



**S**olitario is pioneering mineral exploration in emerging new geologic terrains throughout the Americas, establishing major new **L**and positions, and delineating a rich diversity of base and precious metal **R**esource projects.



**Solitario  
Resources  
Corporation**

Solitario's focus will be on gold exploration in 2005. We have expanded our geographic search area from our traditional strongholds of Peru and Brazil to now include Mexico, Bolivia and Nevada (USA). We also anticipate advancing our PGM and base metal projects through joint venture arrangements.



#### Gold Projects

- Tapajos, Brazil
- La Tola, Peru

#### Base Metal Projects

- Bongará, Peru
- Triunfo, Bolivia

#### Royalties

- ▲ Yanacocha, Peru
- La Tola, Peru

#### PGM Projects

- ◆ Pedra Branca, Brazil

#### Strategic Alliance

- ★ Newmont Mining





Our drilling activity in 2005 is expected to be one of the most aggressive in our history.

## Message to Shareholders:

In 2004 the groundwork was laid for what should be an exciting 2005 exploration season for Solitario. In Brazil, we carried out a very active grassroots exploration program focused on gold that resulted in the recent acquisition of four outstanding gold prospects in the Tapajos region in northern Brazil. We also ventured into Mexico working on several fronts to acquire high potential gold-silver exploration properties. Several of these projects may be drill tested in 2005.

Perhaps the most significant event was the signing of a Strategic Alliance with a subsidiary of Newmont Mining Corporation, the world's largest gold producer. Newmont gave Solitario's South American exploration prowess a vote of confidence with a Cdn\$4.59 million financing to fund gold exploration over the next four years. We are already working closely with Newmont to identify and acquire new properties in southern Peru.

We were also active in the joint venture arena, with Newmont on the La Tola gold project in Peru and with Anglo Platinum on the Pedra Branca platinum-palladium ("PGM") project in Brazil. Taken together, nearly US\$1.0 million was spent on these projects, including the completion of nearly 50 drill holes, with all funding provided by our partners.

On the base metal front, strong commodity demand from Asia has pushed prices to multiyear highs. Our Bongará zinc-lead project in Peru and Triunfo polymetallic (gold-silver-lead-zinc) property in Bolivia, both of which have been on care-and-maintenance status during the past several years because of low zinc and lead prices, once again represent attractive economic prospects. During the next several months we hope to secure base-metal producing partners to advance these projects.

Solitario's financial position remained strong with over US\$14 million in cash and securities, and no debt. The merger between Crown Resources Corporation, in which Solitario owns a 13.6% equity interest, and Kinross Gold Corporation was delayed due to continued SEC review of certain Kinross accounting issues. We remain optimistic that this important transaction will be completed before mid-year 2005.

With our current array of outstanding exploration projects, strong balance sheet, and quality joint venture partners, we believe 2005 will be an exciting year for Solitario.

Sincerely,

Christopher E. Herald  
President & Chief Executive Officer



Solitario now has access to Newmont's proven BLEG geochemical technology.

## Peru Projects:

### Newmont Strategic Alliance and Financing

Solitario signed a Strategic Alliance agreement and a private placement financing with a subsidiary of Newmont Mining Corporation in early 2005. As part of the Strategic Alliance, Solitario and Newmont will mutually select specific regions ("Alliance Projects") in South America to explore for gold. Solitario has initiated exploration in the first such Alliance Project area located in a 4,000 square kilometer region of southern Peru.

Solitario will own 100% of any property acquired ("Alliance Property") subject to a sliding scale royalty to a maximum of 2% net smelter return ("NSR") royalty in favor of Newmont. Newmont has the right to joint venture with Solitario any acquired Alliance Property. Subject to various other conditions and terms, Newmont can elect to earn a 51% interest in an Alliance Property by spending 200% of Solitario's investment in such property and can further increase its participating interest to 75% by completing a feasibility study and providing financing for Solitario's portion of development capital. Solitario will spend approximately US\$3.8 million on exploration over a four-year period as its contribution to the Strategic Alliance.

One important aspect to the Strategic Alliance is that Newmont is making available to Solitario's exploration team proprietary Newmont technology, such as their in-house BLEG (bio-

leachable extractable gold) sampling regime and analysis and the NEWTEM airborne geophysical package. Both methods will significantly enhance our ability to detect and delineate gold mineralization. We are already utilizing Newmont's BLEG system in our Strategic Alliance Project areas in Peru.

Newmont purchased 2,700,000 common shares of Solitario for Cdn\$1.70 per share, or Cdn\$4,590,000 in aggregate. Before this placement, Solitario had approximately 24.7 million shares outstanding.

### Solitario's Yanacocha Royalty Property

Solitario agreed to modify the royalty schedule on its 61,000-hectare (150,000-acre) royalty property situated immediately north of the largest gold mine in South America, Miñera Yanacocha, in exchange for a \$4.0 million work commitment by various subsidiaries of Newmont. We agreed to modify our original royalty rate, which, when combined with the recently imposed Peruvian government royalty, created a disincentive for Newmont to explore Solitario's royalty property in the future. In addition to the eight-year work commitment, Solitario now has the right to annual exploration reviews of Newmont's results. This will enable us to provide our shareholders significant new developments on this strategically located royalty property. We view this agreement with Newmont as a win-win situation: We retain a significant royalty and Newmont now has the economic incentive to commit to an aggressive long-term work program on our royalty property.

# Peru Projects:

## La Tola

La Tola is an early stage gold project discovered by Solitario in mid-2003. We signed a joint venture on this property with a subsidiary of Newmont Mining Corporation in early 2004.

The 11,030-hectare (27,240-acre) property is situated in the heart of the rapidly emerging southern Peru gold belt.

Newmont can earn a 65% interest in the property by spending \$7 million on exploration, completing a feasibility study, and arranging 100% project financing. Besides retaining at least a 35% participating interest in the project, Solitario also has a sliding scale NSR royalty interest on gold, currently at 1.75%.

Initial work by Solitario at La Tola identified a northeasterly trending, eight-kilometer-long corridor of altered and mineralized Tertiary volcanic rocks. Newmont's exploration program focused on this corridor of altered volcanic rocks identifying both disseminated and stockwork gold mineralization within a large low-sulfidation gold system. Newmont collected approximately 4,000 surface samples, including 3,820 meters of trench and channel samples, and conducted 850 line-kilometers of magnetic geophysical surveys and 102 line-kilometers of IP-geophysical surveys to define drill targets.

In late 2004 Newmont drilled 13 reverse circulation drill holes (1,700 meters) on four separate target areas. The best drill holes were LT-04 and LT-05, which intersected 18 meters grading 1.29 grams per ton ("gpt") gold and 14

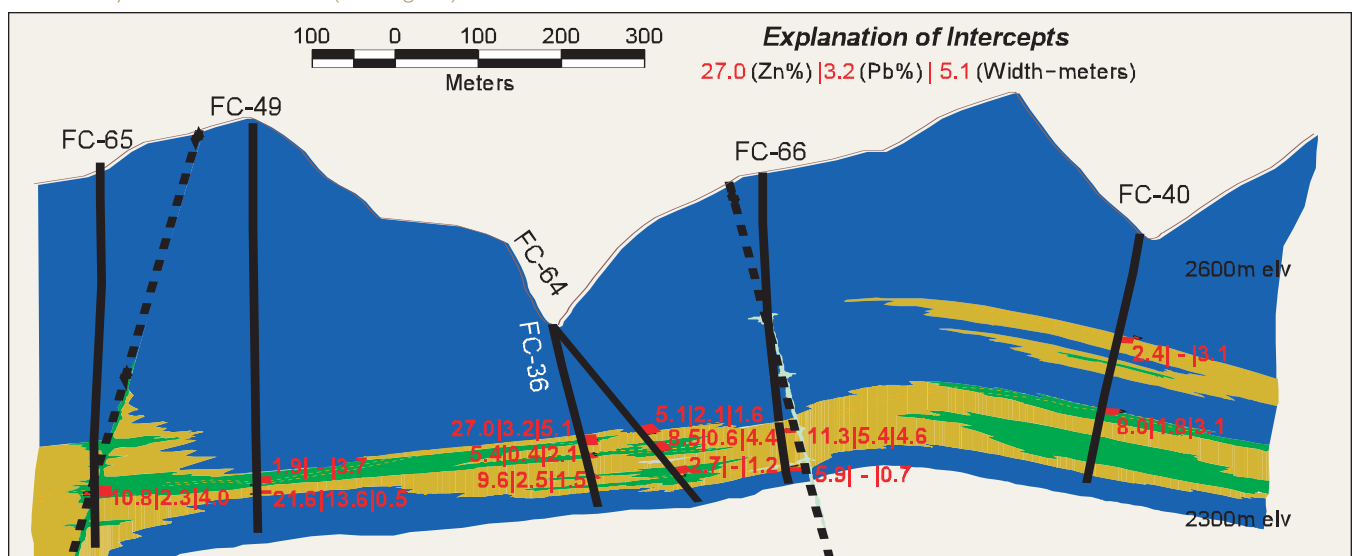
meters of 0.85 gpt gold, respectively. Newmont is currently completing a second round of drilling totaling approximately 800 meters. Pending the results of this round of drilling, Newmont will then decide whether to fund the next phase of exploration or terminate its option to earn an interest.

## Bongará

The price of zinc came roaring back from the sub-\$0.40 per pound level in 2003 to above the \$0.60 per pound level by early 2005. This dramatic 50% price improvement has enabled Solitario to move our 100%-owned Bongará zinc-lead project from care-and-maintenance to an active status, and we are seeking a joint venture partner with experience in base metal production to advance the project. With the right joint venture partner, we believe an aggressive exploration/feasibility program could bring the Bongará project to a production decision within a two-year timeframe.

This high-potential, high-grade zinc prospect in northern Peru was a grassroots discovery made by Solitario in the mid-1990's. Cominco Ltd., now Teck-Cominco, joint ventured the property and spent approximately US\$16 million on exploration. The most promising area of mineralization is the high-grade Florida Canyon deposit where zinc mineralization has been delineated by 80 core holes. In early 2001, Cominco dropped its option to earn an interest in the property when zinc prices fell below \$0.40 per pound.

Florida Canyon Cross-Section "K" (Looking NE)







208 holes have now been completed on the Pedra Branca PGM project.

## Peru Projects:

Mineralization in the Florida Canyon area is best described as Mississippi Valley type that is both strata-bound and structurally controlled zinc-lead mineralization. Within the footprint of mineralization measuring approximately two-by-two kilometers in size, the stacked near-horizontal, strata-bound zones typically average two to five meters in thickness and grade 2% to 25% in zinc and 0% to 5% in lead. The table to the right provides some of the past drilling highlights and the geologic cross section on the preceding page depicts typical strata-bound mineralization.

Strata-bound mineralization appears to have potential for expansion to the north, east and south, and is untested at depth to the west. Structurally controlled karst break-through mineralization has been intersected in the southwestern part of Florida Canyon where drill hole FC-17 intersected 58.8 meters grading 11.9% zinc and 2.7% lead. We believe excellent potential remains for the discovery of additional large-tonnage karst break-through deposits within, and peripheral to, the existing drill pattern. The ore is metallurgically very

### Bongará Drill Hole Assay Results

Hole Number	From (meters)	To (meters)	Interval		Percent Zinc	Percent Lead
			Meters	Feet		
FC-01	168.3	174.9	6.6	21.6	16.3	6.2
FC-12	90.9	97.9	7.0	23.0	28.4	3.4
FC-17	142.5	201.3	58.8	192.7	11.9	2.7
FC-23	22.1	58.8	36.7	120.2	4.5	1.0
	79.9	88.6	8.7	28.5	21.1	2.0
FC-24	58.9	63.6	4.7	15.4	15.2	0.0
FC-28	129.0	132.6	3.6	11.8	21.2	0.0
FC-36	142.0	147.1	5.1	16.7	27.0	3.2
FC-41	436.1	443.9	7.8	25.6	14.7	0.1
FC-58	241.2	252.2	11.0	36.1	8.0	0.8
FC-65	393.2	397.2	4.0	13.1	10.8	2.3
FC-66	308.0	312.6	4.6	15.1	11.3	5.4
FC-77	90.4	95.5	5.1	16.7	10.8	0.7
FC-80	228.6	232.8	4.2	13.8	8.2	2.8

favorable, consisting of coarse-grained, low-iron zinc-bearing sphalerite with lesser amounts of lead-bearing galena.

We are confident that with the high price of zinc and the outstanding potential to develop an economic high-grade zinc-lead mine, we will be able to complete a meaningful new joint venture that will advance Bongará into feasibility.

## Phase II: Pedra Branca Drill Hole Assay Results

Hole Number	From (meters)	To (meters)	Interval		Pt g/t	Pd g/t	PGM (+gold)	Hole Number	From (meters)	To (meters)	Interval		Pt g/t	Pd g/t	PGM (+gold)
			Meters	Feet							Meters	Feet			
<b>Esbarro</b>								<b>Cedro Area</b>							
ES-35	4.8	8.1	<b>3.3</b>	<b>10.8</b>	4.72	7.11	<b>11.87</b>	CD-21	91.0	100.0	<b>9.0</b>	<b>29.5</b>	1.24	2.22	<b>3.51</b>
	20.0	26.6	<b>6.6</b>	<b>21.6</b>	0.65	1.46	<b>2.11</b>	CD-22	11.2	24.0	<b>12.8</b>	<b>42.0</b>	0.43	0.83	<b>1.26</b>
ES-36	3.1	6.1	<b>3.0</b>	<b>9.8</b>	2.33	4.47	<b>6.81</b>	<b>Santa Amaro</b>							
<b>Curiu</b>								SA-08	37.7	39.1	<b>1.5</b>	<b>4.8</b>	2.68	3.00	<b>5.76</b>
CU-14	28.5	54.6	<b>26.1</b>	<b>85.6</b>	0.53	1.18	<b>1.79</b>		59.4	142.0	<b>82.7</b>	<b>271.1</b>	0.60	0.84	<b>1.45</b>
CU-15	1.1	28.0	<b>26.9</b>	<b>88.2</b>	1.13	1.92	<b>3.17</b>	including	108.0	120.0	<b>12.0</b>	<b>39.4</b>	1.66	1.41	<b>3.08</b>
CU-16	1.2	12.0	<b>10.8</b>	<b>35.4</b>	1.57	2.05	<b>3.91</b>	SA-09	1.8	34.0	<b>32.2</b>	<b>105.6</b>	0.82	0.76	<b>1.61</b>
CU-18	0.5	30.5	<b>30.0</b>	<b>98.4</b>	0.96	1.43	<b>2.45</b>		74.0	78.0	<b>4.0</b>	<b>13.1</b>	1.28	1.92	<b>3.33</b>
<b>Trapia I</b>								Drill intervals were calculated utilizing a 0.7 g/t PGM+gold cutoff.							
TU-04	81.2	122.6	<b>41.4</b>	<b>135.8</b>	0.33	0.73	<b>1.08</b>								
TU-06	70.0	128.0	<b>58.0</b>	<b>190.2</b>	0.52	1.05	<b>1.72</b>								

## Brazil Projects:

### Pedra Branca

In mid-2004, Anglo Platinum made the decision to further advance Solitario's Pedra Branca platinum-palladium ("PGM") project in northeastern Brazil by funding a \$500,000 Phase II exploration drilling program. Pedra Branca has undergone nearly five years of continuous exploration for PGM mineralization. Through this period, 208 holes totaling 15,112 meters of core drilling have been completed on 15 target areas.

The Letter Agreement signed with Anglo Platinum in early 2003 allows Anglo Platinum to earn a 51% interest in the property by spending \$7.0 million on exploration and development over a four-year period, and the right to earn an additional 14% by completing a bankable feasibility study and arranging for 100% project financing.

The Phase II drilling program consisted of 30 drill holes totaling 2,466 meters in 12 different target areas. Highlights of the most recent drilling program are provided in the table above.

To date, the Esbarro and Curiu deposits have been drilled in the greatest detail, with 105 and 21 core holes, respectively. The Esbarro prospect is the largest PGM deposit on the property with mineralization extending over

850 meters in length and approximately 200 meters in width. The Cedro deposit is the highest grade mineralization yet defined in the Pedra Branca project area with drill hole intercepts averaging about 3.0 grams per ton PGM+gold. Mineralization at Curiu has now been traced over an area about 200 meters long by 100 meters wide.

