.05 per share for total proceeds of $1,680,000 (the "2014 Offering"). We paid a finder's fee of $50,000 in connection with the 2014 Offering. The 2014 Offering was unanimously approved by our Board of Directors.

On July 26, 2013, we sold 2,451,892 shares of our common stock in a private placement at a price of $0.84 per share for total proceeds of $2,060,000 (the "Offering"). The Offering was unanimously approved by our Board of Directors and, as part of the Offering insiders subscribed for and acquired 606,665 shares (the "Insider Shares") for a total purchase of $510,000. The offer and sale of the Insider Shares was unanimously approved by the Audit Committee of the Board of Directors. All shares in the Offering were offered and sold on the same terms and conditions.

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 stock as quoted on the NYSE MKT (formerly NYSE Amex) on June 25, 2012. Solitario received total proceeds of $274,500.

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

On June 18, 2013, Solitario's shareholders approved the 2013 Solitario Exploration and Royalty Corp. Omnibus Stock and Incentive Plan (the "2013 Plan"). Under the terms of the 2013 Plan, the Board of Directors may grant awards for up to 1,750,000 shares to Directors, officers, employees and consultants. Such awards may take the form of stock options, stock appreciation rights, restricted stock, and restricted stock units. During the year ended December 31, 2013, we granted options for 120,000 shares at an exercise price of $1.14 per share and options for 1,280,000 shares at an exercise price of $0.94 per share. The options vest 25% on date of grant and 25% on the next three anniversary dates.

During the year ended December 31, 2013, options for 117,500 shares were exercised from the 2006 Plan for cash proceeds of $184,000. During 2013 there were no shares exercised or granted from the 2006 Plan. 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. Subsequent to December 31, 2013, holders of 1,797,000 options from the 2006 Plan priced at Cdn$2.40 agreed to voluntarily cancel their options. No consideration was given or received from the holders to cancel their options.

We do not expect a significant number of our vested options from either the 2006 Plan or the 2013 Plan will be exercised in the next year. See Note 10, "Employee stock compensation plans" to the Consolidated Financial Statements of this Annual Report for a summary of the activity for stock options outstanding under the 2006 Plan and the 2013 Plan as of December 31, 2013.

Off-balance sheet arrangements

As of December 31, 2013 and 2012, we have no off-balance sheet arrangements.

(e). Cash Flows

Net cash used in operations during the year ended December 31, 2013 decreased to $2,237,000 compared to $3,504,000 for 2012 primarily as a result of (i) a decrease in exploration expenses to $797,000 in 2013 compared to $1,986,000 in 2012, primarily related to reduced activity in South America and Mexico during 2013 as well as the capitalization of $1,884,000 in exploration and development costs at our Mt. Hamilton project, as discussed above, which is included in investing activities and (ii) a decrease in non-stock option general and administrative costs to $1,824,000 during 2013 compared to $1,948,000 during 2012.

Net cash provided from investing activities decreased to $2,517,000 during 2013 compared to $3,870,000 during 2012 primarily related to (i) a reduction in proceeds from the Sandstorm sale, discussed above to $4,000,000 during 2013 compared to $6,000,000 during 2012, and (ii) a reduction in proceeds from the sale of marketable equity securities to $839,000 during 2013, which included the sale of 6,303,563 shares of Ely for proceeds of $481,000 discussed above, compared to $1,664,000 during 2012. This decrease was partially offset by (i) a decrease in the capitalization of expenditures for additions to mineral properties, primarily at Mt. Hamilton, as discussed above, to $2,173,000 during 2013 compared to $3,457,000 in 2012 and (ii) an increase in funds from the sale of derivative instruments and the proceeds from the sale of other assets in 2013 compared to 2012.

Net cash provided from (used in) financing activities increased to $1,196,000 provided during 2013 compared to $(182,000) used during 2012. The primary reason for the increase in cash provided from financing activities in 2013 was primarily related to (i) the $2,060,000 private placement completed during 2013 and (ii) the increase in the proceeds from the RMB Loan to $2,000,000 during 2013 compared to net proceeds of $912,000 during 2012. These increases in cash provided from financing activities during 2013 compared to the decrease in cash used in 2012 were partially offset by an increase in cash due to (i) an increase in net repayments on short-term debt of $698,000 during 2013 compared to net short-term debt repayments of $510,000 during 2012, and (ii) the increase in long-term debt repayment associated with the Augusta debt, discussed above, of $2,050,000 during 2013 compared to $750,000 during 2012.

(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 and there can be no assurance that the funds to complete the development of Mt. Hamilton will not be higher than is estimated in the Feasibility Study. As a result, 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 development financing 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 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 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 historically 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 many of our interests in mining claims and leases, we have entered into agreements, which generally may be canceled at our option. We are often required to make minimum rental and option payments in order to maintain our interest in certain claims and leases. Our net 2013 mineral and surface property rental and option payments included in exploration expense were $44,000. In 2014 we estimate our net exploration property rentals and option payments for properties we own or operate to be approximately $1,040,000, which includes $294,000 of mineral property payments at Mt. Hamilton. 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 $694,000 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, 2013 and 2012, 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 construction and the completion of mining development activities, substantial reclamation and mine closure bonds and similar financial assurances must be given to the federal and state regulatory agencies and maintained. The requirements to fund these development and operating financial assurances 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 our Annual Report or Form 10-K ("Form 10-K") filed with the United States Securities and Exchange Commission. We anticipate the majority of our activities during 2014 at our Mt. Hamilton project will relate to obtaining required permits to develop the project. With the exception of any potential Mt. Hamilton project construction activities, we do not expect any material 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, 2013:

(in thousands)	**As of December 31, 2013 – Payments due by period**				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 47	$ 47	$ -	$ -	$ -
Short-term margin loan [1]	802	802	-	-	-
Landholding costs [2]	52	52	-	-	-
Mt. Hamilton landholding costs [3]	1,164	294	618	168	84
Mt. Hamilton cash earn-in payments [4]	250	250	-	-	-
Mt. Hamilton earn-in payments in stock of Solitario [4][5]	43	43	-	-	-
Mt. Hamilton advance royalty and royalty buy-down payments [4][6]	6,800	300	5,600	600	300
RMB Loan long-term debt [7]	3,500	-	3,500	-	-
Total	$ 12,658	$ 1,788	$ 9,718	$ 768	$ 384

(1) The short term-margin loan is due on demand and includes $2,000 of accrued interest at December 31, 2013.