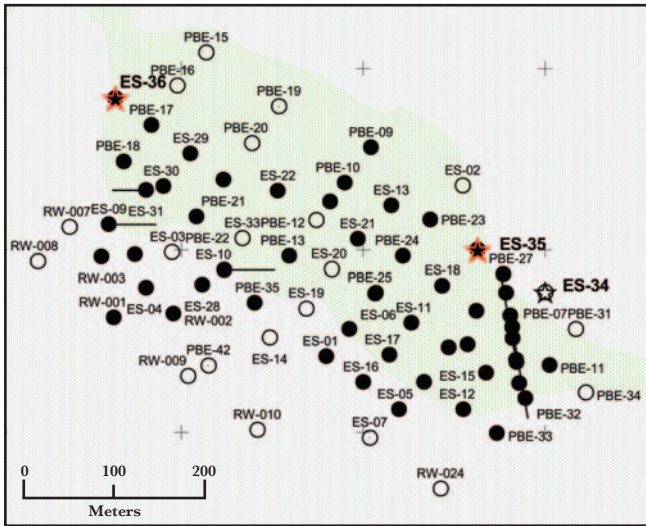
The Trapia I, Cedro, and Santo Amaro prospects with 8, 23 and 9 core holes completed on each, respectively, are emerging new deposits that are scheduled for future drilling. These prospects have outstanding potential to contribute significantly to the overall scope of mineralization at Pedra Branca.

We believe the next round of work should consist of additional delineation drilling at Trapia I, Cedro and Santo Amaro, and pre-feasibility related work such as initial metallurgy and resource estimation. Anglo Platinum is currently reviewing the Phase II drilling results and our future exploration/pre-feasibility plans to determine whether or not they will fund the next annual work commitment of \$1.25 million.

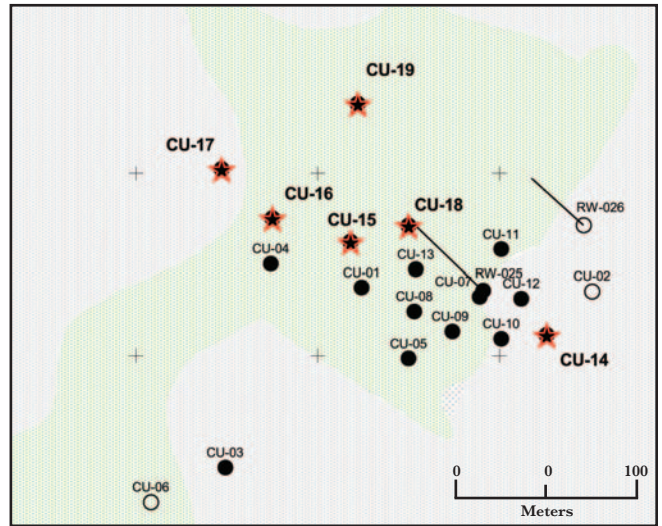


# Brazil Projects:

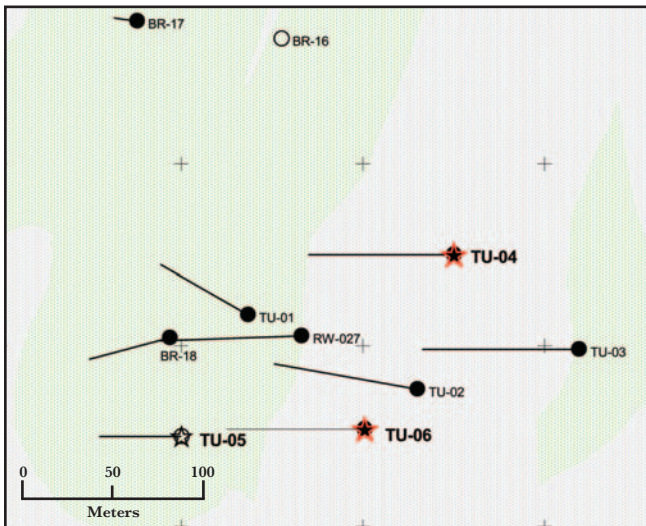
ESBARRO DEPOSIT



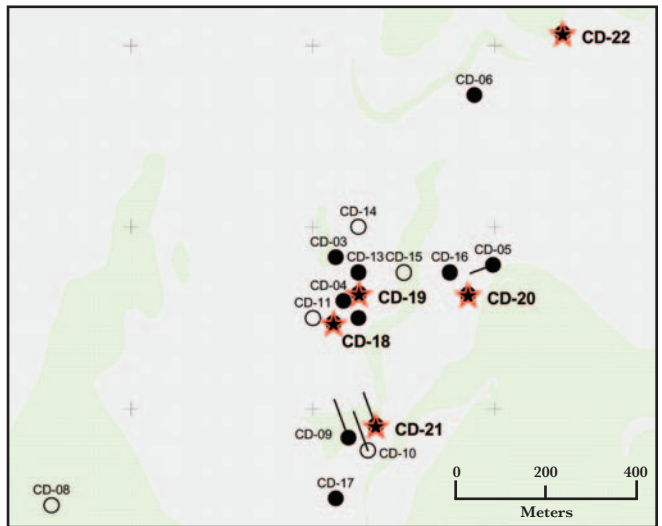
CURIU DEPOSIT



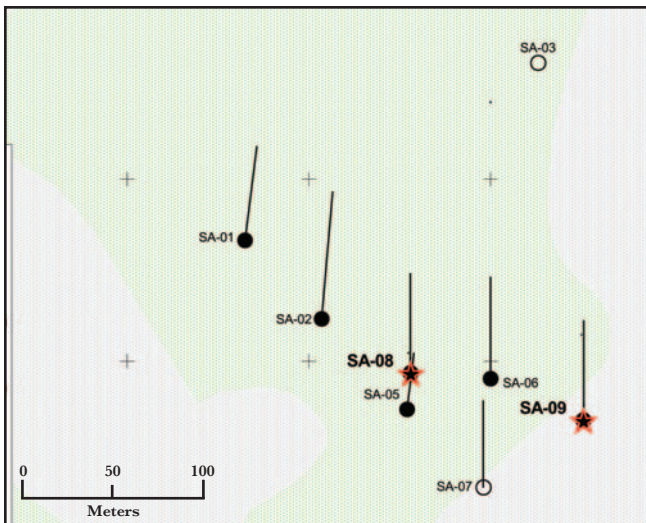
TRAPIA I PROSPECT



CEDRO PROSPECT



SANTO AMARO PROSPECT



### Pedra Branca Drill Hole Location Maps

**Phase II Results:**

- ★ Mineralized Holes (GxT >=2) (Pt+Pd+Au)
- ☆ Unmineralized

**Previous Results:**

- Mineralized Holes (GxT >=2) (Pt+Pd+Au)
- Unmineralized
- Angle Holes Surface Trace



## Brazil Projects:

### Tapajos

After careful review of where the best undeveloped gold opportunities might be found in the Western Hemisphere, we took the bold step of initiating an aggressive exploration program in early 2004 in what is referred to as the Tapajos region of northern Brazil. This region, which is roughly the size of Colorado, is well endowed in gold mineralization with estimates of up to 40 million ounces of gold being extracted during the past 50 years by local informal miners called *garimpeiros* utilizing rudimentary recovery processes.

The properties that we have under option include Sudario, Conforto, Surubim and Roque. Each of these four properties has had up to several hundred thousand ounces of gold contained in soils extracted by *garimpeiros* during the past 10 years. We believe the hard rocks underlying and on trend with the *garimpeiro* pits have the potential to host significant gold mineralization. We are currently conducting additional surface sampling, geologic mapping and ground geophysics to further define drill targets. Our goal is to drill at least two of these properties during 2005.

## Bolivia Projects:

### Triunfo

The Triunfo property is a large stockwork quartz-sulfide zone, traceable for over 800 meters, that has the potential to host a significant low-grade polymetallic deposit. We have an option to earn a 100%-interest in the property from private Bolivian parties. We have sampled a previously excavated tunnel perpendicular to this zone and situated near the middle of its strike length that averaged 0.46 gpt gold, 22 gpt silver, 0.62% lead and 0.28% zinc over its entire 50-meter length.

In 2004 we conducted a ground induced-polarization geophysical survey that indicated the zone has continuity of sulfide mineralization at depth. We are currently seeking a joint venture partner to drill test this significant polymetallic target.

Front row (l-r) Victor Livia (geologist),  
Chris Herald (CEO), Mike Schuller (Chief geologist)  
and Todd Christensen (Senior geologist).





# North America:

## Nevada Reconnaissance and Windy Peak

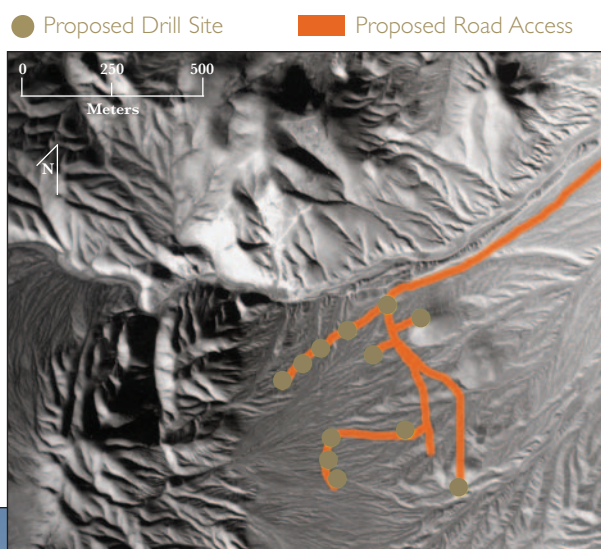
We signed an option agreement to earn up to an 80% interest in the Windy Peak gold-silver property with Silverthorn Exploration, Inc., a private Nevada exploration company. The easily accessed 1,175-hectare (2,900-acre) Windy Peak property is located 45 miles southeast of the town of Fallon, Nevada. Widespread gold and silver mineralization occurs in Tertiary volcanic rocks. We are planning an eight to twelve hole, 1,220-meter drilling campaign during the second quarter of 2005. The figure to the right shows our proposed drilling configuration. Previous drilling on the property reportedly intersected thick intercepts of low-grade gold mineralization. Our drilling will be focused in untested areas of the property covered by pediment gravels.

View of the Windy Peak area in Nevada with Victor Callaway (Consulting geologist) and Chris Herald



## Mexico

We are conducting a limited reconnaissance exploration program in Mexico to identify high-potential gold and silver properties. In 2004 we evaluated approximately 15 properties, primarily in central Mexico. Although we have not yet acquired a property, we remain confident that, with time, our efforts in Mexico will be rewarded.





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

## Business Overview and Summary

We are a precious and base metals exploration company with exploration mineral interests in Peru, Bolivia, Brazil and the state of Nevada in the United States. We are conducting exploration activities in all of those countries as well as Mexico and may acquire mineral interests in Mexico. We were incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of CRCC. CRCC is a wholly-owned subsidiary of Crown. As a result of the issuance of shares subsequent to 1984, CRCC's ownership of our shares was reduced to 37.1% as of July 26, 2004. On July 26, 2004, Crown completed a spin-off of its holdings of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of our shares, of which it retains 950,013 shares as of March 14, 2005, for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Crown has disclaimed any beneficial ownership interest in those retained shares. In addition Crown retained 93 of our shares, from fractional shares, which it intends to sell. After the disposition of our shares retained for warrant holders and fractional shares, Crown will no longer own any of our shares. Because we owned 6,071,626 shares of Crown from the conversion of Crown Senior and Subordinated B Notes, the exercise of Crown warrants and shares received as interest, as part of the spin-off, we received 1,317,142 shares of our own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

Our principal expertise is in identifying mineral interests and mineral properties with promising mineral potential, acquiring these mineral interests and mineral properties and exploring them to an advanced stage. Currently we have no mineral interest or mineral properties in development. We currently own five mineral interest projects under exploration and we own our Yanacocha royalty interest. We also are in various stages of project acquisition for properties in Mexico and Brazil that have not yet been completed. Our goal is to discover economic deposits on our mineral interests and advance these deposits, either on our own or through joint ventures, up to the development stage (development activities include, among other things, the completion of a feasibility study, the identification of proven and probable reserves, as well as permitting and preparing a deposit for mining). At that point we would attempt to either sell our mineral interests or pursue their development, either on our own or through a joint venture with a partner that has expertise in mining operations.

In analyzing our activities, the most significant aspect relates to results of our exploration activities and those of our joint venture partners on a project-by-project basis. When our exploration activities, including drilling, sampling and geologic testing indicate a project may not be economic or contain sufficient geologic or economic potential we may impair or completely write-off the project. 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 our gold-bearing mineral interests increases and it also becomes more difficult and expensive to locate and acquire new gold-bearing mineral interests or mineral properties with potential to have economic deposits.

The potential sale, joint venture or development of our mineral interests or properties will occur, if at all, on an infrequent basis. Accordingly, while we conduct exploration activities, we need to maintain and replenish our capital resources. We have met our need

for capital in the past through issuance of common stock, usually through private placements, and more recently as part of a strategic alliance with major mining companies. We have reduced our exposure to the costs of our exploration activities through the use of joint ventures. We anticipate these practices will continue for the foreseeable future depending on what happens with our investment in Crown.

We have a significant investment in Crown at December 31, 2004, which consists of 6,071,626 shares of Crown common stock or approximately 15.2% of the outstanding Crown common shares. Crown announced in November 2003 that it had executed an acquisition agreement, whereby Kinross, will acquire all of the outstanding shares of Crown. Assuming the pending merger between Kinross and Crown is completed, we have estimated that as of March 14, 2005 our holdings of Crown common stock would convert into 1,767,450 shares of Kinross common stock with a value of approximately \$12.1 million based upon the market price of \$6.82 per Kinross share. Any significant fluctuation in the market value of either Crown or Kinross common shares could have a material impact on our liquidity and capital resources.

## Recent Developments

On November 17, 2004, we signed a Letter of Intent to form a strategic alliance with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, the world's largest gold producer, to explore for gold in South America. Included in the Letter of Intent was a commitment from Newmont to purchase 2.7 million shares of Solitario (approximately 9.9% equity interest) for Cdn\$4.59 million. The Letter of Intent also committed us to spend approximately \$3,776,000 over the next four years on gold exploration in regions ("Alliance Projects") that are mutually agreed upon by Newmont and us. The first Alliance Project area is located in southern Peru and is approximately 4,000 square kilometers in size. If we acquire properties within Alliance Project areas and meet certain minimum exploration expenditures, Newmont will have the right to joint venture acquired properties and earn up to a 75% interest by taking the project through feasibility and financing Solitario's retained 25% interest into production. Newmont may elect to earn a lesser interest, or no interest at all, in which case it would retain a 2% net smelter return royalty. Newmont also has a right of first offer on any non-alliance Solitario property acquired after the signing of the definitive Alliance Agreement, that we may elect to sell an interest in, or joint venture.

Concurrent with the signing of the strategic alliance Letter of Intent, was the signing of a second Letter of Intent by us and Minera Los Tapados S.A., a subsidiary of Newmont Peru Limited, Minera Yanacocha S.R.L., and Minera Chaupiloma Dos de Cajamarca, S.R.L. (collectively "Tapados"), to amend Solitario's net smelter return ("NSR") royalty on a 150,000-acre property located immediately north of the Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America. In addition to amending the NSR royalty schedule, the Letter Agreement committed Tapados to a long-term US\$4.0 million work commitment on Solitario's royalty property and provides Solitario access to Tapados' future exploration results on an annual basis. Both the strategic alliance and Yanacocha royalty amendment and work commitment Letter Agreements were subject to the companies signing a definitive agreement and various regulatory approvals.

On January 18, 2005, we signed the definitive agreements for the strategic alliance, Newmont's 2.7 million-share purchase of Solitario

## MD&A:

common stock and the Yanacocha NSR-royalty amendment and work commitment agreements with Newmont and its associated subsidiaries and affiliates. The terms of the definitive agreement were the same as those within the two Letters of Intent.

On July 28, 2004, we exchanged 500,000 shares of TNR Gold Corp. ("TNR") common stock for 500,000 shares of TNR common stock and a warrant to purchase an additional 500,000 shares of TNR for Cdn\$0.16 per share for a period of two years. The TNR common shares received contain a restriction on public sale in Canada through November 28, 2004. The transaction has been accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrant. We recorded a loss on sale of marketable equity securities of \$73,000 during the three months ended September 30, 2004. The TNR shares and warrants are classified as marketable equity securities held for sale. Christopher E. Herald, our CEO, is a member of the Board of Directors of TNR.