(2) Excluding Mt. Hamilton, discussed below, our other landholding contractual obligations, net of expected joint venture reimbursements of $694,000. Our non-Mt. Hamilton landholding 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 landholding costs have been shown through 2019 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 through 2019, valued at $1,206 per ounce, the closing price of an ounce of gold at December 31, 2013, quoted on kitco.com.

(4) Pursuant to the MH Agreement, we have agreed to make the following payments as part of our earn-in upon completion of the Feasibility Study: We have agreed to (i) make payments totaling $250,000 and deliver 50,000 shares of Solitario common stock to DHI by February 21, 2014, of which $250,000 was paid and 50,000 shares of our stock were delivered in February 2014. We have further 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, which we have estimated the payment for the purposes of this schedule to be due on or before December 31, 2016. If we fail to make any of the payments due to DHI, 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's interest will be increased to 51%.

(5) The commitment value of the shares of Solitario stock to be paid to DHI, discussed above in note (4) to this table, have been valued at $0.85 per share, the December 31, 2013 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 2019. In addition the $5,000,000 royalty buy-down discussed above is due on or before commercial completion, which is estimated to occur on or before December 31, 2016 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" in Item 1A of Part 1 of the Form 10-K.

(7) 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.

(g). 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 2014. 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 to earn up to an 80% interest. In December 2010, we entered into the definitive MH Agreement with DHI, a wholly owned subsidiary of Ely, with respect to MH-LLC, the limited liability company that holds the Mt. Hamilton project assets. During 2013, Solitario, Ely and DHI revised the LOI to clarify the timing and pricing of the payments due to Ely as a result of the early termination of the Augusta debt, as further described above in recent developments. See also Note 2, "Mineral properties" in our Consolidated Financial Statements.

We are the manager of all project activities. Our focus for 2014 is to complete environmental permitting for the project. The most important component of permitting will be approval of the Environmental Assessment by the USFS. Additional engineering studies will also be undertaken. In addition, we entered into a contract with Kappes Cassiday & Associates ("KCA") for the preparation during 2014 of an engineering report concerning the engineering and design of the proposed adsorption, desorption and recovery ("ADR") plant at Mt. Hamilton. The KCA contract also provided an option to us to contract with KCA for the fabrication and construction of the ADR plant on the Mt. Hamilton mine site and the wet testing and training of Mt. Hamilton personnel at a fixed price of $9.3 million. The option is entirely at our discretion and the price will be fixed for a period of five months after the issuance of the engineering report, after which the price will be subject to escalation based upon published CPI data. No exploration activities are planned for 2014 at Mt. Hamilton. 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. Other planned activities for 2014 include other limited engineering and project management in support of a positive permitting decision.

We have budgeted approximately $1,895,000 for permitting activities, planned development, land and earn-in payments for 2014 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, 2013. Please also see Note 2, "Mineral Properties" in our Consolidated Financial Statements of this Annual Report 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. Work in 2014 will focus on activities necessary to complete a prefeasibility study and then to transition to feasibility-level work for 2015. A total of 6,000 meters of both surface and underground drilling is scheduled this year. Another four kilometers of road is also scheduled to be completed in 2014. As part of the 2014 program, permitting for 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 permitting an extension of 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. No date has been set to initiate construction of these new tunnels. Permitting and social development activities with surrounding communities will also continue throughout 2014.

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 our 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 2014 exploration program will consist of a drilling program to drill-test areas identified by a helicopter-borne geophysics program completed in 2013. The drilling program will focus on magnetic anomalies that may be related to areas of ultramafic rocks that are the host to all PGM mineralization identified on the property.

Pachuca Norte
In June 2013 a definitive joint venture agreement was signed that provides for Hochschild Mining ("Hochschild") to earn a 51% interest in the property by funding a total of $10,000,000 in exploration commitments over the five years from the signing of the 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.

The project is located about 80 kilometers north of Mexico City near the city of Pachuca.

Hochschild is planning to complete approximately 20 core holes by mid-2014 in the North District area. Most drill holes are located adjacent to previously drilled holes that displayed strong mineralization. However, several of the holes will be targeted on veins that have never been drill tested. Depending upon drilling results, Hochschild may elect to continue the drilling program into the second half of 2014.

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 $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.

Other Properties
We have significantly reduced activities in Peru and Mexico and have budgeted expenditures of $166,000 for exploration on our other properties in Peru and Mexico that are not subject to joint venture and have terminated our Latin American employees. We will carry on limited exploration activities during 2014 by utilizing contract geologists and have placed our current properties on care and maintenance.

(i). Discontinued Projects
During 2013 we abandoned our Cerro Azul and Atico properties in Peru and our Jaripo property in Mexico and recorded $13,000 of mineral property impairments. During 2012 we abandoned our Triunfo and Espanola properties in Bolivia and our Excelsior project in Peru and recorded $31,000 of mineral property impairments.

(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 July 26, 2013, we sold 2,451,892 shares of Solitario common stock in a private placement at a price of $0.84 per share for total proceeds of $2,060,000 (the "Offering"). The Offering was unanimously approved by our Board of Directors and, as part of the Offering insiders subscribed for and acquired 606,665 shares (the "Insider Shares") for a total purchase of $510,000. The offer and sale of the Insider Shares was unanimously approved by the Audit Committee of the Board of Directors. All shares in the Offering were offered and sold on the same terms and conditions.

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 stock 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, 2013 and 2012, 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, 2013 and 2012, 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, 2014
Denver, Colorado

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

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 2,092	$ 616
Investments in marketable equity securities, at fair value	1,577	3,110
Royalty sale receivable	-	4,000
Prepaid expenses and other	115	210
Total current assets	3,784	7,936
Mineral properties	12,098	9,327
Investments in marketable equity securities, at fair value	2,396	3,983
Equity method investment	153	1,165
Other assets	1,069	1,072
Total assets	$ 19,500	$ 23,483
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 367	$ 398
Short-term margin loan	802	1,500
Current portion long-term debt	-	727
Deferred income taxes	-	963
Other	84	103
Total current liabilities	1,253	3,691
Long-term debt, net of discount	3,144	2,437
Deferred gain on sale of mineral property	7,000	7,000
Warrant liability	140	1,138
Commitments and contingencies (Notes 2 and 9)		
Shareholders' equity:		
Solitario shareholders' equity		
Preferred stock, $0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2013 and 2012)	-	-
Common stock, $0.01 par value, authorized, 100,000,000 shares (37,512,127 and 34,479,958, respectively, shares issued and outstanding at December 31, 2013 and 2012)	375	345
Additional paid-in capital	51,963	47,107
Accumulated deficit	(44,730)	(42,678)
Accumulated other comprehensive income	460	3,914
Total Solitario shareholders' equity	8,068	8,688
Noncontrolling interest	(105)	529
Total shareholders' equity	7,963	9,217
Total liabilities and shareholders' equity	$ 19,500	$ 23,483

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, 2013	2012
Property and joint venture revenue		
Joint venture property payments	**$ 300**	$ 300
Costs, expenses and other:		
Exploration expense	**797**	1,986
Depreciation and amortization	**26**	61
General and administrative	**2,244**	2,680
(Gain) loss on derivative instruments	**(90)**	30
Property abandonment and impairment	**13**	31
Gain on sale of assets	**(11)**	(8)
Interest expense and dividend income (net)	**(57)**	318
Total costs, expenses and other	**2,922**	5,098
Other income (expense)		
Gain on early termination of debt	**313**	-
Gain on sale of marketable equity securities	**142**	1,528
Gain (loss) on warrant liability	**998**	(488)
Equity in net loss of equity method investment	**(1,012)**	(488)
Total other income (expense)	**441**	552
Loss before income tax	**(2,181)**	(4,246)
Income tax benefit	**176**	648
Net loss	**(2,005)**	(3,598)
(Income) loss attributable to noncontrolling interest	**(47)**	301
Net loss attributable to Solitario shareholders	**$ (2,052)**	$ (3,297)
Loss per common share attributable to Solitario shareholders:		
Basic and diluted	**$ (0.06)**	$ (0.10)
Weighted average shares outstanding:		
Basic and diluted	**35,743**	34,351

See Notes to Consolidated Financial Statements.

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

	For the year ended December 31, 2013	2012
Net loss for the period, before comprehensive loss	**$ (2,005)**	$ (3,598)
Other comprehensive income (loss):		
Unrealized loss on marketable equity sequrities, net of deferred taxes	**(3,454)**	(1,963)
Comprehensive loss	**(5,459)**	(5,561)
Income (loss) attributable to noncontrolling interests	**(47)**	301
Comprehensive loss attributable to Solitario shareholders	**$ (5,506)**	$ (5,260)

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, 2013 and 2012

	Solitario Shareholders'								
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Solitario Shareholders' Equity	Non-Controlling Interest	Contra-Non-Controlling Interest	Total Shareholders' Equity
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**
Issuance of shares and $500 of cash to noncontrolling shareholder for future earn-in	427,777	4	377	-	-	381	(881)	-	(500)
Noncontrolling interest distribution (net)	-	-	-	-	-	-	(50)	-	(50)
Credit for payment to receive Ely shares as well as Augusta debt payment			1,800			1,800	250		2,050
Issuance of shares in private placement	2,451,892	25	2,035	-	-	2,060	-	-	2,060
Exercise of stock options	117,500	1	183	-	-	184	-	-	184
Stock option expense	-	-	420	-	-	420	-	-	420
Issuance of shares for mineral property	35,000	-	41	-	-	41	-	-	41
Net loss	-	-	-	(2,052)	-	(2,052)	47	-	(2,005)
Net unrealized (loss) on marketable equity securities (net of tax of $770)	-	-	-	-	(3,454)	(3,454)	-	-	(3,454)
Balance at 12/31/13	**37,512,127**	**$ 375**	**$ 51,963**	**$ (44,730)**	**$ 460**	**$ 8,068**	**$ (105)**	**$ -**	**$ 7,963**

See Notes to Consolidated Financial Statements.

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

	For the year ended December 31, 2013	2012
Operating activities:		
Net loss	$ (2,005)	$ (3,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on derivative instruments	(90)	30
Depreciation and amortization	26	61
Gain on early termination of debt	(313)	-
Loss on equity method investment	1,012	488
Property abandonment and impairment	13	31
Employee stock option expense	420	732
Deferred income taxes	(176)	(648)
(Gain) loss on warrant liability	(998)	488
Amortization of interest on debt discounts	-	332
Gain on asset and equity security sales	(153)	(1,536)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	78	200
Accounts payable and other current liabilities	(51)	(84)
Net cash used in operating activities	(2,237)	(3,504)
Investing activities:		
Additions to mineral properties	(2,173)	(3,457)
Additions to other assets	(318)	(397)
Sale of derivative instrument, net	90	51
Proceeds from sale of mineral property	4,000	6,000
Proceeds from sale of marketable equity securities	839	1,664
Proceeds from sale of other assets	79	9
Net cash provided by investing activities	2,517	3,870
Financing activities:		
Short-term borrowing	2,300	2,665
Repayment of short-term borrowing	(2,998)	(3,165)
Repayment of long-term debt	(2,050)	(750)
Proceeds from issuance of debt, net	2,000	912
Proceeds from issuance of common stock, net	2,060	275
Proceeds from exercise of options	184	-
Payment to noncontrolling interest	(550)	(300)
Noncontrolling interest contribution, net	250	181
Net cash provided by (used in) financing activities	1,196	(182)
Net increase in cash and cash equivalents	1,476	184
Cash and cash equivalents, beginning of year	616	432
Cash and cash equivalents, end of year	$ 2,092	$ 616
Supplemental disclosure of cash flow information:		
Cash paid for interest, capitalized to mineral property	$ 186	$ 87
Supplemental disclosure of non-cash flow investing and financing activities:		
Capitalized non-cash interest	$ 540	$ -
Capitalized depreciation	$ 30	$ -
Issuance of stock for mineral property	$ 41	$ -
Issuance of stock to noncontrolling interest	$ 381	$ -
Shares of Ely marketable equity securities received upon payment of Augusta debt	$ 1,800	$ -
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

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, 2013 (but not a company in the "Development Stage") under Industry Guide 7, as issued by the United States Securities and Exchange Commission, with a focus on the development of the Mt. Hamilton gold project located in Nevada.