On July 26, 2004, Crown completed a spin-off of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 Solitario shares for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Crown has disclaimed any beneficial ownership interest in those retained shares. In addition, Crown retained 93 Solitario shares, from fractional shares, which it intends to sell. After the disposition of the Solitario shares retained for warrant holders and fractional shares, Crown will no longer own any shares of Solitario. As part of the spin-off, Solitario, which owns 6,071,626 shares of Crown from the conversion of Crown Senior and Subordinated B Notes, the exercise of Crown warrants and shares received as interest, received 1,317,142 shares of its own common stock, valued at the market price of the shares received on July 26, 2004 of \$1,541,000, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

On July 14, 2004, we converted its \$1,000,000 face value of Crown Senior Notes into 3,132,509 shares of Crown common stock (which included 75,367 shares issued for accrued interest through the date of conversion on the Notes). On July 12, 2004, we exercised two Crown warrants, which gave us the right to receive (i) 1,200,000 shares of Crown common stock when exercised on a cash basis for \$0.60 per share and (ii) 1,857,143 shares of Crown common stock when exercised on a cash basis for \$0.75 per share. These warrants were exercised on a cashless exercise basis per the terms of the warrants. We received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants. Under the cashless exercise, we received that number of shares of Crown equal to the in-the-money portion of its Crown warrants based on the July 12, 2004 closing market price of Crown common stock of \$1.95 per share. After conversion of the Senior Notes and exercise of Crown warrants discussed above, as of March 14, 2005, we owned 6,071,626 shares of Crown common stock, which represents 15.2% of Crown, which is accounted for under the cost method. We account for our shares of Crown common stock as available for sale marketable equity securities, which have a fair value of \$12,143,000 as of December 31, 2004.

On July 12, 2004, we signed an agreement with Silverthorn Exploration, Inc. ("Silverthorn") to earn a 60% interest in the Windy Peak property located in west-central Nevada (U.S.). The property consists of 144 unpatented mining claims totaling approximately 1,175 hectares. The agreement (the "Silverthorn Agreement") calls for us to make an initial payment of \$10,000 on signing and for us to make additional escalating payments totaling \$90,000 over the next four years as well as spend a total of \$2.0 million on exploration over

four years to earn its 60% interest. We may earn an additional 20% interest in the property by paying Silverthorn an additional \$100,000 and spending an additional \$2.0 million in exploration by the sixth anniversary of the signing date. After completing the first year 1,220-meter drilling commitment, we may terminate our option to acquire the property with no further obligations, except reclamation due to our drilling activities. At December 31, 2004, we are developing our drilling plan to meet our first year's work commitment.

On April 2, 2004, we signed a Letter Agreement with Newmont Peru Limited, ("Newmont"), a subsidiary of Newmont Mining Corporation, whereby Newmont can earn a 51% interest in our 100%-owned La Tola gold property in southern Peru by spending US\$7.0 million on exploration and development work over a four-year period. Newmont can earn an additional 14% interest (to a total interest of 65%) by completing a positive feasibility study and arranging 100% of project financing. In addition to our retained participating interest in the project, we retain a sliding scale net smelter return royalty interest on gold and silver production (zero to 2.25% subject to gold price and other conditions) from the property.

In February 2004, we signed an option agreement (the "San Pablo Agreement") to acquire a 100% interest, with no retained royalty, in the 700-hectare San Pablo gold project in southwestern Bolivia. The San Pablo Agreement called for us to make escalating payments to the underlying private Bolivian owners of the property totaling \$1.0 million and spend \$190,000 on exploration over a four-year period. The first six-month payment of \$10,000 was made. After spending \$15,000 during the first six-month period, we had the right to terminate the San Pablo Agreement at any time with no further obligations. In September 2004, after performing a detailed geochemical rock chip-sampling program to confirm the presence of gold mineralization, we decided to terminate the San Pablo agreement and recorded a \$10,000 mineral property write down. As of December 31, 2004, we have no interest in the San Pablo project.

In February 2004, we signed an option agreement (the "CC Agreement") to acquire a 100% interest in 88 unpatented claims totaling approximately 700-hectares on the Legacy Ridge project in west-central Nevada (U.S.). The CC Agreement called for us to make escalating payments to the underlying private owner of the project of \$25,000 in the first year with a total of \$2.0 million over a five-year period and spend \$900,000 in exploration over four years, including \$150,000 in the first year. We completed our initial \$150,000 exploration commitment during the second quarter of 2004 by conducting a surface sampling program and drilling 14 reverse circulation drill holes totaling 1,203 meters. After reviewing the assay results of the drilling we elected to terminate our option to earn an interest in the project and recorded a \$25,000 mineral property write-down during the third quarter of 2004. As of December 31, 2004, we have no interest in the Legacy Ridge project.

In February 2004, Bear Creek Mining Company ("Bear Creek") notified us that it intended to terminate its joint venture interest in the La Pampa project. In June 2004, Bear Creek paid us \$15,000 to terminate its joint venture interest in the La Pampa project. During the third quarter of 2004 we dropped the La Pampa project and because it had no capitalized mineral interest, there was no related charge to mineral property write down. As of December 31, 2004, we have no interest in the La Pampa project.

During the third quarter of 2004, after failing to secure a joint venture, we dropped our claims at the Sapalache gold project located in the Department of Piura, Peru and recorded a mineral property write-down of \$29,000. As of December 31, 2004, we have no interest in the Sapalache project.



## Results of Operations

### Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

We had net loss of \$2,925,000 or \$0.12 per basic and diluted share for the year ended December 31, 2004 compared to net income of \$3,354,000 or \$0.14 per basic and diluted share for the year ended December 31, 2003. As explained in more detail below, the primary reason for the decrease to a net loss during 2004 compared to net income during 2003 was the recognition of a \$1,704,000 unrealized loss on derivative instruments primarily related to our holdings of Crown warrants during 2004, compared to an unrealized gain on derivative instruments of \$5,438,000 in 2003. Additionally, net exploration expense increased to \$1,088,000 during 2004 compared to \$418,000 during 2003 and general and administrative costs increased to \$629,000 during 2004 compared to \$404,000 during 2003, primarily as a result of legal and accounting costs associated with filing our Form 10 registration statement with the U.S. Securities and Exchange Commission (the "SEC"). We also recorded a \$64,000 loss on sale of marketable equity securities primarily related to an exchange of 500,000 shares of TNR Gold Corp. ("TNR") common stock for 500,000 shares of TNR common stock and a warrant to purchase 500,000 shares of TNR during the third quarter of 2004. We recorded a deferred tax benefit of \$935,000 primarily as a result of our pre-tax loss of \$3,860,000.

During the year ended December 31, 2004 we recorded an unrealized loss on derivative instruments of \$1,704,000 primarily related to our holdings of Crown warrants compared to an unrealized gain of \$5,438,000 during 2003. We exercised our Crown warrants on July 12, 2004. The warrants were exercisable into Crown shares at any time prior to October 2006 at exercise prices between \$0.60 and \$0.75 per share. The warrants could be net settled and were classified as derivative instruments. Accordingly, any increase or decrease in the market value of our Crown warrants has been included in the consolidated statement of operations as unrealized gain or loss on derivative instruments. The fair value of our Crown warrants decreased to \$3,849,000 at July 12, 2004 compared to \$5,591,000 at December 31, 2003, primarily as a result of the decrease in the value of Crown's common stock, which decreased from \$2.52 per share at December 31, 2003 to \$1.95 per share at July 12, 2004, just prior to exercise. On July 12, 2004, we exercised all of our Crown warrants on a cashless basis and received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants. Assuming the completion of the acquisition of Crown by Kinross, these Crown common shares will be converted into Kinross shares.

During 2004 we recorded interest income of \$193,000 compared to interest income of \$272,000 during the same period in 2003. During 2004 we recorded \$192,000 of interest income related to our investment in Crown Senior Notes, which were converted in July 2004. Upon conversion of our Crown Senior Notes we received 75,367 shares of Crown common stock for interest, which were paid at the conversion rate of \$0.35 per share when the market price of the shares was \$1.88 per share. As a result we recorded \$117,000 additional interest over the interest income we would have received had the interest been paid in cash upon the conversion of the Senior Notes during the third quarter of 2004. During the year ended December 31, 2003 we recorded \$212,000 of interest on Crown Senior Notes including \$112,000 of interest relating to additional interest due to interest being paid in Crown shares rather than being paid in cash. We also received \$30,000 of interest income on our investment in Crown Subordinated B Notes, which were converted to shares of Crown common stock in November 2003, including \$4,000

of interest relating to additional interest due to interest being paid in Crown shares rather than being paid in cash. Remaining interest income related to interest income on our cash balances. We expect our interest income will decrease in 2005 as we converted our Senior Notes to shares of Crown common stock in July 2004.

Our net exploration expense increased to \$1,088,000 during 2004 compared to \$418,000 in 2003. During 2004 we focused our exploration efforts on our Legacy Ridge project in Nevada, La Tola project in Peru, our Triunfo and San Pablo projects in Bolivia, as well as on our previously explored Pedra Branca project in Brazil. Additionally, we increased our activities related to evaluations of properties for potential acquisition, including evaluation of data and site visits, in two new geographic areas, the Tapajos region in northern Brazil and Mexico. Accordingly, our gross exploration costs increased to \$1,499,000 in 2004 from \$875,000 in 2003. The exploration expenses were offset by joint venture reimbursements by Anglo Platinum on our Pedra Branca project of \$411,000 during 2004 and \$457,000 during 2003. In addition to our work at Pedra Branca the increase in our gross exploration costs primarily consisted of drilling, sampling and exploration at our Legacy Ridge project in Nevada as well as increased efforts to add new prospects as well as to evaluate and advance our existing exploration properties and targets. As a result of this exploration and evaluation we decided to drop our interests in four properties during the third quarter of 2004; San Pablo in Bolivia, Legacy Ridge in Nevada, La Pampa in Peru and Sapalache in Peru. We anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in South and North America during 2005 and have tentatively budgeted our related net exploration expenditure to be approximately \$2,050,000. The primary factors in our decision to increase exploration expenditures in 2005 relate to the increase in capital resources expected from the anticipated completion of the Crown-Kinross merger, the completion of the Newmont Alliance and related private placement in January 2005 and increased exploration opportunities in Brazil and Mexico. This budget is subject to significant reduction, should the Kinross transaction be delayed or not completed in 2005. The actual amount of exploration expenditures has not been determined and any reduction in our tentative exploration budget due to a delay in the completion or termination of the Crown Kinross merger has not been determined.

We had \$119,000 of depreciation and amortization expense during 2004 compared to \$488,000 in 2003. During 2004, depreciation and amortization expense up to April 2004 included \$118,000 of amortization of mineral interests, compared to \$466,000 of mineral interest amortization in 2003. Beginning January 1, 2002, we amortized our mineral interests in exploration properties over their expected lives of three to five years. The remaining depreciation and amortization expense related to furniture and fixtures most of which became fully depreciated by the end of 2004. We anticipate our 2005 depreciation and amortization costs will be reduced as a result of no longer amortizing mineral interests in accordance with Emerging Issues Task Force Issue No. 04-2, "Whether Mineral Rights are Tangible or Intangible Assets" ("EITF No. 04-2") adopted on April 1, 2004, which requires companies to reclassify Mineral Interests, net as Mineral Properties, net and cease amortizing exploration stage mineral interest prior to the commencement of production. See Recent Accounting Pronouncements below.

General and administrative costs were \$629,000 during 2004 compared to \$404,000 in 2003. The largest increase in general and administrative costs related to an increase in legal and accounting costs, which increased to \$303,000 during 2004 compared to \$186,000 in 2003. The primary reason for the increase is related to

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work on completing a Form 10 registration statement with the United States Securities and Exchange Commission (the "SEC") during 2004 as well as costs related to being a U.S. reporting issuer, which occurred when our Form 10 registration statement became effective in February 2004. In addition, during 2004, we increased staff and travel costs with the addition of the U.S. property in Nevada and the increased exploration effort in Peru, Brazil and Bolivia. We also increased our costs for shareholder relations and printing and distribution of our annual report to \$93,000 in 2004 from \$50,000 in 2003. The remaining general and administrative costs for travel, consulting, and shareholder meetings were comparable between 2004 and 2003. We anticipate an increase in general and administrative costs in the future if the Crown and Kinross merger is completed and the management services agreement is terminated as discussed below under related party transactions.

Management fee expense increased to \$390,000 during 2004 compared to \$351,000 in 2003. As there were no changes in the Management Agreement the increase in management fees are related to increased managerial time spent by Crown on our activities during 2004 compared to 2003. Under the modified management agreement Solitario pays Crown for services by payment at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits and expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, we reimburse Crown for direct out-of-pocket expenses. If the Crown and Kinross merger is completed we anticipate the management services contract will be terminated, which will eliminate our management fee expense, but increase our general and administrative costs, as discussed below under related party transactions.

On July 28, 2004, we exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The transaction has been accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrants. We recorded a loss on sale of marketable equity securities of \$73,000 during the third quarter of 2004. During 2003, we recorded a charge of \$26,000 to earnings related to decline in the value of our TNR shares, which we considered other than temporary. The TNR shares are classified as marketable equity securities held for sale and the TNR warrants are recorded at fair value based on quoted prices and classified as derivative instruments and changes in the fair value of the warrants are included in gain loss on derivative instruments in the consolidated statement of operations. Solitario recorded an increase in the value of its TNR warrants as of December 31, 2004 of \$38,000 to gain loss on derivative instruments in the consolidated statement of operations.

During 2004, we recorded an income tax benefit of \$935,000 related to the expected benefit of the currently generated net operating losses that are expected to offset future taxable income related to our unrealized gains on marketable equity securities, primarily related to our holdings of Crown common shares, with such gain recorded as other comprehensive income. We anticipate we may recognize some of that gain upon either the sale of Crown common stock or, assuming the Crown and Kinross merger is completed, the sale of Kinross common stock received upon conversion of Crown common stock. During the third quarter of 2004, upon the conversion of our Senior Notes and the exercise of our Crown warrants into Crown

common stock, we recorded a \$3,015,000 deferred tax liability related to an increase of \$7,005,000 in the fair value of that Crown stock. During 2003, we recorded income tax expense of \$669,000 related to our estimated tax provision at statutory rates on income before income taxes, which was offset primarily by a \$1,530,000 reduction in net operating loss carry forwards.

We regularly perform evaluations of our 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 the quarter ended September 30, 2004 we recorded \$64,000 of property write-downs related to our San Pablo, Legacy Ridge, La Pampa, and Sapalache projects. There were no property or mineral interest write-downs during the third quarter of 2003.

### **Comparison of the year ended December 31, 2003 to the year ended December 31, 2002**

We had net income of \$3,354,000 or \$0.14 per share in 2003 compared to a loss of \$2,079,000 or \$0.09 per share in 2002. The primary reason for the income in 2003 was the recognition of \$5,438,000 in gain on derivative instruments during 2003, compared to gain of \$105,000 in 2002 related to our holding of Crown warrants. Net exploration expense in 2003 was reduced as we entered into a joint venture with Anglo Platinum on our Pedra Branca project, whereby Anglo Platinum paid for approximately \$457,000 of exploration costs. General and administrative costs increased primarily as a result of legal and accounting costs associated with filing a Form 10 registration statement with the US Securities and Exchange Commission during the fourth quarter of 2003. As a result of our pre-tax net income, we recorded income tax expense of \$669,000 during 2003.

During 2003 we recorded an unrealized gain on derivative instruments of \$5,438,000 related to our holdings of Crown warrants. Our Crown warrants were exercisable into Crown shares at any time prior to October 2006 at exercise prices between \$0.60 and \$0.75 per share. The warrants could be net settled and were classified as derivative instruments at December 31, 2003 and 2002. Accordingly, any increase or decrease in the market value of our Crown warrants is included in the consolidated statement of operations as unrealized gain or loss on derivative instruments. The fair value of our Crown warrants increased to \$5,591,000 at December 31, 2003 compared to \$153,000 at December 31, 2002, primarily as a result of the increase in the value of Crown's common stock, which increased from \$0.58 per share at December 31, 2002 to \$2.52 per share at December 31, 2003. We exercised all of our Crown warrants in July 2004.

During 2003 we recorded interest income of \$272,000 compared to interest income of \$137,000 in 2002. The increase was primarily the result of interest on our investment in Crown Senior and Subordinated B Notes. Crown elected to pay interest in its common shares for the first three quarters of 2003. Per the terms of the Notes, the number of shares of Crown stock received was fixed at a conversion rate which did not fluctuate with the quoted market price of the stock and this resulted in additional interest income of \$112,000 during 2003 compared to the amount of interest income we would have received had Crown paid the interest in cash. During 2002, the amount of interest received from Crown, which was also paid in Crown common shares, was approximately \$24,000 less than the amount we would have received had Crown paid the interest in cash.



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Our net exploration expense decreased to \$418,000 during 2003 compared to \$957,000 in 2002. During 2003 we focused our exploration on our Pedra Branca project as well as newly acquired projects including Triunfo in Bolivia and La Tola in Peru. Although our gross exploration costs decreased slightly from \$957,000 in 2002 to \$875,000 in 2003, these exploration expenses were offset by joint venture reimbursements of \$457,000 by Anglo Platinum on our Pedra Branca project in 2003. The change in our remaining costs primarily consisted of reduced general and administrative salaries in Peru as we eliminated the position of our vice president of South American operations from our office in Lima and we closed one of our two Brazilian offices and reduced our Bolivian office in 2002, which was reflected in the full year costs of 2003. Increased geologic drilling and field expenses at our Pedra Branca project offset these reductions.