In December 2010 Solitario signed the Limited Liability Company Operating Agreement of Mt. Hamilton LLC (the "MH Agreement") with DHI Minerals (U.S.) Ltd., ("DHI") and formed Mt. Hamilton LLC ("MH-LLC"), the owner of the Mt. Hamilton project. On February 22, 2012, Solitario earned an 80% interest in MH-LLC as a result of the completion of a feasibility study on the 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. 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. Additionally, although Solitario records joint venture property payments as revenue for standby delay rental payments, Solitario's previously significant revenues were in 2000 upon the sale of the Yanacocha property for $6,000,000. Revenues from the sale of properties, if any, would also occur on an infrequent basis in the future. At December 31, 2013, in addition to the Mt. Hamilton project, Solitario had six mineral exploration properties in Peru and Mexico and its Yanacocha and Mercurio royalty properties in Peru and Brazil, respectively. Solitario is conducting limited exploration activities in these 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

Augusta long-term debt

On November 22, 2013 Solitario entered into a letter agreement, (the "Letter Agreement") between Solitario, Ely and DHI, a wholly-owned subsidiary of Ely Gold & Minerals Inc. Under the Letter Agreement, Solitario subscribed for $1,300,000 of shares of common stock of Ely at a price of Cdn$0.10 and upon approval by Ely and regulatory approvals we received 13,571,354 shares of Ely common stock. Ely used the $1,300,000 from the subscription to pay Augusta Resource Corporation ("Augusta") $1,300,000 pursuant to the terms of an agreement between Ely and Augusta Resource Corporation ("Augusta") dated November 20, 2013. Ely's receipt of the $1,300,000 and payment to Augusta fully satisfied Solitario's prior obligations to subscribe for an aggregate of US$1,750,000 of shares of Ely common stock (US$750,000 on or before May 1, 2014 and US$1,000,000 on or before May 1, 2015) and satisfied Solitario's Augusta debt which was deemed fully paid upon Augusta's receipt of the $1,300,000 from Ely. Solitario recorded a gain on early retirement of debt of $313,000 during 2013 as a result of the payoff of the Augusta long-term debt.

Investment in Mt. Hamilton

On November 22, 2013, Solitario and DHI also entered into the second amendment (the "Second Amendment") to the MH Agreement. Pursuant to the terms of the Second Amendment, the parties agreed to modify Solitario's payment obligation of US$250,000 and 50,000 shares of Solitario common stock due to DHI on August 21, 2014 previously contemplated under the terms of the MH Agreement to a payment of 327,777 shares of Solitario common stock which was paid on December 20, 2013.

Investment in Kinross

Solitario has a significant investment in Kinross Gold Corporation ("Kinross"), which consisted of the following at December 31, 2013 and 2012:

(in thousands)	Year ended December 31, 2013	2012
Shares	600	670
Fair value		
Current assets	$ 1,577	$ 3,110
Long-term assets	$ 1,051	$ 3,402

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 2013 and 2012:

(in thousands)	Year ended December 31, 2013	2012
Shares sold	70	180
Proceeds	$ 358	$ 1,591
Gain on sale	$ 308	$ 1,464

As of December 31, 2013, and 2012, Solitario has borrowed $802,000 and $1,500,000, 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 4, "Short-term debt." At December 31, 2013, Solitario had sold two covered calls covering a total of 200,000 shares of its Kinross common stock, as further described below in Note 7, "Derivative Instruments," both of which expired unexercised in February 2014. As of February 28, 2014, Solitario owns 530,000 shares of Kinross common stock which have a value of approximately $2.8 million based upon the market price of $5.22 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.

Investment in Ely

As part of the Letter Agreement, discussed above, we received 13,571,354 shares of Ely common stock. During 2013 we sold 6,303,563 shares of Ely common stock for proceeds of $481,000, recording a loss on sale of marketable equity securities of $166,000. As of December 31, 2013 we own 15,732,274 shares of Ely common stock, representing approximately 19.5% of the outstanding shares of Ely with a fair value of $1,324,000. We have classified our holdings of Ely common stock as marketable equity shares available-for-sale and gains and losses on our holdings of Ely are recorded in accumulated other comprehensive income in the shareholders' equity section of our Consolidated Balance Sheet.

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, in joint venture and property payments for both of the years ended December 31, 2013 and 2012. 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.

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 and (v) the fair value of Solitario's liability for warrants Solitario granted RMB Australia Holdings Limited ("RMBAH") upon entering into the facility agreement, discussed below.

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, 2013 and 2012, 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 capitalizing 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

Beginning in December 2008, Solitario sold covered calls on a limited basis covering its shares of Kinross common stock. Solitario also owned certain warrants issued by Ely, which expired unexercised during 2012. As explained in more detail in Note 5, "Long-term debt," Solitario entered into a facility agreement (the "Facility Agreement") with 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"). In connection with the Facility Agreement, Solitario issued 1,624,748 warrants (the "RMB Warrants"), as partial consideration for financing services provided in connection with the Facility Agreement. All of these derivative instruments are further discussed in Note 7, "Derivative instruments" below. Solitario accounts for its derivative instruments in accordance with ASC 815 "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815"). 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.

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 8, "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. Solitario records investments in marketable equity securities as available-for-sale for investments in publicly traded marketable equity securities for which it does not exercise significant control, including owning less than 20% of the outstanding securities, and where Solitario has no representation on the Board of those companies and exercises no control over the management of those companies. 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, 2013**	**2012**
Marketable equity securities at fair value	$ 3,973	$ 7,093
Cost	1,954	851
Accumulated other comprehensive income for unrealized holding gains	2,019	6,242
Deferred taxes on accumulated other comprehensive income for unrealized holding gains	(688)	(2,328)
Valuation allowance on deferred taxes on unrealized holding losses included in other comprehensive loss	(871)	-
Accumulated other comprehensive income	$ 460	$ 3,914

The following table represents changes in marketable equity securities:

(in thousands)	**Year ended December 31, 2013**	**2012**
Gross cash proceeds	$ 839	$ 1,664
Cost	697	136
Gross gain on sale included in earnings during the period	142	1,528
Deferred taxes on gross gain on sale included in earnings	(58)	(571)
Reclassification adjustment to unrealized gain in other comprehensive income for net gains included in earnings	(84)	(957)
Gross unrealized holding loss arising during the period included in other comprehensive loss	(4,081)	(1,603)
Deferred taxes on unrealized holdings loss included in other comprehensive loss	1,582	597
Valuation allowance on deferred taxes on unrealized holding losses included in other comprehensive loss	(871)	-
Net unrealized holding gain (loss)	(3,370)	(1,006)
Other comprehensive income (loss) from marketable equity securities	$ (3,454)	$ (1,963)

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 2013 and 2012, Solitario recorded foreign exchange losses of $21,000 and $32,000, 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 $64,000 and $36,000, respectively, at December 31, 2013 and 2012.

Equity method investments
Solitario records its share of income or loss of unconsolidated subsidiaries where it has a significant influence over the unconsolidated subsidiary, under the equity method of accounting, as an increase or decrease in its investment in the unconsolidated subsidiary. Solitario accounts for its investment in Pedra Branca do Mineracao, Ltd. ("PBM") under the equity method since July 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 2010 and during 2013 and 2012 recorded a reduction of $1,012,000 and $488,000, respectively, in its equity method investment for Solitario's share of the loss of PBM during 2013 and 2012. During the years ended December 31, 2013 and 2012, PBM had no revenues and reported a net operating loss of approximately $2,065,000 and $996,000, respectively.