Depreciation and amortization expense was \$488,000 in 2003 compared to \$504,000 in 2002. Depreciation and amortization expense during 2003 included \$466,000 of amortization of mineral interests compared to \$464,000 in 2002. Beginning January 1, 2002, we have been amortizing our mineral interests in exploration properties over their expected lives of three to five years. The remaining reduction in depreciation and amortization expense between 2003 and 2002 related to furniture and fixtures becoming fully depreciated during 2003 and 2002.

General and administrative costs were \$404,000 in 2003 compared to \$372,000 in 2002. General and administrative costs increased primarily related to an increase in legal and accounting costs, which increased to \$38,000 and \$108,000, respectively in 2003 compared to \$6,000 and \$41,000, respectively, in 2002. The primary reason for the increase is related to work on completing a Form 10 registration statement with the US Securities and Exchange Commission during the fourth quarter of 2003. The remaining general and administrative costs for travel, consulting, and shareholder meetings were comparable between 2003 and 2002.

Management fee expense was reduced to \$351,000 in 2003 compared to \$449,000 in 2002 partially as a result of a modification in July 2002 of the Management Agreement that reduced the percentage of reimbursement from 75% of certain administrative costs and finance costs to 25% of those administrative costs and 50% of those finance costs. The full effect of this modification was felt in 2003. Additionally our reduced exploration and administrative activity, partially as a result of the Anglo Platinum joint venture on the Pedra Branca project, reduced the need for Crown's management of our overall activities. Net amounts due to Crown as of December 31, 2003 and 2002 were \$25,000 and \$73,000, respectively, related to the Management Agreement.

During 2003, we wrote down an investment in marketable equity securities, when we determined the decline in the market value of the related stock was other than temporary, which resulted in a loss of \$26,000 being recorded as an asset write-down. During 2002, we recorded a loss on the sale of certain equipment and marketable equity securities of \$39,000.

## Liquidity and Capital Resources

Due to the nature of the mining business, the acquisition, and exploration of mineral properties requires significant expenditures prior to the commencement of development and production. In the past, we have financed our activities through the sale of securities, joint venture arrangements, and the sale of interests in our properties. To the extent necessary, we expect to continue to use similar financing techniques; however, there is no assurance that such financing will be available to us on acceptable terms, if at all.

We had working capital of \$3,207,000 at December 31, 2004 compared to working capital of \$3,230,000 as of December 31, 2003. Our working capital consists primarily of our cash and equivalents and marketable equity securities and a joint venture receivable of \$299,000 at December 31, 2004 compared to \$3,000 at December 31, 2003 from Anglo Platinum, related to our Pedra Branca property.

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, 2004, we owned 6,071,626 shares of Crown common stock from the conversion of our Crown Senior Notes, the exercise of our Crown warrants and interest on our Crown Senior notes paid in shares of Crown common stock. At December 31, 2003, we owned 965,491 shares of Crown common stock received as interest on our Crown Senior Notes and Crown Subordinated B Note and conversion of the Subordinated Note. The Crown shares are recorded at their fair market value of \$12,143,000 and \$2,433,000 at December 31, 2004 and December 31, 2003, respectively. In addition we own other marketable equity securities with a fair value of \$112,000 and \$143,000 as of December 31, 2004 and December 31, 2003, respectively. At December 31, 2004, we have classified \$9,219,000 of our marketable equity securities as a long-term asset. Changes in the fair value of marketable equity securities are recorded as gains and losses in other comprehensive income in stockholder's equity. During the year ended December 31, 2004, we recorded a gain in other comprehensive income on marketable equity securities of \$6,356,000, less related deferred tax expense of \$2,481,000. In addition during the year ended December 31, 2004, we sold marketable equity securities for proceeds of \$16,000 resulting in a gain of \$14,000, which included the recognition of \$6,000 of previously unrealized gain on marketable equity securities in other comprehensive income. In addition, during the year ended December 31, 2004, we exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase 500,000 shares of TNR and recorded a loss of \$73,000 on the exchange, which included previously unrealized loss on marketable equity securities of \$70,000. During the year ended December 31, 2003, we recorded a gain on marketable equity securities of \$5,438,000. Any change in the market value of the shares of Crown common stock could have a material impact on our liquidity and capital resources. The price of shares of Crown common stock has varied from a high of \$2.62 per share to a low of \$1.35 per share during the year ended December 31, 2004.

On July 14, 2004, we converted our \$1,000,000 face value of Crown Senior Notes into 3,132,509 shares of Crown common stock (which included 75,367 Crown shares issued for accrued interest through the date of conversion on the Notes). The 3,057,142 Crown shares received from the conversion of the Senior Notes were recorded to marketable equity securities at \$949,000, the book value of the Senior Notes on July 14, 2004. The 75,367 shares received as interest were recorded as interest income at \$142,000, the fair value of the shares on July 14, 2004.

On July 12, 2004, we exercised our Crown warrants on a cashless exercise basis per the terms of the warrants. We received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants. These shares were recorded at the book value of the warrants, \$3,849,000, which also equaled the fair value of the shares on July 12, 2004.

Because we owned 6,071,626 shares of Crown, as part of the spin-off we received 1,317,142 shares of our own common stock, which were retired on August 11, 2004, and have the status of authorized

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but unissued shares of common stock. These shares of our common stock were recorded as treasury stock at \$1,541,000, the fair value of the shares on July 26, 2004, the date of the spin-off by reducing the basis in our holdings of Crown common stock. Upon retiring these shares we reduced common stock by \$13,000 and reduced additional paid in capital by \$1,528,000.

Assuming the completion of the Crown's merger with Kinross as contemplated in the Merger Agreement, we have estimated our investment in Crown securities would convert into approximately 1,767,450 shares of Kinross. We have estimated that these Kinross shares would be valued at approximately \$12.1 million, assuming the March 14, 2005 market price of \$6.82 per share for each Kinross share. Although no specific plans have been formulated by our Board, we intend to liquidate a portion of our Kinross shares over the next one to three years to reduce our exposure to a single asset, taking into consideration our cash and liquidity requirements, tax implications, the market price of gold and the market price of Kinross stock. Although our Kinross shares would be issued pursuant to an effective registration statement under the U.S. Securities Act of 1933 (the "Securities Act"), due to our status as a Crown affiliate, sales of our Kinross shares must be made in accordance with the requirements of Rule 145(d) under the Securities Act, which could limit or restrict sales of our Kinross shares during the next one to two years. Any funds received from the sale of Kinross shares would be used primarily to fund exploration on our existing properties, for the acquisition and exploration of new properties and general working capital.

If the Crown and Kinross merger is not completed we anticipate we will use existing funds to continue to explore our existing exploration projects. We anticipate we have enough cash and working capital to meet our operating and net exploration requirements through 2005.

As a result of recording an unrealized gain of \$6,356,000 during 2004 on marketable equity securities in other comprehensive income, related primarily to our holdings of Crown stock, and the recognition of gain on Solitario's holdings of Crown warrants of \$5,438,000 during 2003, Solitario estimated that its deferred tax liabilities exceeded its realizable deferred tax assets by \$2,633,000 at December 31, 2004.

Subsequent to December 31, 2004, on January 18, 2005, pursuant to a Stock Purchase Agreement, we agreed to sell to Newmont and Newmont agreed to purchase from us 2,700,000 newly issued shares of our Common Stock for Cdn\$1.70 per share or Cdn\$4,590,000 in the aggregate or approximately \$3,776,000. We sold the Common Stock in a private offering in reliance on an exemption from registration pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. Newmont received restricted stock in the offering. We expect to use the proceeds of this offering to perform exploration as contemplated under an Alliance Agreement with Newmont. Cash and cash equivalents were \$76,000 as of December 31, 2004 compared to \$1,273,000 at December 31, 2003. Our cash balances, including the proceeds of the private offering of our shares to Newmont and the anticipated sale of shares of Crown or Kinross common stock, as needed, are considered adequate to fund our 2005 exploration plan and all other expenditures. The nature of the mining business requires significant sources of capital to fund exploration, development and operation of mining projects. We will need additional resources if we choose to develop on our own any mineral deposits we have. We anticipate that we would finance these activities through the use of joint venture arrangements, the issuance of debt or equity, the sale of interests in our properties or the sale of our shares of Crown or Kinross common stock. There can be no assurance that such sources of funds will be available on terms acceptable to us, if at all.

As previously noted, under the Management Agreement we currently reimburse Crown for certain expenses, including management salaries and benefits, rent, insurance and investor relations costs and certain other expenses paid by Crown on our behalf. Assuming the completion of the Kinross merger, we will no longer operate under the Management Agreement. This change will result in an increase in general and administrative costs related to salaries and benefits for employees, rent, audit and legal fees, shareholder relations costs, travel and office expenses. In the event that the Kinross transaction is not completed, we anticipate that we would continue to operate under the Management Agreement with Crown. See Related Party Transactions below for further discussion.

### Cash Flows

Net cash used in operations during 2004 increased to \$2,209,000 compared to \$1,157,000 for 2003 primarily as a result of increases in net exploration expenses related to new properties and reconnaissance work, increases in general and administrative expenses related to our Form 10 registration, as well as a reduction in interest income, all of which are discussed above in Results of Operations. Investing activities generated \$27,000 of cash during 2004, primarily related to the collection of a note receivable of \$112,000 and proceeds from the sale of equity securities. This compared to a use of \$299,000 of cash in the same period of 2003, primarily from the purchase of \$400,000 of Crown Subordinated B Notes discussed above. Cash provided by financing activities in 2004 of \$985,000 related to the exercise of stock options for 1,121,000 shares of our common stock compared to exercises of stock options for 16,000 shares of our common stock in 2003 for proceeds of \$14,000. In addition we completed a private placement of our common stock to Sprott Securities during 2003 for \$1,310,000 (net of offering costs). There were no similar sales in 2002.

### Contractual Obligations

As of December 31, 2004, we have no outstanding long-term debt, capital or operating leases or other purchase obligations.

However, we do have annual concession and lease payments required to maintain our current interests in mineral properties. While the majority of these payments are not fixed obligations since we can generally abandon the mineral properties after meeting a minimum work commitment at any time without penalty or further payments, these payments are required in order to maintain our interests. We estimate these payments to be approximately \$218,000 for 2005, before reimbursement from any of our partners. Our existing mineral property agreements commit us to exploration expenditures of \$280,000 in 2005. We may be required to make further payments in the future if we elect to exercise our options under those contracts.

Additionally, we currently do not lease any facilities, however we have co-signed the facilities leased by Crown for their Wheat Ridge, CO office. Assuming completion of the Crown transaction with Kinross, we estimate our facility lease costs will be approximately \$30,000 per year, related to the Wheat Ridge, CO facility.

We currently have deferred tax liabilities recorded in the amount of \$2,633,000. These deferred tax liabilities primarily relate to our unrealized holding gains on our Crown shares. If the Crown transaction with Kinross is completed, we expect that a portion of these deferred tax liabilities may become currently payable as we sell the resultant Kinross shares.

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## Joint Ventures

On January 18, 2005, we signed a Strategic Alliance Agreement with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, the world's largest gold producer, to explore for gold in South America. Prior to the definitive agreement, we had signed a Letter of Intent on November 17, 2004, with Newmont. Concurrent with the signing of the Alliance Agreement, Newmont purchased 2.7 million shares of Solitario (approximately 9.9% equity interest) for Cdn\$4,590,000. We have committed to spend \$3.78 million over the next four years on gold exploration in regions ("Alliance Projects") that are mutually agreed upon by Newmont and us. If we acquire properties within Alliance Project areas and meet certain minimum exploration expenditures, Newmont will have the right to joint venture acquired properties and earn up to a 75% interest by taking the project through feasibility and financing Solitario's retained 25% interest into production. Newmont may elect to earn a lesser interest, or no interest at all, in which case it would retain a 2% net smelter return royalty. Newmont also has a right of first offer on any non-alliance Solitario property, acquired after the signing of the Alliance Agreement, that we may elect to sell an interest in, or joint venture.

Concurrent with the signing of the strategic alliance Letter of Intent, was the signing of a second Letter of Intent by us and Minera Los Tapados S.A., a subsidiary of Newmont Peru Limited, Minera Yanacocha S.R.L., and Minera Chaupiloma Dos de Cajamarca, S.R.L. (collectively "Tapados"), to amend Solitario's net smelter return ("NSR") royalty on a 150,000-acre property located immediately north of the Newmont Mining-Buenaventura's Minera Yanacocha Mine, the largest gold mine in South America. In addition to amending the NSR royalty schedule, the Letter Agreement committed Tapados to a long-term US\$4.0 million work commitment on Solitario's royalty property and provides Solitario access to Tapados' future exploration results on an annual basis. Both the strategic alliance and Yanacocha royalty amendment and work commitment Letter Agreements were subject to the companies signing a definitive agreement and various regulatory approvals.

On July 12, 2004, we signed an agreement (the "WP Agreement") with Silverthorn Exploration, Inc. ("Silverthorn"), a private Nevada exploration company, to earn up to an 80% interest in the Windy Peak property located in west-central Nevada (U.S.). The property consists of 144 unpatented mining claims totaling approximately 1,175 hectares. To earn an 80% interest in the property, the WP Agreement calls for us to make payments to Silverthorn of \$10,000 on signing (paid), \$15,000 on the first (annual) anniversary, \$20,000 on the second anniversary, \$25,000 on the third anniversary; and \$30,000 on the fourth anniversary. We must also complete 1,220 meters of drilling (firm commitment) before the first anniversary and then spend the following cumulative amounts on exploration and development (optional commitments): \$300,000 before the second anniversary; \$1.0 million before the third anniversary; and, \$2.0 million in cumulative expenditures before the fourth anniversary. Upon completion of these payment and work commitment obligations, we will then have earned a 60% interest in the property. We have a Phase II Earn-in option to earn an additional 20% (for a total interest of 80%) by spending an additional \$2.0 million on exploration and development before the sixth anniversary and paying Silverthorn \$50,000 on the fifth and sixth anniversaries. We may elect to terminate the WP Agreement at anytime after completing the first year's drilling commitment without any additional payment or work commitment obligations due Silverthorn. We are developing our drilling plan to meet our first year's work commitment.

On April 2, 2004, we signed a Letter Agreement with Newmont Peru Limited, ("Newmont"), a subsidiary of Newmont Mining Corporation, whereby Newmont can earn a 51% interest in our 100%-owned La Tola gold property in southern Peru by spending US\$7.0 million on exploration and development work over a four-year period. Newmont can earn an additional 14% interest (to a total interest of 65%) by completing a positive feasibility study and arranging 100% of project financing. In addition to our retained participating interest in the project, Solitario retains a sliding scale net smelter return royalty interest on gold and silver production (zero to 2.25% subject to gold price and other conditions) from the property. Since signing the joint venture agreement, Newmont has been responsible for managing all exploration activities on the project. In addition to a extensive surface exploration effort in 2004, Newmont completed 13 reverse circulation drill holes totaling 1,698 meters. Newmont is currently planning to complete its firm year-one drilling commitment of 2,500 meters by drilling an additional 802 meters on the project in March of 2005.

On January 28, 2003, we entered into an agreement with Anglo Platinum whereby Anglo Platinum may earn a 51% interest in the Pedra Branca Project by spending \$7 million on exploration at Pedra Branca over a four-year period. Anglo Platinum agreed to a minimum expenditure of \$500,000 during the first six months of the agreement. Anglo Platinum can earn an additional 9% interest in Pedra Branca (for a total of 60%) by completing a bankable feasibility study. Anglo Platinum can also earn an additional 5% interest in Pedra Branca (for a total of 65%) by arranging for financing to put the project into commercial production. Anglo Platinum completed its initial six-month \$500,000 exploration expenditure in July 2003. A First Amendment to the agreement was signed in July 2004 to provide Anglo Platinum a ten-month Phase II work commitment period to spend an additional \$500,000 on exploration. Drilling for the Phase II commitment was completed in late 2004 and Anglo Platinum is currently reviewing the technical information to determine whether or not it will proceed with the next annual work commitment of \$1,250,000. We have recorded a joint venture receivable from Anglo Platinum related to the Pedra Branca Project of \$299,000 and \$3,000 at December 31, 2004 and 2003, respectively.

In February 2004, we signed an option agreement (the "San Pablo Agreement") to acquire a 100% interest, with no retained royalty, in the 700-hectare San Pablo gold project in southwestern Bolivia. The San Pablo Agreement called for us to make escalating payments to the underlying private Bolivian owners of the property totaling \$1.0 million and spend \$190,000 on exploration over a four-year period. The first six-month payment of \$10,000 was made. After spending \$15,000 during the first six-month period, we had the right to terminate the San Pablo Agreement at any time with no further obligations. In September 2004, after performing a limited project review consisting of geochemical sampling to confirm the presence of gold mineralization, we decided to terminate the San Pablo agreement and recorded a \$10,000 mineral property write down. As of December 31, 2004 we have no interest in the San Pablo project.

In February 2004, we signed an option agreement (the "CC Agreement") to acquire a 100% interest in 88 unpatented claims totaling approximately 700-hectares on the Legacy Ridge project in west-central Nevada (U.S.). The CC Agreement called for us to make escalating payments to the underlying private owner of the project of \$25,000 in the first year with a total of \$2.0 million over a five-year period and spend \$900,000 in exploration over four years, including \$150,000 in the first year. We completed our initial \$150,000 exploration commitment during the second quarter of 2004 by conducting a surface sampling program and drilling 14



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reverse circulation drill holes totaling 1,203 meters. After reviewing the assay results of the drilling we elected to terminate our option to earn an interest in the project and recorded a \$24,000 mineral property write-down during the third quarter of 2004. As of December 31, 2004 we have no interest in the Legacy Ridge project.

In February 2004, Bear Creek Mining Company ("Bear Creek") notified us that it intended to terminate its joint venture interest in the La Pampa project. In June 2004, Bear Creek paid Solitario \$15,000 to terminate its joint venture interest in the La Pampa project. During the third quarter of 2004 we dropped the La Pampa project and because we had no capitalized mineral interest, there was no related charge to mineral property write down. As of December 31, 2004 we have no interest in the La Pampa project.

In August 2003, we signed an Option Agreement to acquire a 100% interest in the Triunfo gold-silver-lead-zinc property in west-central Bolivia. Terms of the Option Agreement call for escalating payments totaling \$185,000 over a four-year period to the underlying owners. The first payment of \$10,000 has been made. A 100% interest in the property can be acquired at any time within a five-year timeframe for a one-time payment of \$1.0 million. Solitario completed its \$100,000 first year work commitment as part of its five-year \$2.3 million work commitment. Solitario is in the process of seeking a joint venture partner to further advance the project.

Our exploration activities, funding opportunities and joint ventures may be materially affected by commodity prices and fluctuations. Commodity market prices are determined in world markets and are affected by numerous factors beyond our control.

### Exploration Activities

A significant part of our business involves the review of potential property acquisitions and continuing review and analysis of properties in which we have an interest, to determine the exploration and development potential of the properties. In analyzing expected levels of expenditures for work commitments and property payments, our obligations to make such payments fluctuate greatly depending on whether, among other things, we make a decision to sell a property interest, convey a property interest to a joint venture, or allow our interest in a property to lapse by not making the work commitment or payment required.

In acquiring our interests in mining claims and leases, we have entered into agreements, which generally may be canceled at our option. We are required to make minimum rental and option payments in order to maintain our interest in certain claims and leases. Our final 2004 mineral property rental and option payments were approximately \$181,000. We were reimbursed approximately \$25,000 of this amount from our joint venture partners. In 2005 we estimate mineral property rental and option payments to be approximately \$218,000. If our current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2005, we would be reimbursed approximately \$108,000 of those costs.

### Critical Accounting Estimates

#### **Mineral Properties, net**

We classify our interest in mineral properties as Mineral Properties, net (tangible assets) pursuant to EITF 04-2 (see "Recent Accounting Pronouncements, below). Prior to adoption of EITF 04-2 in April 2004, we classified our interests in mineral properties as intangible assets, Mineral Interests, net. Our mineral properties represent

mineral use rights for parcels of land we do not own. All of our mineral properties relate to exploration stage properties and the value of these assets is primarily driven by the nature and amount of economic minerals believed to be contained, or potentially contained, in such properties. Prior to the adoption of EITF 04-2, we amortized the excess cost of our mineral interests over their estimated residual value over the lesser of (i) the term of any mineral interest option or lease or (ii) the estimated life of the mineral interest, which was our estimated exploration cycle. We amortized our mineral interests over a three-to-eight year period based upon facts and circumstances for each mineral interest on a property-by-property basis. We no longer amortize our mineral properties pursuant to the adoption of EITF 04-2.

#### **Impairment**

We regularly perform evaluations of our investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change, such as negative drilling results or termination of a joint venture, which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon discounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization as a result of our analysis of exploration activities including surveys, sampling and drilling. We recorded a \$64,000 write-down of our mineral properties during the year ended December 31, 2004. There were no impairments of mineral properties in year ended December 31, 2003. However, we may record future impairment if certain events occur, including loss of a venture partner, reduced commodity prices or unfavorable geologic results from sampling assaying surveying or drilling, among others.

#### **Marketable equity securities**

Our investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income (loss) within stockholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. At December 31, 2004, we have recorded unrealized holding gains of \$8,118,000, net of deferred taxes of \$3,088,000, related to our marketable equity securities.

#### **Derivative instruments**

Our Crown warrants had a net settlement feature and accordingly we classified the warrants as derivative instruments up to July 12, 2004 when we exercised all of them on a cashless basis as discussed above in results of operations. We recorded our investment in the Crown warrants at their estimated fair value based upon a Black-Scholes pricing model. As of December 31, 2004, we own warrants for the purchase of 1,000,000 shares of TNR Gold Corp. ("TNR"), which we received in exchanges for TNR shares during 2004 and 2003. The TNR warrants are recorded at fair market value based upon quoted prices and classified as derivative instruments. We recognize any increase or decrease in the fair value of warrants as a gain or loss on derivative instruments in the consolidated statement of operations. We recorded a decrease in the fair value of our Crown warrants of \$1,742,000 for the year ended December 31, 2004 and an increase in the value of our TNR warrants of \$38,000

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for the year ended December 31, 2004 and an increase in the fair value of our Crown warrants of \$5,438,000 and \$106,000 for the years ended December 31, 2003 and 2002, respectively.

### Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. Currently we believe our deferred tax assets, exclusive of our Yanacocha royalty asset, are recoverable. Recovery of these assets is dependent upon our expected gains on the Crown securities we own. If these values are not realized, we may record additional valuation allowances in the future.

### Related Party Transactions

Crown provides management and technical services to us under a management and technical services agreement originally signed in April 1994 and modified in April 1999, December 2000 and July 2002. Under the modified agreement we are billed by Crown for services at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits, expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, we reimburse Crown for direct out-of-pocket expenses. These allocations are based upon the estimated time and expenses spent by Crown management and employees on both Crown activities and our activities. Management believes these allocations are reasonable and the allocations are periodically reviewed by management and approved by independent Board members of both Crown and Solitario. Management service fees are billed monthly, due on receipt and are generally paid within thirty days. Management service fees incurred by us were \$390,000, \$351,000 and \$449,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

On July 28, 2004, we exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not able to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The transaction has been accounted for as a sale of our previously owned TNR shares and an acquisition of the new TNR shares and warrants. We recorded a loss on sale of marketable equity securities of \$73,000 during the year ended December 31, 2004. The TNR shares and warrants are classified as marketable equity securities held for sale. Christopher E. Herald, our CEO, is a member of the Board of Directors of TNR.

On July 26, 2004, Crown completed a spin-off of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of our shares for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Crown has disclaimed any beneficial ownership interest in those retained shares. In addition Crown retained 93 shares, from fractional shares, which it

intends to sell. After the disposition of the shares retained for warrant holders and fractional shares, Crown will no longer own any of our shares. As part of the spin-off we received 1,317,142 shares of our own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

In October 2001, we invested in two 10% convertible secured promissory notes ("Senior Notes") totaling \$1,000,000 out of \$3,600,000 Senior Notes issued by Crown. The first Senior Note (the "Solitario Note") of \$350,000 has a conversion price of \$0.2916 per share and the second Senior Note of \$650,000 has a conversion price of \$0.35 per share. The independent Board members of Crown and Solitario approved the investment in the Notes. We were paid \$50,000 in cash as interest income under the Senior Notes for the year ended December 31, 2004. We were paid 249,718 and 182,440, respectively, Crown shares as interest income under the Senior Notes for the years ended December 31, 2003 and 2004. On July 14, 2004, we converted our \$1,000,000 face value of Crown Senior Notes into 3,132,509 shares of Crown common stock, which included 75,367 shares issued for accrued interest through the date of conversion on the Notes. We recorded \$949,000, the net book value of Crown Senior Notes, as marketable equity securities for the Crown shares received upon conversion of the Senior Notes.

As part of the investment in the Senior Notes, we also received two warrants. The first warrant gave us the right to purchase 1,857,143 shares of Crown for \$0.75 through October 2006 and the second warrant gave us the right to purchase 1,200,000 shares of Crown at \$0.60 through October 2006. The fair value of the warrants at the time of issuance, \$110,000, was recorded as a discount to the Senior Notes. This discount was being amortized over the life of the Senior Notes as additional interest income. On July 12, 2004, we exercised the two Crown warrants on a cashless exercise basis per the terms of the warrants. We received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants. The fair value of the warrants, based upon a quoted bid price, was \$3,849,000 at July 12, 2004, just prior to exercise and \$5,591,000 at December 31, 2003. We recognized any increase or decrease in the fair value of the warrants as an unrealized gain or loss on derivative instruments in the consolidated statement of operations. We recorded a decrease in the value of the Crown warrants of \$1,742,000 for the year ended December 31, 2004 and an increase in the value of our TNR warrants of \$38,000 for the year ended December 31, 2004 and an increase in the value of the Crown warrants of \$5,438,000 and \$105,000 for the years ended December 31, 2003 and 2002, respectively. We recorded \$3,849,000, the net book value of our Crown warrants, as marketable equity securities for the Crown shares received upon exercise of our Crown warrants.

We entered into a Voting Agreement dated as of April 15, 2002 among Zoloto Investors, LP ("Zoloto") and Crown. Zoloto and Solitario are both shareholders of Crown (the "Signing Shareholders"). Pursuant to the Voting Agreement, Zoloto and Solitario agreed that each will vote its owned shares during the term of the Voting Agreement for the election of three designees of Zoloto and one designee of ours (the "Designee Directors") to the Board of Directors of Crown. The Signing Shareholders agreed that any shares received by either Signing Shareholder would be subject to the Voting Agreement during its term and any successor, assignee or transferee of shares from either Signing Shareholder would be subject to the terms of the Voting Agreement during its term. The Voting Agreement terminates on June 25, 2006. As of December 31, 2004, the Signing Shareholders collectively held 12,695,186 shares or 31.7% of the outstanding Crown shares. In addition the Signing Shareholders hold warrants which could be



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exercised for an additional 5,714,286 Crown shares or a total of 18,409,472 or 38.1% of the then outstanding Crown shares.

We entered into a stockholder and voting agreement with Kinross, along with several Crown directors, Crown executive officers and entities affiliated with these directors and officers (collectively the “Signatories”), pursuant to which the Signatories agreed, among other things to cause to be voted, all of the shares of Crown common stock owned by them, as set forth in the stockholder and voting agreement, as well as all shares of Crown common stock acquired by them, as set forth in the stockholder and voting agreement, in favor of the approval of the plan of merger, and against the acquisition of Crown by any person other than Kinross. As of December 31, 2004, 14,891,278 shares of Crown common stock were subject to the stockholder and voting agreement, representing approximately 37.2% of the outstanding shares of Crown common stock entitled to vote at the Crown special meeting. Additionally, as of December 31, 2004, the Signatories hold warrants for 5,714,286 Crown shares, which could be exercised prior to the vote for a total of 20,605,564 Crown shares or approximately 42.7% of the then outstanding Crown shares.

As of December 31, 2004, we own 6,071,626 shares of Crown common stock or approximately 15.2% of the outstanding shares of Crown. These shares of Crown common stock have been recorded in our investment in marketable equity securities using the cost method. As of December 31, 2004, the fair market value of these shares was \$12,143,000.

Assuming the successful acquisition of Crown by Kinross, the Management Agreement will be terminated and we will contract directly with Crown management and directly pay all administrative expenses. If we terminate the Management Agreement, we have estimated our annual general and administrative costs would be approximately \$400,000 to \$500,000 higher as a result of increases in salaries and benefits, rent, audit and legal fees, administrative costs, and shareholder relations costs with such increases in general and administrative costs partially offset by an estimated reduction in annual management fees of approximately \$200,000. In the event that the Kinross transaction is not completed, we anticipate that we would continue to operate under the Management Agreement with Crown.

Christopher E. Herald, and Mark E. Jones, III are directors of both Crown and us. Christopher E. Herald, James R. Maronick and Walter H. Hunt are officers of both Crown and the Company.

### Recent Accounting Pronouncements

In December 2004, the FASB issued a revision to SFAS No. 123, “Share Based Payments” (“SFAS No. 123R”) which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based upon the grant-date fair value of the award and that the cost be recognized over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The grant-date fair value of employee share options and similar instruments will be measured using option-pricing models adjusted for any unique characteristics of those instruments. SFAS No. 123R eliminates the alternative to use Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employees (“APB No. 25”) intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. SFAS No. 123R also requires entities to estimate the number of instruments for which the requisite service is expected to be rendered and requires the recording

of incremental cost for any modification of the terms or conditions of an award at the time of modification based upon the difference of the fair value of the modified award and the fair value of the award immediately before the modification. SFAS No. 123R is effective as of the beginning of the first interim or annual period that begins after June 15, 2005. We have not yet adopted SFAS 123R and we have not determined what effect, if any, adoption of SFAS123R will have on our financial position or results of operations or cash flows.

The Emerging Issues Task Force (“EITF”) formed a committee (“Committee”) to evaluate certain mining industry accounting issues, including issues arising from the application of SFAS No. 141, “Business Combinations” (“SFAS No. 141”) and SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”) that included whether mineral interests conveyed by leases represent tangible or intangible assets and the amortization of such assets. In March 2004, the EITF reached a consensus in EITF Issue No. 04-2 “Whether Mineral Rights Are Tangible or Intangible Assets” (“EITF No. 04-2”), subject to ratification by the Financial Accounting Standards Board (“FASB”), that mineral interests conveyed by leases should be considered tangible assets. On March 31, 2004, the FASB ratified the consensus of the EITF that mineral interests conveyed by leases should be considered tangible assets subject to the finalization of a FASB Staff Position (“FSP”) in this regard. On April 30, 2004, the FASB issued a FSP amending SFAS No. 141 and SFAS No. 142 to provide that certain mineral use rights are considered tangible assets and that mineral use rights should be accounted for based on their substance. The FSP is effective for the first reporting period beginning after April 29, 2004, with early adoption permitted. We adopted EITF No. 04-2 on April 1, 2004 and reclassified our mineral interests conveyed by leases from Mineral interests, net to Mineral Properties, net in our balance sheets and ceased amortizing exploration stage mineral interests prior to the commencement of production.

In April 2004, the EITF issued EITF Issue No. 04-3 “Mining Assets: Impairment and Business Combinations” (“EITF No. 04-3”), which evaluated certain issues related to values in mining properties beyond proven and probable reserves (VBPP) and the effects of anticipated fluctuations in the future market price of minerals. The EITF reached a consensus that fair value of mining properties generally includes both VBPP and the effects of anticipated fluctuations in the future market price of minerals and that entities should generally include both in determining the fair value allocated to mining assets in a purchase price allocation and in the cash flow analysis (both discounted and undiscounted) used for determining whether a mining asset should be impaired. The consensus reached by the EITF should be applied prospectively in the periods after March 31, 2004, but early application is permitted in periods for which financial statements have not been issued. The adoption of EITF No. 04-3 did not have any impact on our financial position, results of operations, or cash flows.

# Reports of Independent Registered Public Accounting Firms

## To the Board of Directors and Stockholders of Solitario Resources Corporation, Wheat Ridge, Colorado

We have audited the consolidated balance sheet of Solitario Resources Corporation (a Colorado corporation) as of December 31, 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Solitario Resources Corporation as of December 31, 2004, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Ehrhardt Keefe Steiner & Hottman P.C.

March 11, 2005  
Denver, Colorado

## To the Board of Directors and Stockholders of Solitario Resources Corporation, Wheat Ridge, Colorado

We have audited the accompanying consolidated balance sheet of Solitario Resources Corporation and subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 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 financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Solitario Resources Corporation and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the consolidated balance sheet at December 31, 2003 includes net mineral interests costs of \$2,760,000. Note 1 to the consolidated financial statements emphasizes that the recovery of these costs is ultimately dependent upon either the sale of these mineral interests or the development of economically recoverable ore reserves, the ability of the Company to obtain the necessary permits and financing to successfully place the projects into production, and upon future profitable operations.