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 6, "Income taxes" below.

Earnings per share
The calculation of basic and diluted loss per share is based on the weighted average number of shares of common stock outstanding during the years ended December 31, 2013 and 2012. Potentially dilutive shares related to outstanding common stock options of 3,819,000 and 2,598,400 for the years ended December 31, 2013 and 2012, respectively, and RMB warrants of 1,624,748 for the years ended December 31, 2013 and 2012 were excluded from the calculation of diluted loss per share because the effects were anti-dilutive.

Employee stock compensation and incentive plans
Solitario classifies all of its stock options as equity options in accordance with the provisions of ASC 718 "Compensation – Stock Compensation." See Note 10, "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. Solitario may also grant Restricted Stock Units and Restricted Stock in connection with its 2013 Plan.

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. 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, 2013 and 2012 are total assets of $412,000 and $1,433,000, respectively, related to Solitario's foreign operations 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, 2013**	**December 31, 2012**
Development (United States)		
Mt. Hamilton	$ 12,059	$ 9,275
Exploration		
Pachuca (Mexico)	20	20
La Promesa (Peru)	5	5
Norcan (Mexico)	6	6
Aconchi (Mexico)	5	5
Canta Colorado (Mexico)	3	3
Atico (Peru)	-	5
Cerro Azul (Peru)	-	3
Jaripo (Mexico)	-	5
Total exploration	39	52
Total mineral property	$ 12,098	$ 9,327

Mt. Hamilton

MH-LLC joint venture of the Mt. Hamilton project

In December 2010 Solitario signed the MH Agreement with DHI and formed MH-LLC, the owner of the Mt. Hamilton project. Pursuant to the MH Agreement, the fair value of the DHI 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 debt, discussed below in Note 5, "Long-term debt."

As of December 31, 2013, pursuant to the MH Agreement, Solitario had one remaining cash payment to DHI of $250,000 and one remaining stock payment to DHI of 50,000 shares of Solitario common stock, both of which were paid in February 2014. In addition, Solitario has annual advance royalty payments due to the underlying leaseholder of $300,000 per year and a $5,000,000 royalty reduction payment due the underlying leaseholder prior to commercial production at Mt. Hamilton. Failure to make these payments to the underlying leaseholder will result in a reduction in Solitario's interest in MH-LLC from 80% to 49% with a corresponding increase in the DHI's interest in MH-LLC.

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 pro-rata. Upon completion of the Feasibility Study, DHI notified Solitario that it had exercised its option of having Solitario contribute DHI'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's share of distributions from MH-LLC. During 2012 Solitario loaned DHI $127,000 for its share of costs subsequent to the completion of the Feasibility Study. However, subsequently, DHI 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, 2013 or 2012.

During 2013 MH-LLC distributed $250,000 to its members, Solitario and DHI, in proportion to their interests. Solitario received $200,000 from this distribution which was eliminated in consolidation. 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, during 2012 Solitario received $500,000 from DHI to repay a portion of a prior loan to Solitario, and Solitario agreed to forgive $35,000 of accrued interest due from DHI, which represented the accrued interest on loans made to DHI in connection with the MH Agreement through June 30, 2012. Including accrued interest of $17,000 prior to the repayment of the DHI loan, Solitario recorded a net decrease to interest income of $18,000 for the interest earned and forgiven during 2012.

Sandstorm royalty sale

In June 2012 MH-LLC completed the sale of a 2.4% net smelter royalty on its Mt. Hamilton project to Sandstorm for $10 million. MH-LLC received an upfront payment of $6 million upon signing the agreement and received $4 million on January 15, 2013, which Solitario recorded as a current asset as of December 31, 2012. 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. Solitario reduced mineral property $3,000,000 and recorded a deferred gain as a long-term liability on the sale of the Sandstorm royalty of $7,000,000 during 2012.

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, as detailed in the following table:

(in thousands)	**Year ended December 31, 2013**	**2012**
Development expenditures	$ 1,854	$ 3,107
Capitalized interest	726	-
Property payments	174	325
Capitalized depreciation	30	22
Total capitalized costs	$ 2,784	$ 3,454

Included in the property payments during 2013 is the issuance of 35,000 shares with a fair value of $41,000 issued to underlying leaseholders which was recorded as an increase to additional paid-in capital. Solitario also capitalized $300,000 during each year of advance royalty payments to the underlying leaseholder as long-term other assets. See Note 3, "Other assets" below.

Exploration property

Solitario's exploration mineral properties at December 31, 2013 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, 2013, none of Solitario's exploration properties have production (are 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 Mercurio exploration concessions, which are currently subject to joint venture agreements where joint venture partners made payments to Solitario. Solitario records joint venture property payment revenue received in excess of capitalized costs and recorded $200,000 of joint venture property revenue on its Bongará project during 2013 and 2012 and recorded $100,000 of joint venture property revenue on its Mercurio project in Brazil during 2013 and 2012. At December 31, 2013 and 2012, 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 2013 Solitario recorded $13,000 of mineral property write-downs related to its Cerro Azul and Atico properties in Peru and its Jaripo property in Mexico. During 2012 Solitario recorded $31,000 of mineral property write-downs related to its Excelsior, Triunfo and Espanola projects.

Exploration expense

The following items comprised exploration expense:

(in thousands)	**Year ended December 31, 2013**	**2012**
Geologic and field expenses	$ 311	$ 1,307
Administrative	486	378
Mt. Hamilton exploration	-	301
Total exploration expense	$ 797	$ 1,986

3. Other Assets:

The following items comprised other assets:

(in thousands)	**Year ended December 31, 2013**	**2012**
Deferred offering costs RMB Loan	$ 322	$ 518
Accumulated Mt. Hamilton advance royalty payments (1)	600	300
Furniture and fixtures, net of accumulated depreciation	95	143
Exploration bonds and other assets	52	111
Total other assets	$ 1,069	$ 1,072

(1) Total advanced royalty payments at Mt. Hamilton are $1,700,000. The capitalized advanced royalty payments here exclude advanced royalty payments of $1,100,000 incurred by Ely, prior to the formation of MH-LLC and payments by MH-LLC expensed prior to completion of the Feasibility Study.

In connection with the RMB Loan, Solitario recorded deferred offering costs that are being amortized on a straight-line basis to interest cost over 36 months, the term of the Facility Agreement. See Note 5, "Long-term debt," below.