Deloitte & Touche, LLP


Denver, Colorado  
March 10, 2004




# Consolidated Balance Sheets:

(in thousands except share and per share amounts)	December 31, 2004	December 31, 2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 76	\$ 1,273
Joint venture receivable	299	3
Note receivable	–	112
Investments in marketable equity securities, at fair value	3,036	2,576
Prepaid expenses and other	17	29
Total current assets	3,428	3,993
Mineral properties, net	2,653	2,760
Note receivable from Crown Resources Corporation, net of discount	–	937
Investment in Crown Resources Corporation warrant, at fair value	–	5,591
Investments in marketable equity securities, at fair value	9,219	–
Investment in derivative instruments, at fair value	38	–
Other assets	32	7
Total assets	\$ 15,370	\$ 13,288
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 142	\$ 53
Due to Crown Resources Corporation	79	25
Deferred income taxes	–	685
Total current liabilities	221	763
Deferred income taxes	2,633	591
Commitments and contingencies (Notes 2, 3, and 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at December 31, 2004 and 2003)	–	–
Common stock, \$0.01 par value, authorized, 50,000,000 shares (24,726,992 and 24,923,134 shares issued and outstanding at December 31, 2004 and 2003, respectively)	247	249
Additional paid-in capital	22,132	22,498
Accumulated deficit	(14,893)	(11,968)
Accumulated other comprehensive income	5,030	1,155
Total stockholders' equity	12,516	11,934
Total liabilities and stockholders' equity	\$ 15,370	\$ 13,288

On behalf of the Board:

  
Christopher E. Herald  
Director

  
Daniel Leonard  
Director

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Operations:

(in thousands except share amounts)	For the year ended December 31,		
	2004	2003	2002
Costs, expenses and other:			
Exploration expense, net	\$ 1,088	\$ 418	\$ 957
Depreciation and amortization	119	488	504
General and administrative	629	404	372
Management fees	390	351	449
Unrealized (gain) loss on derivative instruments	1,704	(5,438)	(105)
Asset write-downs	64	26	–
Loss on sale of assets	59	–	39
Interest and other (net)	(193)	(272)	(137)
(Loss) income before income taxes	(3,860)	4,023	(2,079)
Income tax expense (benefit)	935	(669)	–
Net (loss) income	\$ (2,925)	\$ 3,354	\$ (2,079)
Basic and diluted (loss) earnings per common share	\$ (0.12)	\$ 0.14	\$ (0.09)
Basic and diluted weighted average shares outstanding	25,190	23,638	23,407

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Stockholders' Equity:

(in thousands except share amounts)	Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total
	Shares	Amount	Paid-in Capital	Deficit	Income (Loss)	
<b>Balance at December 31, 2001</b>	<b>23,407,134</b>	<b>\$ 234</b>	<b>\$ 21,189</b>	<b>\$ (13,243)</b>	<b>\$ (196)</b>	<b>\$ 7,984</b>
Comprehensive loss:						
Net	–	–	–	(2,079)	–	(2,079)
Net unrealized gain on marketable equity securities	–	–	–	–	372	372
Comprehensive loss	–	–	–	–	–	(1,707)
<b>Balance at December 31, 2002</b>	<b>23,407,134</b>	<b>234</b>	<b>21,189</b>	<b>(15,322)</b>	<b>176</b>	<b>6,277</b>
Shares issued:						
Option exercise	16,000	–	14	–	–	14
Private placement, net	1,500,000	15	1,295	–	–	1,310
Comprehensive income:						
Net income	–	–	–	3,354	–	3,354
Net unrealized gain on marketable equity securities (net of tax of \$607)	–	–	–	–	979	979
Comprehensive income	–	–	–	–	–	4,333
<b>Balance at December 31, 2003</b>	<b>24,923,134</b>	<b>249</b>	<b>22,498</b>	<b>(11,968)</b>	<b>1,155</b>	<b>11,934</b>
Shares issued:						
Option exercise	1,121,000	11	974	–	–	985
Deferred taxes on option exercises	–	–	188	–	–	188
Cancellation of shares	(1,317,142)	(13)	(1,528)	–	–	(1,541)
Comprehensive income:						
Net loss	–	–	–	(2,925)	–	(2,925)
Net unrealized gain on marketable equity securities (net of tax of \$2,481)	–	–	–	–	3,875	3,875
Comprehensive income	–	–	–	–	–	950
<b>Balance at December 31, 2004</b>	<b>24,726,992</b>	<b>\$ 247</b>	<b>\$ 22,132</b>	<b>\$ (14,893)</b>	<b>\$ 5,030</b>	<b>\$ 12,516</b>

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows:

(in thousands)	For the year ended December 31,		
	2004	2003	2002
Operating activities:			
Net (loss) income	\$ (2,925)	\$ 3,354	\$ (2,079)
Adjustments:			
Unrealized loss (gain) on derivative instruments	1,704	(5,438)	(105)
Depreciation and amortization	119	488	504
Asset write-downs	64	—	—
Loss on asset and equity security sales	59	—	39
Interest income received in stock	(142)	(207)	(74)
Interest income from amortization of note discount	(12)	(22)	(22)
Deferred income taxes	(935)	669	—
Other	—	26	—
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(284)	(6)	40
Accounts payable	89	27	(18)
Due to Crown Resources Corporation	54	(48)	11
Net cash used in operating activities	(2,209)	(1,157)	(1,704)
Investing activities:			
Investment in Crown Resources Corporation			
promissory notes and warrants	—	(400)	—
Additions to mineral interests and other	(76)	(10)	—
Proceeds from asset sales	—	—	26
Proceeds from sale of marketable equity securities	16	—	381
Collection on note receivable	112	111	109
Purchase of marketable equity securities	—	—	(130)
Other assets	(25)	—	—
Net cash provided by (used in) investing activities	27	(299)	386
Financing activities:			
Issuance of common stock	985	1,324	—
Net cash provided by financing activities	985	1,324	—
Net decrease in cash and cash equivalents	(1,197)	(132)	(1,318)
Cash and cash equivalents, beginning of year	1,273	1,405	2,723
Cash and cash equivalents, end of year	\$ 76	\$ 1,273	\$ 1,405
Supplemental disclosure of cash flow information:			
Treasury stock received in spin-off from Crown Resources Corporation as treasury stock	1,541	—	—
Cancellation of treasury stock	(1,541)	—	—
Conversion of Crown notes receivable to shares of Crown common stock	—	400	—

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements:

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

### Business and company formation

Solitario Resources Corporation ("Solitario") engages principally in the acquisition and exploration of mineral interests. At December 31, 2004, Solitario's mineral interests are located in Brazil, Bolivia and Peru and the state of Nevada. Solitario was incorporated under the laws of the state of Colorado on November 15, 1984, as a wholly-owned subsidiary of Crown Resource Corp. of Colorado, ("CRCC") which is a wholly-owned subsidiary of Crown Resources Corporation ("Crown"). Prior to 1993, we had no activity. As of March 14, 2005 we have 27,426,992 shares outstanding.

Prior to July 26, 2004 CRCC owned 9,633,585 shares of our common stock or approximately 37.1%. On July 26, 2004, Crown completed a spin-off of its holdings of our shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of our common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of our shares, of which it retains 950,013 shares as of March 14, 2005, for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Crown has disclaimed any beneficial ownership interest in those retained shares. In addition Crown retained 93 of our shares, from fractional shares, which it intends to sell. After the disposition of our shares retained for warrant holders and fractional shares, Crown will no longer own any of our shares. Because we owned 6,071,626 shares of Crown from the conversion of Crown Senior and Subordinated B Notes, the exercise of Crown warrants and shares received as interest, as part of the spin-off, we received 1,317,142 shares of our own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

### Financial reporting

The consolidated financial statements include the accounts of Solitario and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and are expressed in US dollars.

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

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the more significant estimates included in the preparation of Solitario's financial statements pertain to the valuation of mineral properties and their future exploration potential, the realisability of Solitario's deferred tax assets and the fair value of Solitario's investment in Crown shares included in marketable equity securities.

### Reclassifications

Certain prior period items have been reclassified in the consolidated financial statements to conform with the current year presentation.

### Cash equivalents

Cash equivalents include investments in highly-liquid debt securities with original maturities of three months or less when purchased.

### Note receivable

Note receivable at December 31, 2003 consists of \$100,000, plus interest, issued by Newmont Mining Company, which was paid in full to Solitario in April 2004.

### Mineral properties

On January 1, 2002, Solitario adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," which, among other things, required the reclassification of Solitario's mineral properties as mineral interests (intangible assets) and the amortization of those assets over their expected useful lives. Solitario's mineral property interests represent mineral use rights for parcels of land not owned by Solitario. At January 1, 2002, Solitario reclassified \$3,680,000 from *Mineral Properties, net* to *Mineral interests, net*. The excess of the cost of each of its interests in mineral properties over the estimated residual value was amortized from January 1, 2002 through April 1, 2004 over the lesser of (i) the term or the length of any mineral interest option or lease, or (ii) the estimated life of the mineral interest, which approximates Solitario's estimated exploration cycle. Solitario amortized its mineral interests over a three-to-eight year period based upon facts and circumstances for each mineral interest on a property-by-property basis including Solitario's current intentions for the property and Solitario's history with similar properties. On April 30, 2004 the Financial Accounting Standards Board amended SFAS No. 141 and SFAS No. 142 to provide that certain mineral use rights, conveyed by leases and concessions, are tangible assets and that mineral use rights should be accounted for based on their substance. This amendment was effective for the first reporting period beginning after April 29, 2004, with early adoption permitted. Solitario adopted the amendment on April 1, 2004 and reclassified its interests in mineral properties classified as *Mineral interests, net* to *Mineral Properties, net* in its consolidated balance sheets and ceased amortizing exploration stage mineral property interests prior to the commencement of production. Solitario recorded \$117,000, \$466,000 and \$464,000 of amortization of its mineral property interests for the years ended December 31, 2004, 2003 and 2002, respectively.

Solitario expenses all exploration costs incurred on its mineral properties, other than acquisition costs, prior to the establishment of proven and probable reserves. Solitario regularly performs evaluations of its investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon discounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization. During the year ended December 31, 2004, Solitario recorded impairments of \$64,000 of its mineral properties. There were no mineral property impairments in 2003 and 2002.

Solitario's net capitalized mineral properties of \$2,653,000 and \$2,760,000 at December 31, 2004 and 2003, respectively, related to gross land, leasehold and acquisition costs of \$3,676,000 and \$3,690,000 at December 31, 2004 and 2003, respectively, less



## Notes:

accumulated amortization of \$1,023,000 and \$930,000 at December 31, 2004 and 2003, respectively. Solitario has not identified any proven and probable reserves related to its mineral properties. The recoverability of these costs is dependent on, among other things, the successful identification of proven and probable reserves, as well as the potential to develop, sell or joint venture its interests in the properties.

### Derivative instruments

At December 31, 2003, Solitario owned Crown warrants, which entitled Solitario the right to purchase Crown common stock, had a net settlement feature and accordingly, Solitario classified the Crown warrants as derivative instruments. Solitario recorded its investment in these warrants at their estimated fair value, based upon quoted prices of \$5,591,000 at December 31, 2003. In July 2004, Solitario exercised all of its Crown warrants and at December 31, 2004 Solitario did not own any Crown warrants. Solitario recognized any increase or decrease in the fair value of the warrants up to the date of their exercise as a gain or loss on derivative instruments in the consolidated statement of operations. As of December 31, 2004, Solitario owns warrants for the purchase of 1,000,000 shares of TNR Gold Corp. ("TNR"), which it received in exchanges for TNR shares during 2004 and 2003. The TNR warrants are recorded at fair market value based upon quoted prices and classified as derivative instruments. Solitario recorded a decrease in the fair value of its Crown warrants of \$1,742,000 for the year ended December 31, 2004 and an increase in the value of its TNR warrants of \$38,000 for the year ended December 31, 2004 and an increase in the fair value of the warrants of \$5,438,000 and \$105,000 for the years ended December 31, 2003 and 2002, respectively.

### Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income (loss) within stockholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations. Solitario had marketable equity securities with fair values of \$12,255,000 and \$2,576,000, respectively, and cost of \$4,137,000 and \$814,000, respectively at December 31, 2004 and 2003. Solitario has recorded other comprehensive income for unrealized holding gains of \$8,118,000 and \$1,762,000, respectively, net of deferred taxes of \$3,088,000 and \$607,000, respectively, at December 31, 2004 and 2003 related to our marketable equity securities.

The following table represents changes in marketable equity securities.

#### Sales of marketable equity securities

	2004	2003	2002
Gross cash proceeds	\$ 16,000	\$ -	\$381,000
Gross non-cash proceeds	57,000	-	-
Cost	132,000	-	433,000
Gross gain on sale included in earnings during the period	14,000	-	54,000
Gross loss on sale included in earnings during the period	(73,000)	-	(106,000)

	2004	2003	2002
Write down of marketable equity securities	-	(26,000)	-
Unrealized holding gain arising during the period included in other comprehensive income, net of tax	3,864,000	953,000	320,000
Reclassification adjustment for net losses included in earnings during the period, net of tax	\$ 39,000	\$ 26,000	\$ 52,000

### Foreign exchange

The United States dollar is the functional currency for all of Solitario's foreign subsidiaries. Although Solitario's exploration activities have been conducted primarily in Brazil, Bolivia, Peru and Mexico, payments under substantially all of the land, leasehold, and exploration agreements of Solitario are denominated in United States dollars. Solitario expects that a significant portion of its required and discretionary expenditures in the foreseeable future will also be denominated in United States dollars. Foreign currency gains and losses are included in the results of operations in the period in which they occur.

### Income taxes

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.

### Earnings per share

The calculation of basic and diluted earnings (loss) per share is based on the weighted average number of common shares outstanding during the years ended December 31, 2004, 2003 and 2002. Potentially dilutive shares related to outstanding common stock options of 2,273,000, 3,488,000 and 3,372,000 for the years ended December 31, 2004, 2003 and 2002, respectively, were excluded from the calculation of diluted earnings (loss) per share because the effects were anti-dilutive.

### Employee stock compensation plans

Solitario accounts for certain awards under its 1994 Stock Option Plan (the "Plan") in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Under Solitario's stock option plans, the exercise price of stock options issued to employees equals the quoted market price of the stock on the grant date. As a result of repricing of its options in 1999, Solitario accounts for all grants which have been repriced as variable awards and records increases and decreases in compensation expense during the period based upon changes in the quoted market price of Solitario's stock in accordance with FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB No. 25)." There was no compensation expense recorded during the years ended December 31, 2004, 2003 and 2002 as a result of variable plan accounting. As of December 31, 2004, there were no remaining options that are subject to variable plan accounting. The Plan had a ten-year

## Notes:

duration and terminated during 2004. No further options may be granted pursuant to the Plan as of December 31, 2004.

Pro forma information has been computed as if Solitario had accounted for its stock options under the fair value method of SFAS No. 123 "Accounting for Stock-Based Compensation." The fair values of these options were estimated at the date of grant using a Black-Scholes option pricing model. As there were no options issued during 2004, the following assumptions were used for 2003 and 2002, respectively: risk-free interest rate of 3.31% and 4.34%; dividend yield of 0 percent; volatility factor of the expected market price of Solitario's common stock of 65% and 60%; and a weighted average expected life of the options of 3.9 and 4.3 years. The weighted average fair value of the options granted is estimated at \$0.28 and \$0.25 per share in 2003 and 2002, respectively.

Had Solitario accounted for its stock options under the fair value method of SFAS No. 123, the following results would have been reported:

(in thousands, except per share amounts)	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net income (loss), as reported	\$(2,925)	\$3,354	\$(2,079)
Deduct total stock-based compensation expense determined under fair value based method for all rewards, net of related tax effects	(24)	(54)	(232)
Pro forma net income (loss)	\$(2,949)	\$3,300	\$(2,311)
Earnings (loss) per share:			
Basic and diluted as reported	\$ (0.12)	\$ 0.14	\$ (0.09)
Basic and diluted pro forma	\$ (0.12)	\$ 0.14	\$ (0.10)

### Segment reporting

Solitario operates in one business segment, minerals exploration. At December 31, 2004, all of Solitario's operations are located in Peru, Bolivia, Brazil, Mexico and the state of Nevada as further described in Note 2 to these consolidated financial statements.

Included in the consolidated balance sheet at December 31, 2004, 2003 and 2002 are total assets of \$2,716,000, \$2,789,000 and \$3,794,000, respectively related to Solitario's foreign operations, located in South America in Bolivia, Brazil and Peru. Included in mineral property in the consolidated balance sheet at December 31, 2004, 2003 and 2002 are net capitalized costs related to the Pedra Branca Property, located in Brazil, of \$2,568,000, \$2,680,000 and \$3,174,000, respectively. We are not aware of any foreign exchange restrictions on Solitario's subsidiaries located in foreign countries.

### Recent accounting pronouncements

In December 2004, the FASB issued a revision to SFAS No. 123, "Share Based Payments" ("SFAS No. 123R") which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based upon the grant-date fair value of the award and that the cost be recognized over the period during which an employee is required to provide service in exchange for the award, which is generally the

vesting period. The grant-date fair value of employee share options and similar instruments will be measured using option pricing models adjusted for any unique characteristics of those instruments. SFAS No. 123R eliminates the alternative to use Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. SFAS No. 123R also requires entities to estimate the number of instruments for which the requisite service is expected to be rendered and requires the recording of incremental cost for any modification of the terms or conditions of an award at the time of modification based upon the difference of the fair value of the modified award and the fair value of the award immediately before the modification. SFAS 123R is effective as of the beginning of the first interim or annual period that begins after June 15, 2005. Solitario has not yet adopted SFAS 123R, as revised, and it has not determined what effect, if any adoption of SFAS 123R would have on its financial position or results of operations or cash flows.

The Emerging Issues Task Force ("EITF") formed a committee ("Committee") to evaluate certain mining industry accounting issues, including issues arising from the application of SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") that included whether mineral interests conveyed by leases represent tangible or intangible assets and the amortization of such assets. In March 2004, the EITF reached a consensus in EITF Issue No. 04-2 "Whether Mineral Rights Are Tangible or Intangible Assets" ("EITF No. 04-2"), that mineral interests conveyed by leases should be considered tangible assets. On April 30, 2004, the Financial Accounting Standards Board ("FASB") amended SFAS No. 141 and SFAS No. 142 to provide that certain mineral use rights are considered tangible assets and that mineral use rights should be accounted for based on their substance. The amendment was effective for the first reporting period beginning after April 29, 2004, with early adoption permitted. Solitario adopted EITF No. 04-2 on April 1, 2004 and reclassified its mineral interests conveyed by leases from Mineral interests, net to Mineral Properties, net in its consolidated balance sheets and ceased amortizing exploration stage mineral interests prior to the commencement of production.

In April 2004, the EITF issued EITF Issue No. 04-3 "Mining Assets: Impairment and Business Combinations" ("EITF No. 04-3"), which evaluated certain issues related to values in mining properties beyond proven and probable reserves (VBPP) and the effects of anticipated fluctuations in the future market price of minerals. The EITF reached a consensus that fair value of mining properties generally includes both VBPP and the effects of anticipated fluctuations in the future market price of minerals and that entities should generally include both in determining the fair value allocated to mining assets in a purchase price allocation and in the cash flow analysis (both discounted and undiscounted) used for determining whether a mining asset should be impaired. Solitario adopted EITF No. 04-3 on April 1, 2004. The adoption of EITF No. 04-3 did not have any impact on Solitario's financial position or results of operations or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") and in December 2003 issued FIN 46R. FIN 46 requires the consolidation of variable interest entities which have one or both of the following attributes (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support from other parties which is provided by other parties that will absorb some or all of the expected losses of the entity, (2) the equity investors lack controlling financial interest as evidenced by (i) the

## Notes:

ability to make decisions regarding the entity's activities through voting or similar rights (ii) the obligation to absorb expected losses, which make it possible for the entity to finance its activities and (iii) the right to receive expected residual returns of the entity if they occur, which is the compensation for absorbing the expected losses. FIN 46 was immediately effective for variable interest entities formed after January 31, 2003. FIN 46R requires the adoption of either FIN 46 or FIN 46R in financial statements of public entities that have interests in structures that are commonly referred to as special purpose entities for periods ending after December 15, 2003. Application for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 and FIN 46R did not have a material effect on Solitario's financial position or results of operations or cash flows.

### 2. Mineral interests:

Solitario's mineral properties consist of use rights related to exploration stage properties, and the value of such assets is primarily driven by the nature and amount of economic mineral ore believed to be contained, or potentially contained, in such properties. The amounts capitalized as mineral properties include concession and lease or option acquisition costs. Capitalized costs related to a mineral property represent its fair value at the time it was acquired, either as an individual asset purchase or as a part of a business combination. Solitario has no production (operating) or development stage mineral properties nor any interests in properties that contain proven or probable reserves. Solitario's exploration stage mineral properties represent interests in properties that Solitario believes have exploration potential that is not associated with any other production or development stage property. Solitario's mineral use rights generally are enforceable regardless of whether proven and probable reserves have been established.

The following represents Solitario's investment in mineral properties:

(in thousands)	December 31,	
	2004	2003
Mineral interests	\$3,676	\$3,690
Accumulated amortization	(1,023)	(930)
Net mineral interests	\$2,653	\$2,760

As discussed in Note 1, the amortization of mineral interests commenced January 1, 2002, upon the adoption of SFAS No. 142 and we no longer amortize our mineral properties as of April 1, 2004 in accordance with EITF 04-2. Amortization expense related to mineral interests in 2004, 2003 and 2002 was \$118,000, \$466,000 and \$464,000, respectively. We recorded a reduction of accumulated amortization of \$25,000 during 2004 in connection with property impairments.

#### Peru

Solitario holds exploration concessions or has filed applications for concessions covering approximately 17,030 hectares in Peru. These applications are subject to normal administrative approvals and the mineral interests are subject to an annual rental of \$3.00 per hectare (approximately 2.477 acres per hectare) in June of each year, with 6,000 hectares subject to an additional \$6.00 per hectare surcharge as the concessions are more than 10 years old.

#### Bongará

Solitario acquired the initial Bongará exploration concessions in 1993. The current holdings consist of a 100% interest concessions covering approximately 6,000 hectares in northern Peru (the "Bongará

project"). Solitario initiated an effort in early 2005 to secure a new joint venture partner to explore and develop the project.

#### Yanacocha

On April 26, 2000, Solitario completed a transaction with an affiliate of Newmont Mining Corporation ("Newmont") and sold its interest in its Yanacocha project for \$6 million and a sliding scale net smelter return royalty ("NSR") that varies with the price of gold. Newmont retained \$400,000 of the \$6 million purchase price to be paid in four annual installments plus interest pending release of certain contingent liabilities. Solitario received payments of \$112,000, \$111,000 and \$109,000 (including interest) in April 2004, 2003 and 2002, respectively. Solitario recorded a gain on the sale of the Yanacocha project of \$5.8 million during the second quarter of 2000. The NSR royalty applies to any commercial production on exploration concessions covering approximately 60,000 hectares. In January 2005, Solitario and Newmont amended the NSR royalty schedule so that the royalty rate was not only based on the price of gold, but also considered the method of gold and copper extraction and the national Peruvian NSR royalty rate schedule that was enacted in 2004. Newmont, through its subsidiaries and affiliates, also agreed to a \$4.0 million work commitment on Solitario's royalty property over the next eight years.

#### La Tola

In October 2003, we acquired the La Tola project to explore for gold and possibly silver. The project is located in southern Peru and consists of 14 concessions totaling 11,030 hectares. We own a 100%-interest in all the concessions without any underlying owners or royalties, except for a 100-hectare option to buy lease from a private Peruvian party, which we acquired in March 2004. According to Peruvian law, claims may be held indefinitely subject only to payment of annual fees to the government. A payment of \$3.00 per hectare must be made by the last day of June each year to keep the concessions in good standing. These payments to the government of approximately \$7,000 and \$36,000 were made in 2004 and 2003, respectively. An equal amount will be due in 2005 to keep all the concessions in good standing. In April 2004, we signed a Letter Agreement with Newmont Peru S.L.R. ("Newmont"), a subsidiary of Newmont Mining Corporation, whereby Newmont can earn a 51%-interest in the property by completing 2,500 meters of drilling (firm commitment) within the first year of the Letter Agreement and by spending the following cumulative amounts on future exploration and development (optional): by end of second year - \$1.25 million; by end of third year - \$3.0 million; and, by end of fourth year - \$7.0 million. Newmont can earn an additional 9% interest (total 60% interest) by completing a feasibility study and an additional 5% interest by arranging 100% project financing. In addition to our participating interest, we also retain a sliding scale NSR-Royalty interest on gold and silver production (0 to 2.25% subject to gold price and the imposed national Peruvian NSR-Royalty rate).

#### Newmont Strategic Alliance

On January 18, 2005 Solitario signed a Strategic Alliance Agreement with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, to explore for gold in South America. Concurrent with the signing of the Alliance Agreement, Newmont purchased 2.7 million shares of Solitario common stock (or approximately 9.9% of our issued and outstanding shares) for Cdn\$4,590,000. We have committed to spend \$3.78 million over the next four years on gold exploration in regions ("Alliance Projects") that are mutually agreed upon by Newmont and Solitario. The first Alliance Project area is located in southern Peru and is approximately 4,000 square kilometers in size. If we acquire



## Notes:

properties within Alliance Project areas and meet certain minimum exploration expenditures, Newmont will have the right to joint venture acquired properties and earn up to a 75% interest by taking the project through feasibility and financing. Solitario's retained 25% interest into production. Newmont may elect to earn a lesser interest, or no interest at all, in which case it would retain a 2% net smelter return royalty. Newmont also has a right of first offer on any non-alliance Solitario property, acquired after the signing of the Alliance Agreement, that we may elect to sell an interest in, or joint venture. See Note 9, Subsequent Events, below.

### La Pampa

In July 2002, Solitario signed an agreement with Bear Creek Mining Company ("Bear Creek") whereby Bear Creek was entitled to earn a 51% interest in the La Pampa project by expending \$4.5 million on exploration of La Pampa over a five-year period. In February 2004, Bear Creek Mining Company ("Bear Creek") notified us that it intended to terminate its joint venture interest in the La Pampa project. In June 2004, Bear Creek paid us \$15,000 to terminate its joint venture interest in the La Pampa project. During the third quarter of 2004 we dropped the La Pampa project and because it had no capitalized mineral interest, there was no related charge to mineral property write down. As of December 31, 2004, Solitario has no interest in the La Pampa project.

### Other Peruvian properties

During the third quarter of 2004, after failing to secure a joint venture, we dropped our claims at the Sapalache gold project located in the Department of Piura, Peru and recorded a mineral property write-down of \$29,000. As of December 31, 2004 we have no interest in the Sapalache project.

## **Brazil**

### Pedra Branca

In October 2000, Solitario recorded \$3,627,000 in mineral interest additions for the Pedra Branca project in connection with the acquisition of Altoro Gold Corp. ("Altoro").

Solitario holds a 100% interest in 60 concessions totaling 61,357-hectare in its Pedra Branca platinum-palladium (PGM) Project located in Ceará State, Brazil. Solitario acquired Pedra Branca as part of its acquisition of Altoro. Eldorado Gold Corporation holds a 2% net smelter return royalty on 10,000 hectares of Solitario's property position.

On January 28, 2003, Solitario entered into an agreement with Anglo Platinum whereby Anglo Platinum may earn a 51% interest in the Pedra Branca Project, by spending \$7 million on exploration at Pedra Branca over a four-year period. Anglo Platinum agreed to a minimum expenditure of \$500,000 during the first six months of the agreement. Anglo Platinum can earn an additional 9% interest in Pedra Branca (for a total of 60%) by completing a bankable feasibility study. Anglo Platinum can also earn an additional 5% interest in Pedra Branca (for a total of 65%) by arranging for financing to put the project into commercial production. In July 2004 we signed the First Amendment to Pedra Branca Letter Agreement that provided Anglo Platinum a ten-month period (to May 26, 2005) to complete its Phase II \$500,000 work commitment, and extended subsequent work commitments by one-year. Anglo Platinum met its minimum required expenditure for the first six-month period and has nearly completed its ten-month \$500,000 Phase II work commitment. Anglo Platinum is currently reviewing the results of the exploration program, before making a decision on whether to fund the next \$1.25 million in exploration, or terminate its option to earn an interest. If Anglo Platinum declines to continue, Solitario

will retain 100% of the Pedra Branca Project. Solitario recorded a joint venture receivable from Anglo Platinum related to the Pedra Branca Project of \$299,000 and \$3,000 at December 31, 2004 and 2003, respectively.

## **Bolivia**

### Triunfo

In August 2003, we signed an Option Agreement to acquire a 100% interest in the Triunfo gold-silver-lead-zinc property in west-central Bolivia. The agreement was amended in March 2004. Terms of the Option Agreement call for escalating payments totaling \$185,000 over a four-year period to the underlying owners. The first and second payments to the owners of \$10,000 and \$15,000, respectively, have been made. A 100% interest in the property can be acquired at any time within a five-year timeframe for a one-time payment of \$1.0 million. Solitario has completed the first year \$100,000 work commitment as part of its five-year \$2.3 million work commitment.

### San Pablo

During the third quarter of 2004, after performing a geological review of the potential of our San Pablo project, located in the Potosi Department of southwestern Bolivia, we decided to terminate our agreement on this property and recorded a mineral property write-down of \$29,000. As of December 31, 2004 we have no interest in the San Pablo project.

## **United States**

### Legacy Ridge Project

In February 2004, we signed (an option agreement (the "CC Agreement") to acquire a 100% interest in 88 unpatented claims totaling approximately 700-hectares on the Legacy Ridge project in west-central Nevada (U.S.). The CC Agreement called for us to make escalating payments to the underlying private owner of the project of \$25,000 in the first year with a total of \$2.0 million over a five-year period and spend \$900,000 in exploration over four years, including \$150,000 in the first year. We completed our initial \$150,000 exploration commitment during the second quarter of 2004 by conducting a surface sampling program and drilling 14 reverse circulation drill holes totaling 1,203 meters. After reviewing the assay results of the drilling we elected to terminate our option to earn an interest in the project and recorded a \$25,000 mineral property write-down during the third quarter of 2004. As of December 31, 2004, we have no interest in the Legacy Ridge project.

### Windy Peak

On July 12, 2004, Solitario signed an agreement with Silverthorn Exploration, Inc. ("Silverthorn") to earn up to a 80% interest in the Windy Peak property located in west-central Nevada (U.S.). The property consists of 144 unpatented mining claims totaling approximately 1,175 hectares. The agreement (the "Silverthorn Agreement") calls for Solitario to make an initial payment of \$10,000 on signing (paid) and for Solitario to make additional escalating payments totaling \$90,000 over the next four years as well as spend a total of \$2.0 million on exploration over four years to earn its 60% interest. Solitario may earn an additional 20% interest (for a total of 80%) in the property by paying Silverthorn an additional \$100,000 and spending an additional \$2.0 million in exploration by the sixth-year anniversary. After completing the first year exploration commitment by completing 1,220 meters of drilling, Solitario may terminate its option to acquire the property with no further obligation. Solitario is developing a drilling plan to meet its first year's work commitment.

# Notes:

## Exploration expense

The following items comprised exploration expense:

(in thousands)	2004	2003	2002
Geologic, drilling and assay	\$770	\$488	\$335
Field expenses	479	237	214
Administrative	250	150	408
Joint venture reimbursement	(411)	(457)	-
Total exploration expense	\$1,088	\$418	\$957

## 3. Related party transactions:

Crown provides management and technical services to Solitario under a management and technical services agreement originally signed in April 1994 and modified in April 1999, December 2000 and July 2002. Under the modified agreement Solitario is billed by Crown for services at 25% of Crown's corporate administrative costs for executive and technical salaries, benefits and expenses, 50% of Crown's corporate administrative costs for financial management and reporting salaries, benefits, expenses and 75% of Crown's corporate administrative costs for investor relations salaries, benefits and expenses. In addition, Solitario reimburses Crown for direct out-of-pocket expenses. These allocations are based upon the estimated time and expenses spent by Crown management and employees on both Crown activities and Solitario activities. Management of Solitario believes these allocations are reasonable and the allocations are periodically reviewed by Solitario management and approved by independent Board members of both Crown and Solitario. Management service fees are billed monthly, due on receipt and are generally paid within thirty days. Management service fees incurred by Solitario were \$390,000, \$351,000 and \$449,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

On July 28, 2004, Solitario exchanged 500,000 shares of TNR common stock for 500,000 shares of TNR common stock that were not available to be publicly traded in Canada until November 28, 2004 and a warrant to purchase an additional 500,000 shares of TNR common stock for Cdn\$0.16 per share for a period of two years. The transaction was accounted for as a sale of Solitario's previously owned TNR shares and an acquisition of the new TNR shares and warrants. Solitario recorded a loss on sale of marketable equity securities of \$73,000 during the year ended December 31, 2004. The TNR shares are classified as marketable equity securities held for sale. As of December 31, 2004, Solitario owns warrants for the purchase of 1,000,000 shares of TNR Gold Corp. ("TNR"), which it received in exchanges for TNR shares during 2004 and 2003. The TNR warrants are recorded at fair market value based upon quoted prices and classified as derivative instruments. Solitario recorded a gain on derivative instruments of \$38,000 for the increase in the value of its warrants during the year ended December 31, 2004. There were no gains and losses recorded for the fair value of the TNR warrants in 2003 or 2002. Christopher E. Herald, Solitario's CEO, is a member of the Board of Directors of TNR.

On July 26, 2004, Crown completed a spin-off of Solitario shares to its shareholders, whereby each Crown shareholder received 0.2169 shares of Solitario common stock for each Crown share they owned. As part of the spin-off, Crown retained 998,306 of Solitario shares for the benefit of Crown's warrant holders who will receive those shares when the warrant holders exercise their warrants. Crown has disclaimed any

beneficial ownership interest in those retained shares. In addition Crown retained 93 shares, from fractional shares, which it intends to sell. After the disposition of the shares retained for warrant holders and fractional shares, Crown will no longer own any of Solitario shares. As part of the spin-off Solitario received 1,317,142 shares of its own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock.