4. Short-term Debt:

Solitario maintained a secured credit line agreement with UBS Bank, USA ("UBS") during 2013 and 2012. At December 31, 2013, the credit line is secured by all of Solitario's assets held in its UBS brokerage account, consisting primarily of 600,000 Kinross shares. The UBS credit line may be terminated by UBS at any time by UBS or Solitario and any amounts outstanding must be repaid upon termination. The UBS 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 0.17% as of December 31, 2013. The average interest rate was approximately 2.45% and 2.49%, respectively, for 2013 and 2012. UBS may change the base rate at any time. The UBS credit line provides that Solitario may borrow up to $2 million, subject to the value of the assets held in its brokerage account at UBS, 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 credit line and any other balances owed to UBS. UBS 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 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, 2013, the equity value in Solitario's UBS brokerage account was 69%.

Solitario also maintained a short-term margin account with RBC Capital Markets, LLC ("RBC") during 2012, which was closed during 2013 and Solitario no longer has any short-term borrowing capacity with RBC. Solitario borrowed against its short-term margin account during 2012, which was repaid during 2012. During 2012, the loans carried interest at a margin loan rate of 4.25% per annum. At December 31, 2013, Solitario has no outstanding short-term debt owed to RBC.

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

(in thousands)	**Year ended December 31, 2013**	**2012**
UBS short-term credit line		
Beginning balance	$ 1,500	$ 2,000
Borrowing	2,300	1,200
Repayments	(2,998)	(1,700)
Ending balance	802	1,500
RBC short-term margin loan		
Beginning balance	-	-
Borrowing	-	1,465
Repayments	-	(1,465)
Ending balance	-	-
Total short-term margin loans	$ 802	$ 1,500

(in thousands)	**Year ended December 31, 2013**	**2012**
Interest UBS short-term credit line	$ 22	$ 36
Interest RBC short-term margin loan	-	22
Total interest short-term margin loans	$ 22	$ 58

During 2013 Solitario capitalized all of its interest to mineral property. See Note 2, "Mineral properties," above.

5. Long-term Debt:

Augusta long-term debt

In connection with the formation of MH-LLC, the Mt. Hamilton properties contributed by DHI 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 Ely to make the loan payments due to Augusta at the time of the formation of MH-LLC. The payments due to Augusta were non-interest bearing. Accordingly, upon formation and the contribution of the mineral properties by DHI to MH-LLC, MH-LLC recorded the discounted fair value of the payments due to Augusta, discounted at 7.5%, which was Solitario's estimated cost of similar credit as of the formation of MH-LLC.

As discussed above under recent developments, on November 22, 2013, Solitario subscribed for 13,571,354 shares of Ely common stock for $1,300,000 and, pursuant to the Letter Agreement, Ely used the funds from the sale of their shares to fully pay off the Augusta long-term debt. Solitario recorded a gain on early retirement of debt of $313,000 during 2013 as a result of the payoff of the Augusta long-term debt.

In April 2013 Ely exercised its right to reduce to $500,000 Solitario's required subscription of $750,000 for Ely common stock, funds from which Ely was required to pay the June 1, 2013 payment due to Augusta. Ely agreed to pay the remaining $250,000 due to Augusta from its own funds, for a total payment of $750,000, which was done in June 2013. As a result, Solitario received 5,131,150 shares of Ely common stock and recorded the fair value of the Ely stock received as marketable equity securities and an increase in additional paid-in capital. Ely's payment of the $250,000 portion of the Augusta debt was recorded as an increase in noncontrolling interest in the equity section of Solitario's balance sheet.

During 2013 and 2012 Solitario recorded $127,000 and $184,000, respectively, for accretion of interest related to the Augusta long-term debt and paid $1,800,000 and $750,000, respectively, in cash on the long-term note. All interest accreted on the Augusta long-term debt during 2013 was capitalized to mineral property. See Note 2, "Mineral properties," above.

RMB Facility Agreement

On August 10, 2012, Solitario entered into the Facility Agreement with RMBAH, and RMBR whereby 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 "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 recorded $588,000 of deferred offering costs related to the Facility Agreement in long-term assets, which are being amortized over the 36-month life of the Facility Agreement on a straight-line basis. See Note 3, "Other Assets," above. In connection with the Facility Agreement, Solitario recorded a warrant discount related to the 1,624,748 warrants issued to RMBAH at the time Solitario entered into the Facility Agreement (the "RMB Warrants") and recorded a debt discount of $650,000 for the fair value of the RMB warrants. The debt discount is being amortized to interest cost over 36 months, the term of the Facility Agreement. See Note 7, "Derivative instruments," below. 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 5.25% at December 31, 2013. 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.

The following table summarizes the RMB Loan:

(in thousands)	RMB Loan Borrowing	RMB Warrant Discount	RMB Long-term Debt
Beginning balance December 31, 2011	$ -	$ -	$ -
Initial borrowing, August 21, 2012	1,500	(650)	850
Amortization of discount to interest cost	-	77	77
Ending balance December 31, 2012	$ 1,500	$ (573)	$ 927
Borrowing	2,000	-	2,000
Amortization of discount to interest cost	-	217	217
Ending balance December 31, 2013	$ 3,500	$ (356)	$ 3,144

Solitario recorded the following interest cost related to the RMB Loan:

(in thousands)	Year ended December 31, 2013	2012
Interest paid in cash	$ 165	$ 30
Amortization of the RMB Warrants discount	217	77
Amortization of RMB deferred financing costs	196	70
Total interest expense related to the RMB Loan	$ 578	$ 177

Solitario capitalized all of its interest incurred during 2013 to mineral property. See Note 2, "Mineral properties," above.

6. Income Taxes:

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

(in thousands)	2013	2012
Current:		
United States	$ 5	$ -
Foreign	12	18
Deferred:		
United States	(614)	(853)
Foreign	-	-
Operating loss and credit carryovers:		
United States	421	187
Foreign	-	-
Income tax benefit	$ (176)	$ (648)

Consolidated loss before income taxes includes losses from foreign operations of $1,564,000 and $1,944,000 in 2013 and 2012, 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, 2013 and 2012 consolidated balance sheets include the following components:

(in thousands)	2013	2012
Deferred tax assets:		
Loss carryovers	$ 9,852	$ 10,118
Deferred gain	2,335	1,253
Stock option compensation expense	932	900
Royalty	1,363	1,492
Earnings in unconsolidated subsidiary	798	496
Severance	23	30
Unrealized loss on derivative securities	-	79
Other	107	106
Valuation allowance	(12,545)	(11,441)
Total deferred tax assets	2,865	3,033
Deferred tax liabilities:		
Unrealized gain on derivative securities	160	-
MH-LLC investment	1,168	819
Exploration costs	845	845
Unrealized gains on marketable equity securities	688	2,328
Other	4	4
Total deferred tax liabilities	2,865	3,996
Net deferred tax liabilities	$ -	$ 963

At December 31, 2012, Solitario has classified 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 benefit for income taxes is as follows:

(in thousands)	2013	2012
Expected income tax benefit	$ (741)	$ (1,444)
Non-deductible foreign expenses	-	1
Non-deductible foreign stock compensation expense	18	20
Foreign tax rate differences	31	72
State income tax	303	(82)
Change in valuation allowance	233	629
MH-LLC Investment	(16)	102
Permanent differences and other	(4)	54
Income tax benefit	$ (176)	$ (648)

During 2013 the valuation allowance was decreased primarily as a result of reduction in the value of its holdings of Kinross with a corresponding decrease in the built-in gains and during 2012 the valuation allowance was increased primarily as a result of increases in Solitario foreign net operating loss carry-forwards, for which it was more likely than not that the deferred tax benefit would not be realized.