In October 2001, Solitario invested in two 10% convertible secured promissory notes ("Senior Notes") totaling \$1,000,000 out of \$3,600,000 Senior Notes issued by Crown. The first Senior Note (the "Solitario Note") of \$350,000 has a conversion price of \$0.2916 per share and the second Senior Note of \$650,000 has a conversion price of \$0.35 per share. The independent Board members of Crown and Solitario approved the investment in the Notes. Solitario was paid \$50,000 in cash as interest income under the Senior Notes for the year ended December 31, 2004. Solitario was paid 249,718, and 182,440 Crown shares, respectively with market values on the date of issuance of \$207,000 and \$74,000, respectively, as interest income under the Senior Notes for the years ended December 31, 2003 and 2002. On July 14, 2004, Solitario converted \$1,000,000 face value of Crown Senior Notes into 3,132,509 shares of Crown common stock, which included 75,367 Crown shares, with a market value of \$142,000 on the date of issuance, for accrued interest through the date of conversion on the Notes. Solitario recorded \$949,000, the net book value of Crown Senior Notes, as marketable equity securities for the Crown shares received upon conversion of the Senior Notes.

As part of the investment in the Senior Notes, Solitario also received two warrants. The first warrant gave Solitario the right to purchase 1,857,143 shares of Crown for \$0.75 through October 2006 and the second warrant gave Solitario the right to purchase 1,200,000 shares of Crown at \$0.60 through October 2006. The fair value of the warrants at the time of issuance, \$110,000, was recorded as a discount to the Senior Notes. This discount was being amortized over the life of the Senior Notes as additional interest income. On July 12, 2004, Solitario exercised the two Crown warrants on a cashless exercise basis per the terms of the warrants. Solitario received a total of 1,973,626 shares of Crown common stock from the exercise of these warrants. The fair value of the warrants, based upon a quoted bid price, was \$3,849,000 at July 12, 2004, just prior to exercise and \$5,591,000 at December 31, 2003. Solitario recognized any increase or decrease in the fair value of the warrants as an unrealized gain or loss on derivative instruments in the consolidated statement of operations. Solitario recorded a loss on derivative instruments related to a decrease in the value of the Crown warrants of \$1,742,000 up to the date of exercise during the year ended December 31, 2004. Solitario recorded a gain on derivative instruments related to an increase in the value of the warrants of \$5,438,000 and \$106,000 for the years ended December 31, 2003 and 2002, respectively. Solitario recorded \$3,849,000, the net book value of our Crown warrants, as marketable equity securities for the Crown shares received upon exercise of our Crown warrants.

Solitario entered into a Voting Agreement dated as of April 15, 2002 among Zoloto Investors, LP ("Zoloto") and Crown. Zoloto and Solitario are both shareholders of Crown (the "Signing Shareholders"). Pursuant to the Voting Agreement, Zoloto and Solitario agreed that each will vote its owned shares during the term of the Voting Agreement for the election of three designees of Zoloto and one designee of ours (the "Designee Directors") to the Board of Directors of Crown. The Signing Shareholders agreed that any shares received by either Signing Shareholder would be subject to the Voting Agreement during its term and any successor, assignee or transferee of shares from either Signing Shareholder would be subject to the terms of the Voting Agreement during its

## Notes:

term. The Voting Agreement terminates on June 25, 2006. As of December 31, 2004, the Signing Shareholders collectively held 12,695,186 shares or 31.7% of the outstanding Crown shares. In addition the Signing Shareholders hold warrants which could be exercised for an additional 5,714,286 Crown shares or a total of 18,409,472 or 38.1% of the then outstanding Crown shares.

Solitario entered into a stockholder and voting agreement with Kinross, along with several Crown directors, Crown executive officers and entities affiliated with these directors and officers (collectively the "Signatories"), pursuant to which the Signatories agreed, among other things to cause to be voted, all of the shares of Crown common stock owned by them, as set forth in the stockholder and voting agreement, as well as all shares of Crown common stock acquired by them, as set forth in the stockholder and voting agreement, in favor of the approval of the plan of merger; and against the acquisition of Crown by any person other than Kinross. As of December 31, 2004, 14,891,278 shares of Crown common stock were subject to the stockholder and voting agreement, representing approximately 37.2% of the outstanding shares of Crown common stock entitled to vote at the Crown special meeting. Additionally, as of December 31, 2004, the Signatories hold warrants for 5,714,286 Crown shares, which could be exercised prior to the vote for a total of 20,605,564 Crown shares or approximately 42.7% of the then outstanding Crown shares.

As of December 31, 2004, Solitario owns 6,071,626 shares of Crown common stock or approximately 15.2% of the outstanding shares of Crown. These shares of Crown common stock have been recorded in its investment in marketable equity securities using the cost method. As of December 31, 2004, the fair market value of these shares was \$12,143,000.

Christopher E. Herald, and Mark E. Jones, III are directors of both Crown and Solitario. Christopher E. Herald, James R. Maronick and Walter H. Hunt are officers of both Crown and Solitario.

### 4. Income Taxes:

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

(in thousands)	2004	2003	2002
Deferred:			
United States	\$ (645)	\$ 2,207	\$ 286
Foreign	(51)	(164)	159
Operating loss and credit carryovers:			
United States	(290)	(1,538)	(286)
Foreign	51	164	(159)
Income tax expense (benefit)	\$ (935)	\$ 669	\$ -

Consolidated income (loss) before income taxes includes losses from foreign operations of \$1,457,000, \$1,092,000 and \$1,622,000 in 2004, 2003 and 2002, respectively. During 2004, Solitario recognized income tax deductions from the exercise of nonqualified stock options. Stockholders' equity has been credited in the amount of \$188,000 for the income tax benefit of these deductions. During 2004 and 2003, Solitario recognized other comprehensive income related to unrealized gains on marketable equity securities of \$6,401,000 and \$1,544,000, respectively. Other comprehensive

income has been charged \$2,498,000 and \$607,000, respectively, for the income tax expense associated with these gains.

The net deferred tax assets/liabilities in the December 31, 2004 and 2003 consolidated balance sheets include the following components:

(in thousands)	2004	2003
Deferred tax assets:		
Net operating loss (NOL) carryovers	\$ 5,101	\$ 4,252
Capital loss carryovers	21	21
Royalty	1,560	1,560
Other	26	-
Valuation allowance	(3,754)	(3,332)
Total deferred tax assets	2,954	2,501
Deferred tax liabilities:		
Unrealized gain on derivative securities	1,551	2,138
Exploration costs	870	921
Unrealized gains on marketable equity securities	3,166	685
Other	-	33
Total deferred tax liabilities	5,587	3,777
Net deferred tax liabilities	\$ 2,633	\$ 1,276

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

(in thousands)	2004	2003	2002
Expected income tax expense (benefit)	\$ (1,310)	\$ 1,368	\$ (707)
Non-deductible foreign expenses	72	(60)	495
Foreign tax rate differences	7	1	(19)
State income tax	(122)	338	17
Expiration of loss carryovers	-	542	-
Change in valuation allowance	422	(1,530)	212
Other	(4)	10	2
Income tax expense (benefit)	\$ (935)	\$ 669	\$ -

During 2004 and 2002, the valuation allowance was increased primarily as a result of increases in net operating loss carryforwards, for which it was more likely than not that the deferred tax benefit would not be realized. During 2003, the valuation allowance was reduced by \$1,530,000 to reflect the projected utilization of net operating loss carryforwards for which no income tax benefit was previously provided.

At December 31, 2004, Solitario has unused US Net Operating Loss ("NOL") and capital loss carryovers of \$5,220,000 and \$53,000, respectively, which begin to expire commencing in 2008. Solitario also has foreign NOL carryovers at December 31, 2004 of \$8,983,000 that begin to expire four years after the first year in which taxable income arises. In connection with the Bankruptcy of Crown and Solitario's acquisition of Altoro Gold Corp., Solitario had a



## Notes:

greater than fifty percent change in ownership as defined in Section 382 of the Internal Revenue Code. Pursuant to Section 382, the amount of future taxable income available to be offset by Solitario's carryovers is limited to approximately \$614,000 per year.

### 5. Fair Value of Financial Instruments:

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

The fair value of the Crown shares was \$12,143,000 at December 31, 2004. The fair value of the TNR shares was \$112,000 and \$135,000 at December 31, 2004 and 2003 respectively.

The fair value of the Senior Notes was \$7,729,000 at December 31, 2003. The fair value of the Crown warrants was \$5,591,000 at December 31, 2003. The fair value of the TNR warrants was \$38,000 at December 31, 2004. Solitario recognizes any increase or decrease in the fair value of the warrants as a gain or loss on derivative instruments in the consolidated statement of operations. Solitario recorded an increase (decrease) in the fair value of its Crown warrants of (\$1,742,000), \$5,438,000 and \$106,000 for the years ended December 31, 2004, 2003 and 2002, respectively and recorded an increase in the fair value of its TNR warrants of \$38,000 for the year ended December 31, 2004. There were no changes to the fair value of the TNR warrants in 2003 and 2002.

### 6. Commitments and Contingencies:

In acquiring its interests in mineral claims and leases, Solitario has entered into lease agreements, which generally may be canceled at its option. Solitario is required to make minimum rental and option payments in order to maintain its interests in certain claims and leases. See Note 2. Solitario estimates its 2005 mineral

property rental and option payments to be approximately \$218,000. If Solitario's current joint venture partners elect to continue funding their respective joint ventures throughout the remainder of 2005, Solitario would be reimbursed for approximately \$108,000 of those costs.

Solitario has entered into certain month-to-month office leases for its field offices in Lima, Peru and Rio de Janeiro, Brazil. The total rent expense for these offices during 2004, 2003 and 2002 was approximately \$29,000, \$17,000 and \$13,000, respectively. In addition, Crown leases office space under a non-cancelable operating lease for the Wheat Ridge, Colorado office and Solitario is a co-signor on the lease, which provides for minimum annual rent payments of \$33,000, in 2005 and \$27,000 in 2006. Crown paid approximately \$36,000 for rent expense under this lease in 2004. Should the merger with Kinross be completed Solitario will assume the liability for the Wheat Ridge office lease.

### 7. Stock Option Plan:

On March 4, 1994, Solitario's Board of Directors (the "Board") adopted the 1994 Stock Option Plan (the "Plan"). The Plan has a ten-year duration and terminated during 2004. As of December 31, 2004, no more options may be granted under the Plan. Up to 1,100,000 shares of Solitario's common stock were authorized for issuance under the Plan. The Board voted for, and shareholders approved, amendments that have increased the authorized shares under the Plan to 3,736,000 as of June 2002.

All options have been granted at exercise prices that are equal to the quoted market price of the stock on the grant date. The options expire five years from the date of grant, and are subject to certain vesting provisions, as determined by the Board.

The activity in the Plan for the three years ended December 31, 2004 is as follows:

	2004		2003		2002	
	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)	Options	Weighted Average Exercise Price (Cdn\$)
Outstanding, beginning of year	3,488,500	0.95	3,372,000	0.96	2,282,000	1.08
Granted	-	-	192,500	0.77	1,140,000	0.73
Exercised	(1,121,000)	1.17	(16,000)	1.16	-	-
Expired	(95,000)	1.25	(60,000)	1.16	(50,000)	1.16
Outstanding, end of year	2,272,500	0.82	3,488,500	0.95	3,372,000	0.96
Exercisable, end of year	2,073,750	0.83	3,019,125	0.97	2,742,000	1.00

As a result of the repricing of existing options in 1999, Solitario began to account for the repriced awards as variable as of July 1, 2000, in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB Opinion No. 25)." Accordingly, an increase in the current market price of Solitario common stock above the higher of the option strike price and the market price of Solitario's common stock as of July 1, 2000, multiplied by options outstanding will be recorded as compensation expense over the vesting term of the options. A subsequent reduction in the current market price, to the extent of previously recorded compensation expense will be credited as a reduction of compensation expense. There was no compensation expense recorded during 2004, 2003 or 2002 as a result of variable accounting for the repriced options. As of December 31, 2004 all repriced options have expired.

## Notes:

The following table summarizes Solitario's stock options as of December 31, 2004:

Exercise Price Cdn\$	Number	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Cdn\$	Number Exercisable	Weighted Average Exercise Price Cdn\$
\$0.65	50,000	3.1	\$0.65	25,000	\$0.65
\$0.73	1,100,000	2.2	\$0.73	967,500	\$0.73
\$0.81	142,500	3.7	\$0.81	101,250	\$0.81
\$0.94	<u>980,000</u>	1.2	\$0.94	<u>980,000</u>	\$0.94
Total	<u>2,272,500</u>	1.9		<u>2,073,750</u>	

### 8. Stockholders' Equity:

Because Solitario owned 6,071,626 shares of Crown, as part of the spin-off we received 1,317,142 shares of its own common stock, which were retired on August 11, 2004, and have the status of authorized but unissued shares of common stock. These shares of Solitario common stock were recorded as treasury stock at \$1,541,000, the fair value of the shares on July 26, 2004, the date of the spin-off by reducing the basis in Solitario's holdings of Crown common stock. Upon retiring these shares Solitario reduced common stock by \$13,000 and reduced additional paid in capital by \$1,528,000.

During 2004 options for 1,121,000 shares of Solitario common stock were exercised for proceeds of \$1,173,000.

### 9. Subsequent Events

On January 18, 2005, pursuant to a Stock Purchase Agreement, we agreed to sell to Newmont and Newmont agreed to purchase from us 2,700,000 newly issued shares of our Common Stock for Cdn\$1.70 per share or Cdn\$4,590,000 in the aggregate or approximately \$3,776,000. We sold the Common Stock in a private offering in reliance on an exemption from registration pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. Newmont received restricted stock in the offering.

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

(in thousands)

	2004			
	March 31,	June 30,	Sept. 30, <sup>(1)</sup>	Dec. 31,
Net income (loss)	\$ (946)	\$ (1,861)	\$ 228	\$ (369)
Earnings (loss) per share:				
Basic	\$ (0.04)	\$ (0.07)	\$ 0.01	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.07)	\$ 0.01	\$ (0.02)
Weighted shares outstanding:				
Basic	25,133	25,722	25,228	24,693
Diluted	25,133	25,722	26,346	24,693

<sup>(1)</sup> Solitario reported net income during the third quarter of 2004 primarily related to \$612,000 of unrealized gain on derivative instruments related to its investment in Crown warrants. In addition, during the third quarter of 2004 Solitario recorded an increase in its deferred tax liabilities related to its holdings of Crown stock from conversions of Crown Senior Notes and Crown warrants, which caused Solitario net deferred tax liabilities to exceed its deferred tax assets at September 30, 2004. This allowed Solitario to recognize deferred tax benefit of \$253,000, primarily related to its year to date loss during the quarter. Previously Solitario had provided a valuation allowance that had completely offset its net operating loss carryforwards.

(in thousands)

	2003			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Net income (loss)	\$ 370	\$ 488	\$ 603	\$ 1,893
Earnings (loss) per share:				
Basic	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.08
Diluted	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.07
Weighted shares outstanding:				
Basic	23,407	23,407	23,407	24,322
Diluted	23,407	23,407	23,407	25,572

The information set forth includes "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and is subject to the safe harbor created by those sections. Factors that could cause results to differ materially from those projected in the forward-looking statements include, but are not limited to, the timing of receipt of necessary governmental permits, the results of judicial proceedings, commodity prices, results of current exploration activities and other risks as described in greater detail in the Company's 2004 Annual Information Form.

# Corporate Information:

## Corporate Offices

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## Legal Counsel

Solomon, Pearl, Blum Heymann & Stich, LLP

Denver, Colorado

Fogler, Rubinoff LLP

Toronto, Ontario

## Auditors

Ernhardt Keefe Steiner and Hottman, PC

Denver, Colorado

## Transfer Agent

Computershare

Toronto, Ontario; 800-564-6253

## Investor Relations

Questions and requests for information should be

directed to Debbie W. Mino, Director-Investor

Relations at 800-229-6827, or via email at

[dwmino@solitarioresources.com](mailto:dwmino@solitarioresources.com)

## Notice of Annual Meeting

The Annual Meeting of Shareholders will be at 10 a.m.

MDT on Thursday, June 23, 2005 at the Company's

corporate offices.

## Stock Exchange Listing

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.

## Officers & Directors

### **Christopher E. Herald**

President and Chief Executive Officer

### **Walter H. Hunt**

Vice President – Operations

### **James R. Maronick**

Chief Financial Officer

### **Mark E. Jones, III**

Chairman

### **John Hainey**

Director

### **Leonard Harris**

Director

### **Dan Leonard**

Director

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**Solitario Resources Corporation**

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**Solitario  
Resources  
Corporation**