At December 31, 2013, Solitario has unused US federal Net Operating Loss ("NOL") carryovers of $1,250,000 and unused US State NOL carryovers of $3,543,000, 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 two to five years depending on the foreign jurisdiction.

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 2010 through 2013. The tax years that remain open to examination by the State of Colorado are years 2009 through 2013. The tax years that remain open to examination by Mexico are years 2010 through 2013. 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, 2013, or December 31, 2012 or for the years then ended.

7. Derivative Instruments:

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 share of Solitario common stock at an exercise price of $1.5387 for a term of 36 months, subject to standard anti-dilution adjustments. Solitario recorded a discount to the RMB Loan for the fair value of the RMB Warrants. Solitario is amortizing this discount on a straight-line basis to interest cost over the three-year term of the RMB Loan and as of December 31, 2013 the remaining unamortized warrant discount was $356,000.

Solitario has recorded a liability for the fair value of the RMB Warrants based upon a Black-Scholes model and adjusts the fair value of the warrants at each balance sheet date, with changes in value recorded in other income (loss) in the statement of operations. The following tables summarize the RMB Warrants:

		Black-Scholes Model			
	Warrant Liability (in thousands)	Life (months)	Stock Price Per Share	Volatility (%)	Risk-Free Interest Rate
Initial RMB warrant liability balance	$ 650	36	$ 1.19	62	0.39
Loss (gain) on warrant liability	488				
Ending balance December 31, 2012	$ 1,138	32	1.68	62	0.35
Loss (gain) on warrant liability	(998)				
Ending balance December 31, 2013	$ 140	20	0.85	55	0.38

Covered call options

From time to time Solitario has sold covered call options against its holdings of Kinross. The business purpose of selling covered calls is to provide additional income on a limited portion of shares of Kinross that Solitario may sell in the near term, which is generally defined as less than one year. Solitario has not designated its covered calls as hedging instruments as described in ASC 815, "Derivatives and Hedging," and any changes in the fair value of its covered calls are recognized in the statement of operations in the period of the change. During 2013 and 2012, Solitario recorded the following liabilities and gain or loss on derivative instruments related to Kinross covered call options:

(in thousands)	KGC 02/2013 $11 call	KGC 02/2014 $7 call	KGC 02/2014 $8 call
Shares of Kinross	100	100	50
Balance			
December 31, 2011	$ -	$ -	$ -
Sale of call	51	-	-
(Gain) on derivative instrument	(48)	-	-
Ending liability balance December 31, 2012	$ 3	$ -	$ -
Sale of call	-	55	35
(Gain) on derivative instrument	(3)	(53)	(34)
Ending liability balance December 31, 2013	$ -	$ 2	$ 1

Other warrants

During 2010 in connection with the acquisition of Mt. Hamilton and the formation of MH-LLC, Solitario acquired warrants to purchase 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. In May 2011 Solitario acquired warrants to purchase shares of International Lithium Corp., which were written off during 2012 and expired during 2013. Solitario has recorded gains and losses on these warrants in its gain (loss) on derivative instruments in the statement of operations as detailed below.

The following table provides the location and amount of the fair values of Solitario's derivative instruments presented in the Consolidated Balance Sheets as of December 31, 2013 and 2012:

(in thousands)	Derivatives		
	Balance Sheet Location	December 31, 2013	December 31, 2012
Derivatives not designated as hedging instruments under ASC 815			
RMB warrants	Long-term liabilities	$ 140	$ 1,138
Kinross calls	Other current liabilities	$ 3	$ -

The following amounts are included in loss on derivative instruments in the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012:

(in thousands)	Year ended December 31, 2013	2012
Gain (loss) on derivatives not designated as hedging instruments under ASC 815		
Kinross Calls	$ 90	$ 48
Ely warrants	-	(74)
ILC warrants	-	(4)
Total gain (loss)	$ 90	$ (30)

8. 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 the years ended December 31, 2013 and 2012, 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, 2013:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Marketable equity securities	$ 3,973	$ -	$ -	$ 3,973
Liabilities				
RMB warrants	-	140	-	140
Kinross calls	3	-	-	3

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

Items measured at fair value on a recurring basis:
Marketable equity securities: At December 31, 2013 and 2012, the fair value of Solitario's investment in Kinross, TNR and Ely marketable equity securities is based upon quoted market prices.

Kinross calls: The fair value of the Kinross calls, which are traded on a public market, 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, 2013 and 2012.

During the year ended December 31, 2013, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

9. 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 2014 property rentals and option payments, excluding certain earn-in payments discussed below, for properties we own or operate to be approximately $1,040,000, which includes $294,000 of mineral property payments at Mt. Hamilton, assuming that our joint ventures continue in their current status and that we do not appreciably change our property positions on existing properties; approximately $694,000 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 2013 and 2012 was approximately $72,000 and $61,000, 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 2015 of $47,000.

As a result of completion of the Mt. Hamilton feasibility study, Solitario is committed to make certain earn-in payments, 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 of $250,000 in cash and delivery of 50,000 shares of Solitario common stock by February 21, 2014; and (3) 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.

10. 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 classifies its stock options under the 2006 Plan as equity options in accordance with the provisions of ASC 718 "Compensation – Stock Compensation."

b.) 2006 Plan stock option compensation

Solitario's outstanding options from the 2006 Plan 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 from the 2006 Plan as of the date of grant:

Grant date fair value

Grant Date	12/17/12	5/5/10	5/19/09
Option – grant date price (Cdn$)	$ 1.49	$ 2.40	$ 1.55
Options granted	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 $189,000 and $732,000, respectively, of stock option expense from the 2006 Plan during 2013 and 2012 included in general and administrative expense, for the amortization of grant date fair value with a credit to additional paid-in capital.

c.) 2006 Plan stock option activity

During the year ended December 31, 2013, options for 117,500 shares were exercised for cash proceeds of $184,000. During 2012 there were no shares exercised from the 2006 Plan. The following table summarizes the activity for stock options outstanding under the 2006 Plan as of December 31, 2013 and 2012:

	2013			2012		
	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	2,598,400	$ 2.22		2,433,400	$ 2.27	
Granted	-	-		165,000	$ 1.49	
Exercised	(117,500)	$ 1.55		-	-	
Cancelled	-	-		-	-	
Forfeited	(61,900)	$ 2.40		-	-	
Outstanding, end of year	2,419,000	$ 2.25	$ -	2,598,400	$ 2.22	$ 1,650
Exercisable, end of year	2,336,500	$ 2.27	$ -	1,958,400	$ 2.22	$ 413

(1) The intrinsic value at December 31, 2013 and 2012 based upon the quoted market price of Cdn$0.87 and Cdn$1.50, respectively, per share for our common stock on the TSX and an exchange ratio of 0.93485 and 1.0031, respectively, United States dollars per Canadian dollar.

a.) The 2013 Plan

On June 18, 2013, Solitario's shareholders approved the 2013 Solitario Exploration and Royalty Corp. Omnibus Stock and Incentive Plan (the "2013 Plan"). Under the terms of the 2013 Plan, the Board of Directors may grant awards for up to 1,750,000 shares to Directors, officers, employees and consultants. Such awards may take the form of stock options, stock appreciation rights, restricted stock, and restricted stock units. The terms and conditions of the awards are pursuant to the 2013 Plan and are granted by the Board of Directors or a committee appointed by the Board of Directors. Solitario classifies its awards from the 2013 Plan as equity awards under the provisions of ASC 718 "Compensation – Stock Compensation."

b.) Stock option compensation

Solitario's made two grants of options during 2013 from the 2013 Plan which 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 from the 2013 Plan as of the date of grant.

Grant date fair value

Grant Date	6/18/13	10/21/13
Option – grant date price	$ 1.14	$ 0.94
Options outstanding	120,000	1,280,000
Expected life years	5.0	5.0
Expected volatility	68%	67%
Risk free interest rate	1.24%	1.39%
Weighted average fair value	$ 0.65	$ 0.53
Grant date fair value	$ 78,000	$ 674,000

Solitario recorded $231,000 of stock option expense from the 2013 Plan during 2013 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 2013 Plan as of December 31, 2013:

		2013	
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value [1]
2013 Plan			
Outstanding, beginning of year	-	-	
Granted	1,400,000	$ 0.96	
Exercised	-	-	
Cancelled	-	-	
Forfeited	-	-	
Outstanding, end of year	1,400,000	$ 0.96	$ -
Exercisable, end of year	350,000	$ 0.96	$ -

(1) The intrinsic value at December 31, 2013 based upon the quoted market price of $0.85 per share for our common stock on the NYSE MKT.

11. Related Party Transactions:

On July 26, 2013, Solitario closed a private placement of 2,451,892 shares of its common stock at a price of $0.84 per share for total proceeds of $2,060,000 (the "Offering"). The Offering was unanimously approved by our Board of Directors and, as part of the Offering, insiders subscribed for and acquired 606,665 shares (the "Insider Shares") for a total purchase of $510,000. The offer and sale of the Insider Shares was unanimously approved by the Audit Committee of the Board of Directors. All shares in the Offering were offered and sold on the same terms and conditions.

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 stock 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, 2013:

(in thousands)	Year ended December 31, 2013			
	Mt. Hamilton	Exploration	Corporate and Other	Consolidated
Exploration expense	$ -	$ 797	$ -	$ 797
Interest expense	-	-	-	-
Other (income) loss [1]	(287)	784	887	1,384
Pre-tax income (loss)	$ 287	$ (1,581)	$ (887)	$ (2,181)
Total assets [2][3]	$ 14,283	$ 784	$ 4,433	$ 19,500
Capital expenditures [4]	$ 3,094	$ 5	$ 4	$ 3,103

(1) Mt. Hamilton other includes gain on early retirement of debt of $313. Corporate and other includes gain on sale of marketable equity securities of $142.

(2) Exploration total assets include equity method investment of $153.

(3) Corporate and other total assets include investment in marketable equity securities of $3,973.

(4) Capital expenditures at Mt. Hamilton include capitalized interest of $726 and capitalized other assets of $311.

(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 Events:

On January 28, 2014, holders of option awards from the 2006 Plan voluntarily cancelled awards for 1,797,000 options with an option price of Cdn$2.40 with an expiration date of May 5, 2015 to allow Solitario to have additional financial flexibility. No consideration was given or received by the holders of the options to cancel the awards.

On February 28, 2014, Solitario closed a private placement of 1,600,000 shares of Solitario common stock priced at $1.05 per share for total proceeds of $1,680,000 (the "2014 Offering"). Solitario retained a placement agent in connection with the portion of the Offering conducted in Canada and paid the placement agent a fee of $50,000 for the sale effected to the single Canadian investor that participated in the 2014 Offering.

This annual report (including drill hole information and mineral reserve and resource numbers) has been reviewed for accuracy by Mr. Walt Hunt, COO for Solitario Exploration & Royalty Corp., who is a qualified person as defined by National Instrument 43-101.

Forward-looking Statements

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.

Corporate Information | *Officers & Directors*

Corporate Offices

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Fax: 303-534-1809
www.SolitarioXR.com

Legal Counsel

Polsinelli Shughart 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
Web Contact Form: www.investorcentre.com/service

Notice of Annual Meeting of Shareholders

The Annual Meeting will be at 10 a.m. MDT on Tuesday, June 17, 2014 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*

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Projects & Properties

Project	Partner (% owned)	2014 Plans	Classification
Mt. Hamilton *(Gold-Silver, Nevada, US)*	*Ely Gold* (20%)	Permitting, Financing & Construction	Development
Bongará *(Zinc, Peru)*	*Votorantim* (max 70%)	Development, Permitting & Drilling	Pre-feasibility
Pachuca Norte *(Silver-Gold, Mexico)*	*Hochschild* (max 70%)	Drilling	Early-Stage Exploration
Pedra Branca *(PGM, Brazil)*	*Anglo Platinum* (max 65%)	Drilling	Advanced Exploration
Yanacocha Royalty *(Gold, Peru)*	*NSR-Royalty*	Exploration	Early-Stage Exploration
Mercurio *(Gold, Brazil)*	*NSR-Royalty*	Exploration	Exploration